

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 31, 2017

3:32 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Natasha von Imhof
Senator Bert Stedman
Senator Shelley Hughes
Senator Kevin Meyer

MEMBERS ABSENT

Senator John Coghill, Vice Chair
Senator Bill Wielechowski

COMMITTEE CALENDAR

Update on Interior Energy Project

- HEARD

SENATE BILL NO. 92

"An Act relating to abandoned and derelict vessels; relating to the registration of vessels; relating to certificates of title for vessels; relating to the duties of the Department of Administration; relating to the duties of the Department of Natural Resources; establishing the derelict vessel prevention program; establishing the derelict vessel prevention program fund; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 92

SHORT TITLE: VESSELS: REGISTRATION/TITLES; DERELICTS

SPONSOR(S): SENATOR(S) MICCICHE

03/10/17	(S)	READ THE FIRST TIME - REFERRALS
03/10/17	(S)	RES, FIN
03/27/17	(S)	RES AT 3:30 PM BUTROVICH 205
03/27/17	(S)	Heard & Held
03/27/17	(S)	MINUTE(RES)

03/31/17

(S)

RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

JOMO STEWART, General Manager
Interior Gas Utility (IGU)
Fairbanks, Alaska

POSITION STATEMENT: Provided update on the Interior Energy Project (IEP).

GENE THERRIAULT, Team Leader
Interior Energy Project (IEP)
Alaska Industrial Development and Export Authority (AIDEA)
Fairbanks, Alaska

POSITION STATEMENT: Provided update on Interior Energy Project.

BRYAN HAWKINS, Vice President
Alaska Association of Harbormasters and Port Administrators
Homer, Alaska

POSITION STATEMENT: Supported SB 92.

RACHEL LORD, representing herself
Homer, Alaska

POSITION STATEMENT: Supported SB 92.

GREG ROCZICKA
Kuskokwim River Salmon Management Working Group (KRSMWG)
Bethel, Alaska

POSITION STATEMENT: Supported SB 92.

ALISSA ROGERS
Orutsararmiut Native Council
Bethel, Alaska

POSITION STATEMENT: Supported SB 92.

STEVEN RUSSELL
152 Degrees West Environmental
Nikiski, Alaska

POSITION STATEMENT: Supported SB 92.

JOHN ERICKSON, City Manager
Yakutat, Alaska

POSITION STATEMENT: Supported SB 92.

BETTY SVENSON, Deputy Director
Alaska Municipal League (AML)
Juneau, Alaska

POSITION STATEMENT: Supported SB 92.

SENATOR MICCICHE
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided comments as sponsor of SB 92.

ACTION NARRATIVE

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CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:32 p.m. Present at the call to order were Senators Meyer, Stedman, Hugh, Von Imhof, and Chair Giessel.

Update on Interior Energy Project

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CHAIR GIESSEL announced an update of the Interior Energy Project.

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JOMO STEWART, General Manager, Interior Gas Utility (IGU), Fairbanks, noted that IGU is the municipal utility, and he said that the purpose of the Interior Energy Project (IEP) is to bring low cost energy to as many residents and businesses of Interior Alaska as possible, as quickly as possible. The goal was formulated when the price of oil, the predominant fuel in Fairbanks, reached \$4.00-plus per gallon, a catastrophic level for the Fairbanks economy. The goal was to reduce the cost of energy and stabilize it while also addressing air pollution in Fairbanks that increased during the run-up in the cost of oil as people switched to wood. Burning wood has a negative impact on air quality due to the area's geography and weather. Providing natural gas at a good price could encourage people to switch from oil and let wood go back to a lifestyle choice instead of an economic necessity.

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MR. STEWART said the project proponents also had some statewide goals, and they recognized that the state might not be able to offer large-scale grants for infrastructure and development. Those needs were not going to go away, but the state's capacity to fund things with grants was expected to be more and more limited, he explained. So, the project sponsors came up with the "Bradley Lake model," using a blend of grants and debt with a

revolving loan system that might allow the state to provide financing, but also have that financing be available to projects in other communities. He noted that about half of the state's population is in the same kind of boat when it comes to oil.

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MR. STEWART noted that the project's mission is to transition Fairbanks to cleaner, less-expensive natural gas by increasing LNG capacity to make it more available and to help folks with the conversion process.

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MR. STEWART said the original funding for what became the IEP came from this body in 2011 in the form of a \$500,000 grant for a gas distribution study. At the time, there were a lot of discussions about transportation methods for North Slope gas and even bringing gas up from Cook Inlet. What was recognized was that all roads led to and through Fairbanks, but Fairbanks had a very limited capacity to move the gas around, and if the gas had just showed up in 2011, it would have gone right past town, because only about 1,000 customers could use it.

MR. STEWART said that research was needed to figure out how that gas could be brought to the residents, and so, the \$500,000 became the Fairbanks North Star Borough (FNSB) Gas Distribution System Analysis. It was completed through the Fairbanks Economic Development Corporation, and it showed a high-level look at what a gas distribution system would look like and the cost.

MR. STEWART explained that the community had to figure out how to "operationalize" that concept, and one way is to establish a municipal utility to provide gas to areas not covered by the private utility's certificate to serve. Fairbanks Natural Gas (FNG) services Fairbanks' core. The municipal utility, IGU, has a CPCN [Certificate of Public Convenience and Necessity] that runs from North Pole to the east, up around the ridges, "making gas available to the remainder of those high and medium-density areas within the community."

MR. STEWART said he spoke with the governor in 2012 and 2013 about ways to "effectuate that financing package," and Governor Parnell "bit and the legislature did also." The legislature provided funding to kick-start the project. The funding package consisted of \$57.5 million in grants, \$125 million in "SETS [Sustainable Energy Transmission & Supply Fund] loans" with the allowance to offer favorable terms, and \$150 million of bonding authority. Later that year, the gas utility went to the RCA

(Regulatory Commission of Alaska) and acquired a CPCN for that service area encompassing the more far flung areas of Fairbanks.

SENATOR HUGHES asked about the term "kick-start," if more funding will be needed, and the cost of conversions.

MR. STEWART answered that Governor Parnell used "kick-start" as well. The total project cost to fully plumb the community from main lines down to service lines would cost about \$600 million. The funding was never expected to do the whole project.

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MR. STEWART said the package includes \$3 million in programmatic funds for conversion assistance, but he does not know how that will operate. It is still under discussion, he explained. One of his engineers is mapping out an "on-bill repayment program." It is like the PACE [Property Assessed Clean Energy] Program, which attaches to a property tax bill, but this would consist of a citizen going to a bank, getting a loan, and paying it back by increments on their gas bill.

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GENE THERRIault, Interior Energy Project (IEP) team leader, Alaska Industrial Development and Export Authority (AIDEA), Fairbanks, said he was working for Governor Parnell at that time, and the intent was for enough support to get the enterprise up and on its feet financially, so it would be able to perform as a utility going forward by accessing capital and markets to build out the complete system over time.

MR. STEWART said that in 2014, FNG began its own system expansion to put pipes in the ground beyond just its 1,000 customers. There are over 22,000 structures within the entire community. It was a two-year infill build, he said. "If you'll recall, the original configuration for the project was going to be off the North Slope." In 2015, FNG completed its second year with only a few areas to go. The IGU did its first build during that time as well with 70 miles of pipe, which covered the southern half of North Pole. The legislature allowed for a "broader pursuit of the project" by letting IGU look beyond the North Slope. It had originally mandated that the LNG facility be on the North Slope, but that was amended to allow IGU to look at Cook Inlet, "and we began pursuing that option," he stated.

MR. THERRIault said that with two utilities, FNG for Fairbanks and IGU for outlying areas, the demand for the gas had to be aggregated. The overall demand is relatively small for the cost

of the infrastructure, he stated. That is when AIDEA stepped forward and purchased the Pentex assets to align the business structures of two utilities and prepare to integrate them.

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MR. STEWART said, in pursuit of the Cook Inlet configuration, AIDEA went through a robust reassessment process. "We threw the doors wide open" and assessed a whole range of energy solutions for Fairbanks. It ended up with gas from Cook Inlet, and, through an RFP [Request for Proposal] process, AIDEA selected Salix to be the development partner for the Cook Inlet configuration. However, in 2016, they realized the project couldn't support much extra cost for the goal of delivering \$15 per mcf [million cubic feet] of gas to consumers. A private facility would be subject to taxation, but not a nonprofit. That was discussed with Salix, and there was an amicable dissolution for a relatively low cost, he said. The project was allowed to retain the pre-FEED work that Salix had done, as well as access to the contractors who had done the work, which allowed the project to stay on its timeline. In 2016, there were negotiations between the IGU and AIDEA regarding the purchase of Pentex and financing the IEP using the funds provided by the legislature. It culminated this year with the drafting and signing of a memorandum of understanding (MOU) to command the more detailed work of the transaction documents.

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MR. STEWART said the MOU, a public document, tells a lot about the project plans and how it will be funded. The quarterly update to the legislature will be available in a fortnight, and it will have a link to the MOU. He explained that "Titan" refers to the LNG facility that is in Big Lake and owned by Pentex, and it also refers to the expansion of that facility. Titan 1 is the existing facility and, as part of this process, it will be upgraded to a slightly larger capacity of 1.5 bcf [billion cubic feet] per year. "Titan 2 and Titan 3 are three bcf tranches of additional capacity," he added. He explained that the IGU distribution system has a six-phase build-out process to plumb the areas within its CPCN. Phase 1 is the southern half of North Pole, "and for FNG, it's their infill and their little bit of extra expansion." Storage consists of one very large storage facility and one satellite facility in North Pole, "because right now the systems are disconnected." The large storage facility is 5.2 million gallons of LNG in Fairbanks.

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CHAIR GIESSEL asked how many people will IGU need for the project to be economic.

MR. STEWART answered, "Per this discussion, it's built on essentially 9,000 customers." There are 1,000 customers now.

MR. THERRIAULT added that it looks like fuel oil will be low priced for a while. Surveys and focus groups with customers to see at what price they would transfer to natural gas indicate that conversion to natural gas will take a little longer. They are building that into the economics. So, IGU is not counting on a huge and rapid customer conversion to gas, he stated, and it is building that assumption into the economics to make sure that the utility can pay its bills.

CHAIR GIESSEL asked what it costs for resident conversion.

MR. THERRIAULT said it depends on the age of existing equipment. Converting a boiler that is less than 10 years old might only require "changing out the gun" in a safe manner. Older boilers can cost \$10,000 to \$12,000 to convert. He spoke of his house built in 1985. He couldn't link his boiler, "so we had to swap ours out ... by putting in a fuel oil burner that can more economically be changed when gas is available," and that cost \$12,000. Swapping out the entire system is not insignificant.

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SENATOR STEDMAN said he would like to address the delivery cost of the burner tip, the competition with oil as a fuel source, and efficiency and "benchmark that again with Anchorage." He recalled Fairbanks was at about \$.23 per kilowatt, "and you were looking at somewhere around double the cost of natural gas relative to the Anchorage bowl." He asked to be refreshed on some of the numbers.

MR. THERRIAULT said the target was to deliver natural gas to residents at \$15, which is equivalent to \$2 fuel oil. It would still be substantially more expensive than Anchorage, but that was the target, he explained.

SENATOR STEDMAN asked for the cost of fuel oil in Fairbanks and where this project stacks up relative to that \$2 oil target.

MR. THERRIAULT said that FNG polls fuel distributors, and the last number he heard was \$2.40 for residential deliveries. "So, still a little bit of a delta between what we hope to deliver for; it definitely is suppressed."

SENATOR VON IMHOF said they are talking about 9,000 customers to make this \$333-million project viable and only \$4.75 million is commercial financing. It appears the rest is state financing. Granted, all of this was passed several years ago, but there really doesn't seem to be a viable private partner—it is completely state funded to provide energy to 8,000 to 9,000 people, she said. "It's a lot of money." She asked if the state can afford it and why there is no commercial partner. Also, loan terms of a quarter percent with a 50-year payoff and deferment of any interest for 15 years, that is worrisome and out of the norm of financing terms, which leads her to believe that the state won't ever get paid back.

MR. THERRIAULT replied that the AIDEA board required a supply of gas to be available for the project before pulling the trigger. It also requires an economic enterprise coming forward that will make the project be successful. As all the agreements are put together, that is a specific requirement, he said. Of the \$300-plus financing package, there are the loans out of the "SETS" fund with very attractive terms and access to the bond markets, which have to be paid back by the project.

SENATOR VON IMHOF asked what Mr. Therriault means by "an enterprise coming forward to make it viable."

MR. THERRIAULT said, "Combined utility to aggregate total demand, to blend the industrial and light industrial use in the core of Fairbanks with the outlying residential area, assure that a postage stamp rate is achievable to the customers—both business and residential—that would actually incentivize people to utilize the product." He noted that the enterprise was started due to the cost of energy, but there is also the air quality problem that is becoming as much of a driver.

SENATOR VON IMHOF asked if AIDEA has a hurdle rate for a project to go forward. How does this project compare to other \$300 million projects that AIDEA has? This project seems to have an extremely high hurdle, and it is almost like cost is no factor; "we're just going to make this happen for Fairbanks, because of all the good things that it does, and it doesn't matter that it costs \$334 million."

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MR. THERRIAULT said there are specific instructions that interest was to be capped at 3 percent, and the cost of the bonds "were to be utilizing the strength of the state to access

the bond market and make them available; try and pass that benefit on to the project." This set of financing tools was set up specifically for this project, so it can't be compared to other projects, he said.

SENATOR MEYER said the project requires an adequate supply of gas and there appears to be a lot in Cook Inlet, and he asked if the gas is trucked or transported by railroad.

MR. THERRIAULT replied that the gas is currently liquefied in the Mat-Su area and trucked up to Fairbanks. The railroad did the first shipments of LNG by rail in North America, he said, testing the use of ISOs on trains. Right now, the extra handling of putting it in ISO [Intermodal Shipping Containers] containers, driving it to Anchorage from Big Lake, putting it on the train, and then transferring it to another flatbed truck was found to be uneconomic at low volumes. However, IGU continues to work with the railroad, and as the volume goes up, that might lend the project more to rail transportation. In addition, to lower the existing trucking costs, IGU bought and tested a larger-capacity trailer, and that worked out very well, so they ordered two more.

SENATOR MEYER said that trucking provides jobs for drivers, obviously, but the Alaska Railroad is hurting for business, so using the railroad would be a win/win for the whole state. The trucks are going up to the North Slope all the time, so they are probably busy enough, but the railroad could use more business. He added that back in that timeframe the state still had a capital budget "and still had some money," and the University of Alaska Fairbanks was insisting on \$150 million for a new coal-fired power plant. Legislators questioned whether it should be gas or oil instead of coal but were told that coal was the way to go. He said he wonders if that was a mistake.

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MR. THERRIAULT replied that the project would have loved that bulk demand, but the university power plant is an interruptible customer of the existing distribution system. Certainly, having the bulk to meet all their energy and electric needs would have been nice; however, IGU could not compete on a per BTU basis, especially having a heat plant with an electric component.

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SENATOR HUGHES said she has a family member involved with "the company" and that she has talked to an ethics advisor. She asked if Mr. Therriault had checked out evolving technology, because

"there actually are units that can burn coal, emission-free." For two-thirds of the cost of the kick-start, these units could be installed in Fairbanks, use coal, improve air quality, and avoid the \$600-million conversion. She asked if Mr. Therriault pursued that idea, which she had suggested to him earlier.

MR. THERRIAULT answered yes, and he has passed it on to Mr. Stewart and Mr. [Dan] Britton. He did a little web search himself, he said, but could not find a lot of information.

SENATOR HUGHES said a lot of state dollars are at stake, and she hoped Fairbanks would pursue her idea, because it could be in place in two years at a very low cost. It could also produce syngas for villages much cheaper than the cost of diesel, she explained, so the state should review it. "When you're going one direction, I know sometimes it's hard to change gears," she said, but this gas project is not penciling out. When she spoke with an ethics administrator, he told her, "Just always state that you talked to me before you mention it," and he said, "It's too good of a bit of information to withhold."

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MR. THERRIAULT noted that technology is always advancing. Back when the price of energy went up so high, FedCo, where Mr. Stewart used to work, looked at coal gasification in conjunction with the combined heat and power plants on Fort Wainwright and Eielson, and they determined the technology didn't work.

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SENATOR STEDMAN said he thought the train had already left the station on this one, and it's up to AIDEA to work out terms going forward. Fairbanks got caught like his community of Sitka did with a large project during a high oil price environment. The price changes, and then "you're heading down the road and you don't really like the view, but it's kind of too late." The one thing that concerns him about this Fairbanks project and Sitka's Blue Lake Project is when the bond and finance people "get a little too creative and start going virtually zero interest for 15 years and pushing out the debt to 50 years," it pushes it to generations well beyond "our existence" before it's paid off. That is not in the public's best interest, he stated. In Sitka's case, a dam was built 30 years ago, was refinanced twice, and the amortization was stretched out. So, today Sitka still owes half of the value of that dam, which is 30 percent of the utility debt and 23 percent of the payments. "If it wasn't for carrying that dam that should have been paid for in 30 years for the next 15, the current project wouldn't be such a

financial gagger." He sees similarity in this Fairbanks gas project with a 15-year deferment. He told his colleagues to look at it with a jaundiced eye and get advice from state finance staff. Sometimes putting these projects together might not be in the best interests in the long run, he said, but he does want Fairbanks to get natural gas, because of the military advantage and the economic activity it can produce, as well as getting away from wood and its particulate pollution.

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MR. THERRIAULT noted that something multi-generational like a hydro dam will always have a give-and-take on how long to make the payments. Fifty years from now folks are still going to be benefiting from that infrastructure, but the question is what portion of that cost they should bear. Rest assured, he said, that as the Memorandum of Understanding (MOU) and other documents are negotiated, the AIDEA board will insist on an enterprise that is strong enough to go to the bond market, which AIDEA will help facilitate, but it really will be the project that is going to the bond market. That then determines the risk and interest rate that gets set, he explained.

SENATOR STEDMAN cautioned that bond covenants often put the general credit of the community on the hook, as well as the taxing authority of the community. He said he does not disagree with Mr. Therriault, but there are always these bond covenant hooks where if it doesn't work as planned—perhaps the penetration ratio is not there, the pricing environment changes, or whatever—then they default right back to the taxpayer.

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CHAIR GIESSEL reminded members that before AIDEA acquired Pentex, there was a private entity that was attempting to purchase the Titan LNG assets. Also, Marianne Kah, corporate economist for ConocoPhillips, predicted that oil will stay under \$80 per barrel for a very long time. However, she didn't know what that would equate to in diesel for heating.

MR. THERRIAULT said as oil goes up and down, fuel oil prices often ratchet down, and it seems like it goes back up more quickly. A month or so ago, the delivered fuel oil price to residential consumers was about \$2.40 [per gallon]. So, if oil goes up to \$80, the difference would grow.

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MR. STEWART noted that his last fuel oil bill was \$2.50. He turned to slide 13 and said it shows the scope of the project

per the MOU, which is to infill the FNG system and then build-out phases 1, 2, and 3. The strength of the project will be needed for funding the additional phases. He then displayed a map of air pollution in Fairbanks that showed North Pole as the main "hot spot" and said that the first phase development covered the southern half of it. If allowed to proceed, the entire hot spot will be covered and then the other air quality areas.

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MR. STEWART said Cardno ENTRIX [Inc.] researched conversions, since this project hinges on gas customers. "We go from about 1,000 customers—it says here 1,140—up to a total of almost 9,000. The demand profile goes from what is, in fact, under a bcf of gas. I want to say that FNG sales are about 100 million cubic feet a year, up to a total of more like five—5.3 bcf. We increase the deliverability up to 5.4 bcf—that's relative to the plant kind-of sticker production rate of LNG of about 7.5 million at full build out with an estimated customer cost of gas at the meter of \$15.50." He added that he got an order-of-magnitude estimate from Sierra Research, which is the borough's go-to enterprise for assessing air quality, of a 10 percent improvement in air quality in the core of Fairbanks and a 25 percent improvement in the North Pole area.

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MR. STEWART said, "Okay, so again, the scope of the project, Titans 1, 2, and 3, again getting to that 7.5 billion cubic feet of capacity; large-scale LNG storage." When it comes to LNG, storage is needed to help with the deliverability and for taking on firm customers, who need that gas to show up, "so 5.2 million gallons worth of storage in the Fairbanks area and another 150,000 gallons in the IGU development zone out in North Pole."

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MR. STEWART, referring to page 17 of his presentation, said that the key financing term of \$330 million is "spoken to" regarding the MOU. It gives the structure of the SETS loan, he added. It also speaks to the amount of bonding that would be necessary to construct all the major components. It also talks about the purchase of Pentex by IGU, thereby paying AIDEA back to its revolving fund, with interest, "and then the process and timing of system integration." All is contingent upon an economically sufficient gas supply contract, due diligence, and RCA approval of transfer of ownership, he said.

MR. STEWARD said the sources of funds available are in the appendix of the MOU and consist of the balance of the remaining grant funds of \$42 million, SETS funds of \$125 million, and a little over \$140 million in private sector bonds. "So, the market is helping to finance this," he explained. Some stray commercial debt for the trucks and trailers and hopefully reimbursement of the storage tax credit helps balance these things out. "A total of \$330 million," he said.

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MR. THERRIAULT clarified for Senator Hughes that the \$600 million (he misspoke) is not added to that. The \$330 million is basically half of what was estimated to be the total buildout which was \$600 million.

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MR. STEWART said slide 19 describes the use of funds, or what you get with the money. The Titan 2 facility is estimated to be \$46 million, and Titan 3 and subsequent tranches of LNG capacity are \$25 million a pop, for a total of about \$71 million under the MOU, and "transportation at \$4.75 million." He said LNG storage doesn't quite compute for the uninitiated. Generally, oil storage is about \$1 per gallon; LNG storage is more like a factor of 1:8, "so it's grossly expensive," but it is necessary in a disconnected community where a fuel source is delivered by road. Lack of storage is part of why FNG couldn't expand for many years, and they could not get authorization from their private holders to make the investment in LNG storage. This takes care of that to the tune of about \$53 million, he explained. Regarding the purchase of Pentex, he said, the revolving fund for the original purchase price is paid back, plus interest. That is about \$58 million, and there are incidental costs with the build-out phases of \$87 million in North Pole, the infill in the FNG service area, and "those other incidentals." The chart on page 19 shows the customer conversion program that is built into the programmatic funding.

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MR. STEWART next showed the terms of the SETS loan that helps it all work. It has a 15-year deferral on the front end with no principal payments or interest accruing. The interest rate will be 0.25 when "it does begin making repayment for a 35-year payback term thereafter." On the upside, he said, remember that heretofore it has made some substantial investments in the State of Alaska on a non-payback at all basis, and that was with grants. So, under this, there was a revolving loan concept, "and

we were hoping that we could make these funds re-available in the future."

MR. STEWART referred to slide 21 saying, "This is the impact." There is a very robust model that underpins everything in the presentation, he said. If it wasn't for the results of that modeling, the AIDEA board would have never authorized the funds. The model indicated that a substantial investment could be made and the target of \$15 could be met, thereby having the chance to accrue that customer base. Hopefully, that rate could be held long enough to reach that critical mass of customers that allows this enterprise to be self-sustaining.

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MR. STEWART said the next steps include drafting detailed purchase, sale, and financing documents envisioned by the MOU. He noted that he had a four-hour teleconference today that came hard on the heels of a three-hour teleconference yesterday. Due diligence is progressing, as well as utility integration planning, he added. Much of his team's efforts are involved in that by making a \$60 million investment in an existing utility so they can be united under community control. His team is also working diligently to achieve a gas supply contract that can underpin their design.

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SENATOR STEDMAN said that, for people listening at home, "\$15 per mmbtu is somewhere around \$.05 a kilowatt or \$2 [per gallon of] oil," and "that's probably one reason why the economics are so challenging."

MR. STEWART said that is one reason his group looked at the transmission of electricity by an intertie from the North Slope. Fairbanks is paying \$.23 per kilowatt hour now; it would have to be \$.05 per kilowatt to meet that \$2-oil goal. Even if Fairbanks got free electricity today, the administrative costs of GVEA [Golden Valley Electric Association] would still be more like \$.10 to \$.13 per kilowatt hour, and that would double the cost of heating a home.

MR. STEWART said that the immediate capital program is to move forward expeditiously on the FEED and the LNG storage. He hoped to have those under construction this winter but now hopes to have it done this fall. He said, "AIDEA put them in a position to be able to pass their HB 105 resolution." Other steps are the RCA approval of a transfer of ownership, the execution of MOU-related agreements, and the integration of IGU and FNG.

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MR. STEWART said the legislature added reporting requirements for AIDEA in HB 105 and implemented a planning requirement, "so we didn't get into the same kind of position we had gotten in in the North Slope where a sizable amount of project funds had been expended on something that actually will not directly positively impact the consumer in Fairbanks." It is called an HB 105 resolution where the AIDEA board will certify the source of natural gas and the estimated project cost, as well as the pre-distribution cost of that gas to Fairbanks—essentially the city gate price. Most of what is required for AIDEA is built in and envisioned by the MOU, he said.

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MR. THERRIAULT added that HB 105 required a quarterly report that will be delivered to the legislature next week, and it is built around all the components that the AIDEA board has to see before it can certify an "HB 105 plan."

MR. STEWART said there is a group in Fairbanks looking for ways to assist homeowners and businesses with conversions, which can cost from \$2,000 up to tens of thousands of dollars. He spoke of "\$300 million per year sucked out of Fairbanks' economy for a decade with the cost of oil," so "a lot of people are in a bit of a challenged position." In the longer term, the project will focus on the conversion program, storage tank construction, constructing LNG plants, and finalizing a transportation plan, as well as a distribution system expansion, he said.

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SENATOR VON IMHOF asked if there is a timeframe for the longer-term goals.

MR. STEWART answered yes; LNG storage tank construction takes about two years and needs to begin in the fall. The storage would have to be operating by 2020. The LNG facility takes about 18 months to 2 years. The "grand schedule" is robust he said. The MOU has a project schedule built in, and it has the timing of when the funds are spent to do the different steps.

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MR. STEWART said the following slides show the design layout for the gas distribution of the IGU with all existing and projected pipes. Phase 2 is the zone around Badger Road in North Pole. Phases 4, 5, and 6 will take longer, but they are subsumed by a plan to move forward with the first three phases and FNG's

infill, scheduled to be completed by 2022 but subject to conversion. He said FNG is a good operator. It has not stopped operating like a private sector company just because it went into public ownership. He said he expects to use their physical and mental resources and that they will act prudently as a utility. What that means, he said, is if demand is slower than what is estimated by Cardno, construction would probably be delayed rather than charging ahead into a hole and an imprudent use of state funds. "We would make our investments for a return as opposed to aspirational thinking," he stated.

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MR. STEWART said, the purpose and goals of IEP are to quickly bring affordable energy to as many people as possible, help stabilize the local economy, improve air quality, and hopefully provide a model of development for other similarly situated communities around the state, of which there are hundreds, he summarized.

CHAIR GIESSEL thanked him for coming and said they would look forward to the quarterly update.

SB 92-VESSELS: REGISTRATION/TITLES; DERELICTS

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CHAIR GIESSEL announced consideration of SB 92 and opened public testimony.

BRYAN HAWKINS, Vice President, Alaska Association of Harbormasters and Port Administrators (AAHPA), Homer, said he is also the Harbormaster for Homer and he supports SB 92. He noted that he served on the ad hoc Derelict Vessel Task Force as a representative for AAHPA. He said:

Alaska is a maritime state. Most of our population lives next to the ocean, and our connection to it is vital to our ability to exist either by directly pulling our livelihoods from the sea or simply because of the fact that most of our goods we purchase and use every day are transported across the water.

Alaska is in the business of boats. We have a thinking here: when it comes to vessels - any boat - large or small, and that is that we behave as if they will last forever. That is evidenced by the fact that we currently have no plan for when they don't.

Alaskans must work together to develop a cradle-to-grave management plan for our vessels. This plan must work to protect the individual's rights of ownership, promote and encourage fleet renewal, while at the same time protect the state, municipalities, and private land owners from becoming the dump site for vessels that have no commercial value left in them.

I realize this is a huge task and that we're starting late, but I don't believe it's an impossible one. And SB 92 is a big step forward in that effort. Thank you.

RACHEL LORD, representing herself, Homer, said she facilitated the ad hoc Derelict Vessel Task Force, but her comments are hers. She said she supports SB 92 and the entire effort. It's a huge step forward. A couple of days ago the federal Government Accountability Office came out with a report requested by Alaska's entire congressional delegation and many other senators and congress people from around the country asking the federal government to look at the issue of derelict vessels. It paints the picture that there is a long way to go, she stated. Alaska is one state that has derelict vessel laws, but they are very outdated. This bill has a lot of pieces, and from her perspective on the task force, the effort was to look at the full suite of problems with derelict vessels, solutions being used around the country, and what could work here.

MS. LORD encouraged the committee to look at this as a holistic effort. She has been talking to insurance companies and still feels like insurance is a really important tool. The intent is P&I [protection and liability] insurance covered by SB 92 with the wreck removal, and it is not to be an added burden on commercial fishing fleets or active commercial vessels but a protection when vessels are transferred and when folks are considering on-water endeavors. But insurance is just one piece of a very large puzzle, she concluded.

GREG ROCZICKA, Kuskokwim River Salmon Management Working Group, Bethel, expressed the working group's whole-hearted support of SB 92. He explained that the Kuskokwim River Salmon Management Working Group consists of stakeholders that have been working with the State of Alaska on fisheries issues since 1988, including on derelict vessels. Some of the members participated in the task force, and the group has been pushing these kinds of issues for many years. They continue to see vessels sink or construction outfits dropping equipment off the side of their barges. They pose a significant navigation hazard. People get

injured when outboards hit them, and they damage boats. He spoke of one that is in the slough, and people are hitting them by snow machines at night. It is a major concern throughout the whole Kuskokwim drainage, which is Alaska's second longest river, running from the base of Mt. McKinley to Nunivak Island. Throughout the drainages, people have similar problems. He expressed gratitude that something is moving forward to put teeth in some enforcement to address this problem.

CHAIR GIESEL noted that photos from the next speaker are posted on BASIS.

ALISSA NADINE ROGERS, Orutsararmiut Native Council, Bethel, said the council is the federally-recognized body representing the Native village of Bethel, Alaska. The council supports SB 92, because it holds people accountable for abandoning barges on public waters, and it streamlines the state's ability to prevent and manage derelict vessels. She said SB 92 will address some known 40-plus abandoned and derelict vessels in Steamboat Slough and 20 more vessels within the Bethel Native Corporation lands. These hazards have been abandoned and derelict and are mooring on tribal grounds. Over the past decade, the council and other organizations in Bethel have been asking for assistance to remove them, she said, but there is no agency that can help. For example, a boat sunk in the middle of Steamboat Slough a few years ago, as shown in the photos she provided to the committee. It has become increasingly dangerous to motorized vehicles, people, and the environment. Senate Bill 92 will provide a program with pro-active strategies to address such occurrences, and without it, towns like Bethel will continue to suffer the dangerous burden of derelict and abandoned vessels. They will continue to be hazardous to traffic, human life, and the ecosystem, and she urged support of this important legislation.

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STEVEN RUSSELL, 152 Degrees West Environmental, Nikiski, said he is a former on-scene coordinator with the Department of Environmental Conservation. Currently, he is working in the environmental field outside of state government. He said much of this legislation is focused on the registration and titling of vessels that operate in state waters. State and federal managers can spend hundreds of hours trying to identify ADV [abandoned and derelict vessel] ownership, mostly to no avail. A state registration and titling system will be a significant resource to reduce future problems, he stated, but it is important to not lose sight of the need to deal with the hundreds of ADVs now found around the state. These vessels are threatening public

health and safety, damaging habitat, and interfering with commercial fisheries and subsistence lifestyles, and they can impede or complicate economic opportunities in our remote communities.

MR. RUSSELL said section 24 deals with ADV programs to increase prevention, assist communities to develop proper disposal options, educate vessel owners and operators, and develop other programs that incentivize the removal of the current fleet of abandoned vessels on state tidelands. This effort, of course, should receive the support of every port and harbor administration, boatyards, vessel owners, and communities that are affected by these vessels. The bill will provide a long-term plan essential to sound maritime operations.

JOHN ERICKSON, City Manager, Yakutat, Alaska, said he supports SB 92. Yakutat has many derelict vessels, and because Yakutat is so isolated, trying to clean them and get barges up to haul them away is almost impossible. Anything to help identify owners will make a big difference for Yakutat. There are many boats damaging the environment, he added.

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BETTY SVENSON, Deputy Director, Alaska Municipal League (AML) Juneau, said the AML supports SB 92, and the director will submit a letter of support and a copy of a resolution supporting improved management and prevention of derelict vessels.

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SENATOR MICCICHE, Alaska State Legislature, Juneau, sponsor of SB 92, said there is widespread exposure and potential in the state and there has been widespread damage. This bill is helpful and well considered. He said he doesn't plan to pass it out this year; there is some work to do.

SB 92 was held in committee.

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CHAIR GIESSEL, finding no further business to come before the committee, adjourned the Senate Resources Committee meeting at 4:47 p.m.