

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON ENERGY**

March 21, 2019

11:02 a.m.

**MEMBERS PRESENT**

Representative Grier Hopkins, Chair  
Representative Zack Fields, Vice Chair  
Representative John Lincoln  
Representative Ivy Spohnholz  
Representative Tiffany Zulkosky  
Representative Lance Pruitt  
Representative George Rauscher

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 87

"An Act extending the liquefied natural gas storage facility tax credit; and providing for an effective date."

- MOVED HB 87 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 87

SHORT TITLE: LIQUEFIED NATURAL GAS STORAGE TAX CREDIT

SPONSOR(S): REPRESENTATIVE(S) THOMPSON

03/08/19	(H)	READ THE FIRST TIME - REFERRALS
03/08/19	(H)	ENE, FIN
03/21/19	(H)	ENE AT 11:00 AM CAPITOL 17

**WITNESS REGISTER**

REPRESENTATIVE STEVE THOMPSON

Alaska State Legislature

Juneau, Alaska

**POSITION STATEMENT:** Presented HB 87 as the prime sponsor of the bill.

DAN BRITTON, General Manager

Interior Gas Utility (IGU)

Fairbanks, Alaska

**POSITION STATEMENT:** Presented a PowerPoint by the Interior Gas Utility.

MICHAEL MEEKS, Chief of Staff

Mayor Jim Matherly

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 87.

BRYCE WARD, Mayor

Fairbanks North Star Borough

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 87.

JOMO STEWART

Fairbanks Economic Development Corporation

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 87.

VIKKI JO KENNEDY

Grandma Brigade

Juneau, Alaska

**POSITION STATEMENT:** Testified during discussion of HB 87.

PATRICE LEE, Director

Interior Gas Utility

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 87.

#### **ACTION NARRATIVE**

[11:02:45 AM](#)

**CHAIR GRIER HOPKINS** called the House Special Committee on Energy meeting to order at 11:02 a.m. Representatives Rauscher, Lincoln, Spohnholz, Zulkosky, Fields, and Hopkins were present at the call to order. Representative Pruitt arrived as the meeting was in progress.

#### **HB 87-LIQUEFIED NATURAL GAS STORAGE TAX CREDIT**

[11:03:11 AM](#)

CHAIR HOPKINS announced that the only order of business would be HOUSE BILL NO. 87 "An Act extending the liquefied natural gas

storage facility tax credit; and providing for an effective date."

[11:03:57 AM](#)

REPRESENTATIVE STEVE THOMPSON, Alaska State Legislature, paraphrased from a prepared statement, which read:

HB 87 came about through conversations with stakeholders in the Interior about our progress on efforts to mitigate high energy costs and improve our air quality. A key theme in these conversations has been the importance of ensuring that we're doing everything we can to stay on track with the Interior Energy Project. In 2015, the Legislature passed HB 105 to renew and advance the Interior Energy Project, a project designed to bring low cost energy to as many residents and businesses of Interior Alaska as quickly as possible. It has resulted in the creation of the Interior Gas Utility a not-for-profit public utility serving the Interior.

In 2012, the Legislature passed legislation to incentivize the development of liquid natural gas storage, a key component in achieving the economy of scale that will enable widespread use of natural gas in Fairbanks and North Pole. This legislation provided credits for the construction of above ground LNG storage facilities with a capacity of 25,000 gallons or more. There are currently 2 projects underway, 1 in Fairbanks and 1 in North Pole, that will benefit from these credits.

HB87 will extend the sunset date of the original legislation by 18 months in order to ensure that the projects underway will be able to capitalize on the existing credits. This is a bill that can help to lower energy costs and improve air quality in an area of the State that desperately needs to do both.

REPRESENTATIVE THOMPSON reported that Southeast Alaska had benefited from low energy costs through subsidized hydro-electric systems and Southcentral Alaska had benefited from low energy costs due to the proximity of the gas in Cook Inlet. He stated that the Interior of Alaska had a "PM 2.5 problem that we're trying to mitigate because we burn wood to heat up there and high cost diesel fuel." He pointed out that PM 2.5 could

have a big effect if something was not done to reduce the pollution as both the federal government and the EPA (Environmental Protection Agency) were threatening to withhold federal highway funds and stopping future economic development projects. He shared a concern for the military. He emphasized that the proposed bill would ensure storage facilities and lower energy costs.

[11:07:56 AM](#)

REPRESENTATIVE RAUSCHER asked about the federal withholding of highway funds.

[11:08:13 AM](#)

REPRESENTATIVE THOMPSON explained that through the EPA, the federal government had the ability to declare that, as the city was not in compliance with air quality, it could withhold federal highway funds. He reported that there was the potential loss of \$30 million of highway funds.

[11:08:36 AM](#)

REPRESENTATIVE RAUSCHER asked if these highway funds were directed to the local area or the entire state.

REPRESENTATIVE THOMPSON replied that these funds were for the northern region, and not the entire state.

REPRESENTATIVE RAUSCHER asked if this had been threatened.

REPRESENTATIVE THOMPSON replied, "yes, they have."

[11:09:40 AM](#)

DAN BRITTON, General Manager, Interior Gas Utility (IGU), presented a PowerPoint titled "Fueling the Future of the Fairbanks North Star Borough. He paraphrased from slide 2, titled "Interior Energy Project PURPOSE AND GOALS," which read:

to bring low-cost energy to as many residents and businesses of Interior Alaska as possible, as quickly as possible ...  
Stabilize the Economy  
Help Improve Air Quality

MR. BRITTON moved on and paraphrased slide 3, titled "History," which read:

Fairbanks Natural Gas, LLC(FNG) began operating in Fairbanks in Spring of 1998 giving Interior residents a natural gas heating option. Over 1100 residential and commercial customers are currently able to enjoy the benefits of natural gas.

In November 2012, the Fairbanks North Star Borough(FNSB) acquired its natural gas utility power via transfers from the City of Fairbanks and the City of North Pole and established the Interior Alaska Natural Gas Utility(IGU).

June 2018, the IGU consolidated with FNG and now operates as an integrated, not-for-profit public utility.

[11:11:04 AM](#)

MR BRITTON shared slide 4, "Energy Costs & Air Quality," and paraphrased the slide, which read:

According to the Council for Community and Economic Research, the FNSB typically has the highest utility costs in the nation for the 300-plus urban areas regularly surveyed.

In September 2006, the EPA lowered the National Ambient Air Quality Standards for fine particulate matter less than 2.5 micrometer in diameter (PM 2.5) a human health hazard.

In 2009, the EPA designated the more populated portions of the FNSB as a non-attainment area relating to PM2.5. The eastern portion of the nonattainment area (North Pole) has the worst air pollution in the nation, three and a half times the legal limit and almost two times worse than the next worse area in the U.S.

The FNSB's long-term efforts for clean air are focused on bringing clean, affordable natural gas to the Fairbanks area for space heating.

[11:12:29 AM](#)

MR. BRITTON presented slide 5, titled "Fairbanks Large LNG Storage Tank," and paraphrased the slide, which read:

5.25 Million gallon capacity

Full-Containment, double wall design

Construction commenced January 2018

Advancing On-schedule

Completion date estimated Fall 2019

Construction Costs \$58.4 Million

[11:13:35 AM](#)

MR. BRITTON addressed slide 6, titled "9th (Last) Row Welding" and explained that the inner tank pictured was 9 percent nickel steel with an aluminum ceiling. He reported that the tank was almost complete.

[11:14:11 AM](#)

MR. BRITTON addressed slide 7, titled "Outer Tank Stairs," which depicted the tank from outdoors.

[11:14:38 AM](#)

MR. BRITTON addressed slide 8, titled "North Pole Storage." He paraphrased the slide, which read:

Design of the \$12.1 Million LNG storage facility in North Pole is complete and a Request for Proposals was issued February 14, 2019. Proposals are due March 21, 2019.

The targeted completion of construction is November 15, 2019 with operational startup and commissioning by December 31, 2019.

The storage facility will have two 75,000 Gallon storage tanks and a multi purpose building, and will be connected to the previously constructed 73 miles of pipe infrastructure in the North Pole area.

[11:16:18 AM](#)

MR. BRITTON addressed slide 9, "North Pole Storage - Site Plan," which depicted the ground plan for the North Pole storage facility. He shared that it would be located across the street from the former Flint Hills Refinery, and near a Golden Valley Electric Association (GVEA) power generation facility. He reported that this facility included storage, natural gas vaporization, and unloading structures which allowed them to take the LNG from a truck or a container into the stationary tanks. He pointed out that LNG was stored at minus 260 degrees Fahrenheit, and to make it usable by consumers, it was heated to between 50 and 100 degrees Fahrenheit and then injected into the underground piping system. Once it leaves the LNG storage facility, IGU was considered a conventional natural gas utility and could provide gas service to customers. He explained that the added cost for the service was due to the LNG infrastructure and the need to liquefy, transport, and store the gas, and then put it in the pipe network for customers.

[11:17:43 AM](#)

MR. BRITTON paraphrased from slide 10, "Benefits of Storage," which read:

The development of expanded LNG storage facilities in the Fairbanks and North Pole areas is a critical component of the IEP as they will increase the security of supply and provide capacity to serve a greater number of new customers.

These storage facilities, with current liquefaction infrastructure, enable IGU the ability to serve approximately 3000 new residential customers beginning the summer 2020.

The state's LNG storage tax credits are vital in helping to bring down the cost of providing natural gas to Interior residents.

All money from tax credits for tanked storage will be under the oversight of the Regulatory Commission of Alaska, the IGU Board and the FNSB Assembly to ensure these savings are passed along to the rate payers.

[11:19:06 AM](#)

MR. BRITTON reported that, as they were a public gas utility, any savings were always passed on to the consumer. IGU was a not-for-profit and they did not return any earnings to the Borough, as it all stayed within the utility for reinvestment toward expansion of gas service for more customers. He relayed that the storage credit benefit to IGU rates was estimated to be \$15 million for Fairbanks and \$6 million for North Pole. He noted that the current price was about \$2 per MCF per thousand cubic feet of gas and, with the increase of demand, the price would go down to about \$0.72. He projected that the price would go down in the future to about \$0.35.

MR. BRITTON addressed slide 11, "Estimated Impact on Rates," and paraphrased the slide, which read:

Without storage credits, IGU will incur \$21 million in additional debt with an estimated rate impact of \$1.93/MCF at existing demand to \$0.72/MCF at Base Case demand (in 2022). Actual rate impact depends on customer conversions and associated demand.

[11:20:17 AM](#)

MR. BRITTON addressed slide 12, "Installed Piping Fairbanks," which depicted a map showing 140 miles of the piping distribution network for gas access. He stated that more conversions were now just contingent on the availability of additional gas supply.

MR. BRITTON, in response to Representative Rauscher, said that the colors represented different pipe size: red equals 8-inch, blue equals 6-inch, green equals 4-inch, and yellow equals 2-inch pipe.

MR. BRITTON, in response to Representative Rauscher, said that there were a few options for third-party damages. He said that there could be a shut off for valving. He noted that, as there was not any steel in the system, the pipe could be squeezed to shut off flow close to the damage. He reported that each emergency was evaluated slightly differently dependent on where the gas was escaping and the proximity of structures.

REPRESENTATIVE RAUSCHER asked about the response time.

MR. BRITTON replied that the response time was generally less than 30 minutes, and often, the gas flow was shut off within 15 minutes after that. He shared that the longest potential for a

challenging situation with remote excavation would be an hour from the time of arrival to the gas shut off.

REPRESENTATIVE FIELDS asked if the downtown core of Fairbanks also had this infrastructure.

MR. BRITTON replied that completion of the downtown core installation had started during recent sidewalk projects to reduce impact on the roadways. He pointed out that, as other areas had access to steam and hot water service as an alternative to wood and oil heat, these had not yet been fully completed with gas service but would be in the next few years.

[11:24:17 AM](#)

MR. BRITTON moved on to slide 13, "Installed Piping North Pole," and explained the construction of Phase 1 of the expansion, in three distinct zones for contracting purposes. He reported that about 72 miles of gas piping had been completed in one of the areas. He added that there were six phases planned.

MR. BRITTON, in response to Representative Rauscher, explained that the LNG storage facility would be the two red squares on the south portion of the map on slide 12. He pointed to the red square on the south-west portion of the map and reported that this where the new large storage tank was being constructed adjacent to the operating facility.

[11:26:17 AM](#)

REPRESENTATIVE PRUITT asked if the two 75-thousand-gallon tanks would be sufficient for the six phases in North Pole.

MR. BRITTON said that the initial design for these two tanks had enough capacity for Phases 1 - 3, although the overall project design was set up for the full six phases. He said that additional tankage would be necessary for the remaining three phases. He added that the vaporization capacity and the design of the systems was set up to allow for the addition of a vaporizer and additional boilers to meet the needs.

REPRESENTATIVE PRUITT asked if the committee should expect a visit when it was time for Phases 4 - 6.

MR. BRITTON replied that the additional phases were not anticipated for five to ten years. He stated that, at that point, the utility would be established with substantially more

customers, with an expectation that the future financial needs would be provided through utility revenues versus a return to the State of Alaska for assistance. He said that, although the utility would always be open to the opportunity for contributions that could reduce the cost to consumers, the intention was for that work to be "borne by rate payers in the future."

[11:28:31 AM](#)

CHAIR HOPKINS opened public testimony [Due to technical difficulties, the following testimonies were difficult to understand].

[11:28:57 AM](#)

MICHAEL MEEKS, Chief of Staff, Mayor Jim Matherly, said that he had been an original board member to the Interior Gas Utility and had been chairman of the board for three years. He declared that the Interior needed to have tax and credit exemption for LNG storage facilities. Without this extension, the price per meter would increase and the number of customers making the choice to convert from fuel oil to gas would most likely decrease.

[11:30:31 AM](#)

BRYCE WARD, Mayor, Fairbanks North Star Borough, stated that the project would reduce the cost and would address the air quality issue by converting to a cleaner source of energy for heating.

[11:32:09 AM](#)

JOMO STEWART, Fairbanks Economic Development Corporation, stated support for HB 87 and referenced the letter [dated March 11, 2019] from the Fairbanks Economic Development Corporation [Included in members' packets]. He said that the proposed bill was crucial to the success of the construction of the facility as it would help drive down costs.

[11:34:15 AM](#)

VIKKI JO KENNEDY, Grandma Brigade, said that she was honored to address friends in Fairbanks. She declared that, although she was proud of the gas line, she had concern for the funding, emphasizing that the state could not afford to continue this.

REPRESENTATIVE RAUSCHER asked if she was in support of the proposed bill.

MS. KENNEDY replied, "yes."

[11:36:52 AM](#)

The committee took a brief at-ease.

[11:37:14 AM](#)

PATRICE LEE, Director, Interior Gas Utility, stated her support for HB 87. She stressed the importance for addressing the poor air quality and that an answer to the problem would be affordable energy. This would also provide a necessary economic boom.

[11:38:52 AM](#)

CHAIR HOPKINS closed public testimony.

[11:39:02 AM](#)

REPRESENTATIVE SPOHNHOLZ moved to report HB 87 out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, HB 87 was moved from the House Special Committee on Energy.

[11:39:30 AM](#)

The committee took an at-ease from 11:39 a.m. to 11:42 a.m.

[11:42:00 AM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 11:42 a.m.