

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 22, 2019

1:02 p.m.

MEMBERS PRESENT

Representative John Lincoln, Co-Chair
Representative Geran Tarr, Co-Chair
Representative Grier Hopkins, Vice Chair
Representative Sara Hannan
Representative Ivy Spohnholz
Representative Dave Talerico
Representative Sara Rasmussen

MEMBERS ABSENT

Representative Chris Tuck
Representative George Rauscher

COMMITTEE CALENDAR

PRESENTATION: ALASKA LNG PROJECT UPDATE

- HEARD

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 16
"An Act relating to shared animal ownership; and relating to the sharing and sale of raw milk and raw milk products."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 16

SHORT TITLE: LOCAL FOOD PROCUREMENT; LABELING

SPONSOR(S): REPRESENTATIVE(S) TARR

02/20/19	(H)	PREFILE RELEASED 1/7/19
02/20/19	(H)	READ THE FIRST TIME - REFERRALS
02/20/19	(H)	RES, FIN
03/20/19	(H)	SPONSOR SUBSTITUTE INTRODUCED
03/20/19	(H)	READ THE FIRST TIME - REFERRALS
03/20/19	(H)	RES, FIN
03/22/19	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

JOE DUBLER, Interim President
Alaska Gasline Development Corporation
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation entitled, "Alaska LNG Project Update House Resources Committee," dated 3/22/19, and answered questions.

FRANK RICHARDS, P.E., Senior Vice President
Program Management
Alaska Gasline Development Corporation
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Answered questions during a PowerPoint presentation entitled, "Alaska LNG Project Update House Resources Committee," dated 3/22/19.

SUZY CROSBY, Co-Owner
Cottonwood Creek Farm
Wasilla, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation entitled, "Cottonwood Farm Before House Resources 3/22/19," and answered questions during the hearing of SSHB 16.

PETE KENNEDY, Attorney
Westin Price Foundation
No city provided, Florida

POSITION STATEMENT: Testified during the hearing of SSHB 16.

ACTION NARRATIVE

[1:02:33 PM](#)

CO-CHAIR JOHN LINCOLN called the House Resources Standing Committee meeting to order at 1:02 p.m. Representatives Hopkins, Hannan, Talerico, Tarr, and Lincoln were present at the call to order. Representatives Spohnholz and Rasmussen arrived as the meeting was in progress.

PRESENTATION: ALASKA LNG PROJECT UPDATE

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CO-CHAIR JOHN LINCOLN announced the first order of business would be a presentation on the Alaska LNG project by the Alaska Gasline Development Corporation.

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JOE DUBLER, Interim President, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community & Economic Development (DCCED), informed the committee he would present a triannual update on the progress of two projects tasked to AGDC, the Alaska Stand Alone Pipeline (ASAP) project, begun originally in 2010, and aspects of the Alaska liquified natural gas pipeline (AKLNG) project. Mr. Dubler said House Bill 4 [passed in the Twenty-Eighth Alaska State Legislature] directed AGDC to develop the ASAP project that would bring a supply of natural gas from the North Slope to Cook Inlet, address the high cost of energy in Fairbanks, and shortages of natural gas in areas of Anchorage and the Matanuska-Susitna (Mat-Su) valley (slide 3). The original plan was to build a 24-inch steel pipeline to ship natural gas after it is treated to utility grade at a gas treatment plant (GTP) on the North Slope. On 3/4/19, the project was permitted in a joint record of decision issued by the U.S. Army Corps of Engineers (USACE) and the Bureau of Land Management (BLM), U.S. Department of Interior (DOI); however, the project would cost \$10 billion, which is uneconomic. Although uneconomic, work on ASAP continued in order to obtain a federal right of way and other permits that could affect AKLNG, such as: approval to install a natural gas pipeline underground; approval to install and maintain gravel pads and roads; federal approval for the installation of a pipeline through Denali National Park and Preserve, National Park Service, DOI. At this time, ASAP will be put aside pending changes in economic conditions (slide 3).

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REPRESENTATIVE HOPKINS asked how much core work, such as rights of way, pads, gravel roads, and the bearing of the pipeline, could be transferred to AKLNG.

MR. DUBLER deferred to Mr. Richards.

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FRANK RICHARDS, P.E., Senior Vice President, Program Management, AGDC, DCCED, advised AGDC provided the Federal Energy Regulatory Commission (FERC) all of the "regulatory efforts" that were completed for ASAP; this work will be submitted into the federal record which will be used by FERC to determine parameters of the AKLNG environmental impact statement (EIS). The goal is that

FERC will not seek to duplicate the work of the federal agencies, that is specific to AKLNG, because the ASAP pipeline right of way followed approximately 80 percent of the AKLNG route.

MR. DUBLER turned to AKLNG, established by Senate Bill 138 {passed in the Twenty-Eighth Alaska State Legislature}, and gave a brief history and description of the project (slides 4 and 5).

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REPRESENTATIVE HANNAN asked for a description of a 3-train LNG facility.

MR. DUBLER explained trains are modules; using modular construction allows additions to be made, thus 3-trains are three different modules that can add compression, and each train is designed to deliver just under 700 million tonnes per annum (MTPA). "Trains" are an industry term used to describe the modular construction of certain facilities. In further response to Representative Hannan, he said all of the trains are located at the site in Nikiski, and there are eight compressor stations located along the pipeline to keep the gas moving through the pipeline.

REPRESENTATIVE HANNAN asked whether a train is a unit of size.

MR. DUBLER said yes, although trains can be designed in different sizes. He continued to explain AKLNG Pre-Front-End Engineering and Design (Pre-FEED) work has progressed to about 15 percent in engineering design, which means some of the infrastructure, equipment, and costs are known and an economic analysis was completed; at that point, the partners withdrew from the project, however, the state has continued to advance the project for the last three years in regulatory and commercial aspects. In fact, the state has presented the project to potential investors and has garnered 16 letters of interest from natural gas buyers in Asia, but has not advanced the engineering of the project.

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REPRESENTATIVE HOPKINS questioned the current stance of the 16 companies that have submitted letters of interest.

MR. DUBLER said all 16 companies were contacted in February [2019], and AGDC received positive responses from the largest

companies, as related to the present stage gate schedule for the project, which is a more measured approach. Further, AGDC will be meeting with most of the companies [in April 2019]. Mr. Dubler returned attention to slide 5 and noted the pipeline will have thicker walls in some areas, but is basically a one-inch pipeline terminating at the facility in Nikiski.

CO-CHAIR LINCOLN recalled there have been media reports suggesting a method of exporting natural gas by icebreakers directly from the North Slope.

MR. DUBLER acknowledged icebreaking LNG tankers are in use in Russia; however, [to successfully market LNG], a reliable supply of LNG must be guaranteed through long-term contracts with buyers, and suppliers of natural gas need to have a proven track record of delivery. He cautioned the icepack above the North Slope could delay the delivery of LNG, but Nikiski has proven to be a reliable shipping port for 40 years. In further response to Co-Chair Lincoln, he noted a gas treatment plant necessary for shipping from the North Slope would require an artificial island that would affect the traditional lifestyle of North Slope residents.

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REPRESENTATIVE HOPKINS asked how the processing capabilities of a floating LNG plant would compare with the capabilities of [AKLNG].

MR. DUBLER did not know.

REPRESENTATIVE TARR asked why the project now specifies 42-inch pipeline and whether there are still constraints on the availability of steel.

MR. DUBLER explained a six-inch increase in pipe diameter would mean a significant increase in throughput; although the fixed costs of the project remain the same, an increase in throughput reduces the cost per unit. As to the availability of the steel, he expressed his belief 42-inch pipe is not available in the U.S., thus the source of the pipe would be Asia, Germany, or India.

REPRESENTATIVE TARR asked several questions related to the engineering of the pipe and questioned whether the pipeline would be installed both under and above ground.

MR. DUBLER advised the pipeline would travel aboveground to cross [earthquake] fault lines; however, the majority of the pipeline would travel underground.

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MR. RICHARDS stated a 42-inch diameter has always been designed for AKLNG and - after review - was determined to be the most economic when compared to a 48-inch diameter. The proposed thicknesses of the pipe are not unusual and are produced worldwide. He observed there is potential that U.S. manufacturers will begin to produce 42-inch pipe.

REPRESENTATIVE RASMUSSEN asked for the difference in cost between 36-inch diameter and 42-inch diameter pipe.

MR. RICHARDS estimated a difference in excess of \$100 million.

REPRESENTATIVE HANNAN inquired as to how long a lead time is required for a U.S. manufacturer to produce 800 miles of 42-inch steel pipe.

MR. RICHARDS clarified 42-inch pipe is not currently produced in the U.S; however, AKLNG would seek multiple suppliers, from around the world, that could produce what is required within one to one and one-half years.

MR. DUBLER turned attention to slide 6 entitled "Alaska LNG Investment" and said funding for AGDC was established by appropriations into separate funds for capital expenditures on each project, although AGDC sought operating appropriations for each project annually. As shown on slide 6, the projected fund balance for fiscal year 2019 (FY 19) is approximately \$15,351 million to complete the FERC process.

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REPRESENTATIVE RASMUSSEN asked whether the remaining funds would be sufficient.

MR. DUBLER opined approximately \$20 million is needed to finish the FERC process.

REPRESENTATIVE RASMUSSEN posited if the legislature appropriated an additional \$5 million, and the project were abandoned, whether the state would recoup the assets of the project.

MR. DUBLER assured the committee the project has accumulated significant assets to date in the form of data gleaned from boreholes. Were AKLNG abandoned for economic reasons, the data would be a valuable resource to future development on the North Slope. In further response to Representative Rasmussen, he said even changes to topography caused by earthquakes would not significantly impact the value of the data.

REPRESENTATIVE HOPKINS suggested the FERC license would be an additional asset as the license would be helpful in future endeavors.

MR. DUBLER agreed.

CO-CHAIR LINCOLN asked for the average depth of the pipeline.

MR. DUBLER said three feet.

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REPRESENTATIVE HANNAN asked for the source of the \$5 million re-appropriation shown on slide 6.

MR. DUBLER remarked [from figures provided on slide 6]:

... If you look at the \$54 million [Fund Balance End of Period FY2018 Actuals] and subtract the \$33,900 [Totals FY2019 Projected] it would give you \$20,300, but the \$5 million would come out, leaving you [\$15,351} [Fund Balance End of Period FY2019 Projected].

MR. DUBLER noted he was tasked with aligning AGDC to the state's fiscal reality and accordingly has identified \$5 million in savings through staff reductions, the corporation's new focus on one project instead of two, and reductions in marketing. He said AGDC will continue to advance the FERC license and maintain a limited commercial presence with customers. A satellite office in Houston was closed and offices in Kenai and Tokyo have been maintained (slide 7).

REPRESENTATIVE RASMUSSEN asked for the expected FERC process timeline and whether additional information is needed after the FERC process is complete.

MR. DUBLER stated the schedule for the FERC process has been pushed back four months, which means a final decision is expected June 2020.

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REPRESENTATIVE SPOHNHOLZ recalled Mr. Dubler stated it was too early to market the project, and questioned why the Tokyo office was kept open.

MR. DUBLER clarified it is too early to market purchase agreements; however, AGDC seeks to continue to build relationships with potential LNG purchasers.

REPRESENTATIVE HANNAN surmised the Tokyo marketer is marketing primarily to Japan.

MR. DUBLER said the marketer is in contact with buyers all over Asia, including new and emerging markets such as Vietnam.

REPRESENTATIVE HANNAN pointed out Japan represents one side of established Asia markets; however, China represents new and emerging markets.

MR. DUBLER agreed. He remarked:

... AGDC doesn't have any assets besides this project, and we don't have a project yet. So, ... what we're selling is this contract to sell gas to a company. If that company is a, is a country that doesn't have a rating or that is an emerging market, or that, you know, doesn't have the financial where-with-all to ... rise to a level where you could borrow against it, then what you do is you get a country like Japan to get a company that picks up all those little contracts, and is willing to take that risk, and then we contract with them to sell them the gas. We use the credit of ... the very well-rated Japanese company to sell to third parties that don't have a good rating.

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MR. DUBLER turned to the following path forward for AKLNG (slide 8):

- return to a stage gate process which is a measured approach: at given points in a project the project is reviewed, and a decision is made to continue; this process prevents the completion of a project that thereafter must be subsidized; for example, at the end of pre-FEED, former partners in the project withdrew
- the governor has given AGDC 60 days to review the engineering and the commercial agreements in order to determine whether the project is viable
- AGDC will provide sufficient information to the legislature on a monthly basis through [board of directors] activities
- following a technical review of the project, there will be a 60-day commercial review in conjunction with the Department of Revenue
- pursue qualified third-party expertise to build, own, and operate the project with the state as facilitator
- reevaluate the schedule for FEED, the Final Investment Decision (FID), and construction on a more reasonable schedule

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REPRESENTATIVE HOPKINS asked how much of the economic viability of the project is based on the future international market for LNG, as opposed to just considering the state's current fiscal situation.

MR. DUBLER acknowledged there are three potential gas sellers in the project's current memorandum of understanding (MOU): BP, ExxonMobil Corporation, and AGDC [document not provided]. However, if the Department of Natural Resources agrees to accept royalty-in-kind (RIK), rather than royalty-in-value (RIV), it would become a gas marketer as well. Because of anti-trust considerations, the parties cannot discuss the sale price of their gas. All that can be discussed is AGDC's cost to take the gas resource, convert natural gas to LNG, and deliver LNG free on board (FOB) to a dock [in Nikiski] or in Asia. He concluded each party, including AGDC, will make a determination on the price delivered in Asia, and whether to continue the project.

REPRESENTATIVE HANNAN inquired as to the predicted price range for LNG.

MR. DUBLER said the price for LNG will indubitably depend on many factors; for example, how many LNG projects that are in various stages of development actually are built, and on

increases in demand for LNG from India, China, and other emerging economies. At this time, there is a huge gap between supply and demand.

REPRESENTATIVE HANNAN asked for the role Russia plays in world gas markets.

MR. DUBLER said Russia has completed, and is expanding, a large LNG facility in the north, although he is unfamiliar with the reserve capacity of said reservoir. Mr. Dubler returned to the last item on slide 8:

- Complete FERC process with third-party participation; AGDC will use contractors to augment its small staff

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REPRESENTATIVE TARR recalled the previous AKLNG structure included engineering, procurement, and construction (EPC) contracts as an aspect of financing the project. She asked whether this method of outside financing is included in the current model.

MR. DUBLER explained EPC contracts are generally with a firm that would build the project; for example, a large oil company could invest, provide capital, and construct the project. However, AGDC has no partners at this point beyond the MOU, which directs the state and certain companies to work together for 60 days on an assessment of the project. He suggested oil producers on the North Slope may be interested [in an EPC contract] because they own the gas.

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MR. DUBLER continued to slide 9 and explained the purpose of a stage gate process is to remove risk; for example, if AGDC were to make an FID decision after the completion of only 15 percent of engineering, "you don't know what the risks are." Using a stage gate process, in order to continue to a FEED decision, AGDC must:

- demonstrate economics that would attract private equity investment and debt financing; procure North Slope LNG sales contracts
- engage qualified partners to construct and operate the project
- meet AGDC's statutory objectives

MR. DUBLER said AGDC has been seeking partners in the project. In March [2019], AGDC signed an MOU with BP and ExxonMobil to review the project. In April [2019], a group will meet in Houston to develop updated costs estimates on project design to a point allowed by antitrust considerations, which will be followed by a commercial review. If the project continues, AGDC must incorporate partners to complete the project (slide 10).

CO-CHAIR LINCOLN asked when the review process will be completed.

MR. DUBLER advised the review process will be completed by the end of April, and will be further discussed prior to the AGDC board meeting on May 9, [2019].

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MR. DUBLER turned to aspects that challenge the completion of the project (slide 11):

- many projects in competition with AKLNG worldwide are built at tidewater and thus do not require an 800-mile pipeline to a port; were AKLNG to be built on the North Slope, LNG would not be provided to Southcentral and Fairbanks
- many projects in competition with AKLNG, in the Gulf Coast area of the Lower 48, have access to Henry Hub [pricing point for lower natural gas futures traded on market exchanges] lower-priced gas
- increased competition and Henry Hub prices are driving price projections to approximately \$8.00 per million British thermal units (MMBtu) in Asia; AKLNG has not met this threshold

MR. DUBLER advised a positive aspect for AKLNG is cheaper transportation costs than shipping from the Gulf Coast, because of the shorter distance to Asia, and also avoids shipping congestion in the Panama Canal.

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REPRESENTATIVE HANNAN asked for the volume of Henry Hub LNG exports.

MR. DUBLER said he did not know. He recalled a shortage of LNG was projected before fracking of shale oil increased the supply to the point that it is now exported.

REPRESENTATIVE HOPKINS encouraged AGDC to advance AKLNG to the point of the FERC license. He pointed out the difference between AKLNG and the Trans-Alaska Pipeline System (TAPS) is that the revenue for the state would be garnered from the infrastructure, not from the content of the pipeline.

MR. DUBLER said he would share Representative Hopkins' comments with the AGDC board and the administration. He agreed that if the state fails to invest in the pipeline, there will be no revenue to the state, unlike oil.

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REPRESENTATIVE TALERICO questioned whether other permit and licensing deadlines would arise if the state chose to advance AKLNG to the FERC permit stage gate phase in June 2020.

MR. RICHARDS said in addition to FERC [section 3 of the Natural Gas Act] authorization and EIS, other agencies such as U.S. Fish and Wildlife, DOI, the Environmental Protection Agency, BLM, and the U.S. Coast Guard are proceeding with permitting. Under [Fixing America's Surface Transportation (FAST) Act (Fast-41)], the federal authorizations for AKLNG must be identified and scheduled thus the FERC date of June 2020 aligns with permitting by other federal agencies. Mr. Richards said he will provide timelines for permitting by the aforementioned agencies.

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The committee took an at-ease from 2:25 p.m. to 2:32 p.m.

HB 16-LOCAL FOOD PROCUREMENT; LABELING

[2:32:17 PM](#)

CO-CHAIR LINCOLN announced the final order of business would be SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 16, "An Act relating to shared animal ownership; and relating to the sharing and sale of raw milk and raw milk products."

CO-CHAIR TARR provided a PowerPoint presentation entitled, "House Bill 16 Raw Milk Sales." Speaking as the sponsor of SSHB 16, she informed the committee the bill was derived from a desire to provide food security in Alaska. Her background in botany and sustainable agriculture led her to address the issue of food security: 95 percent of food for Alaska is imported at

a cost of over \$2 billion; the Division of Agriculture, DNR, reported Alaskans can produce more; the Alaska Grown \$5 Challenge provides more economic development opportunity for farmers in Alaska (slides 1 and 2).

CO-CHAIR TARR, in response to Representative Hannan, explained the purpose of the Alaska Grown \$5 Challenge is to generate \$188 million into Alaska's economy. She provided a history of farming in Alaska: at statehood there were 525 farms producing almost one-half of the food consumed in Alaska and dairy farming was well established. There is only one dairy left in Palmer, but new dairies in Kodiak and Delta Junction are underway (slides 3 and 4).

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CO-CHAIR TARR advised currently, raw milk products are sold through a herd share program authorized by the Alaska Administrative Code. In Alaska, the commissioner of the Department of Environmental Conservation holds broad authority over matters of food regulations thus the herd share program was established by regulation and is not in statute: 18 AAC 32.010 - 18 ACC 32.060 restrict sales of raw milk products except for personal use. She directed attention to a sample herd share agreement included in the committee packet - noting the agreement creates a contractual relationship between a producer and consumer - and described features of the agreement. Co-Chair Tarr pointed out the "closed loop system" nature of the agreement provides safety because if an issue arose, consumers are known and can be contacted quickly.

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CO-CHAIR TARR advised the first provision of SSHB 16 would put a herd share program into the Alaska Statutes. Comparing the bill to legislation in other states, she said 12 states allow raw milk sales in retail stores; some allow raw milk sales at farmers markets; some allow raw milk sales on the producing farm; some allow herd share programs; some allow the sale of raw goat milk only [supporting document provided by the National Conference of State Legislatures entitled, "State Milk Laws" included in the committee packet]. The second provision of SSHB 16 allows producers to include in the herd share program additional value-added products such as cheese and butter (slide 7). This provision would help farmers increase the scale of their businesses and increase shopping convenience to consumers. She directed attention to a picture of raw milk cheese available

at a retail outlet due to federal legislation that allows the sale of raw milk cheese that has been aged over 60 days. Co-Chair Tarr concluded, noting pasteurization of milk became necessary to address problems created by the improper handling of milk and a population shift to urban living during the early 1900's; as it took longer to transport milk products from farms to consumers, problems with illnesses arose.

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SUZY CROSBY, Co-Owner, Cottonwood Creek Farm, provided a PowerPoint presentation entitled, "Cottonwood Farm Before House Resources 3/22/19." She directed attention to a picture of goats and explained herd share is legal in Alaska, helps the goats "pay their way" and connects consumers with producers in order to shorten the food chain, which is desired by "locavores." She restated herd share is legal in Alaska and is applicable to fluid milk only. Herd share is sustainable in that consumers make a commitment to pick up their milk on a schedule (slides 1-4). Through the herd share program, the farm is not a grocery store and farmers do not sell milk, cheese, or other dairy products (slide 5). Ms. Crosby noted the provision of SSHB 16 that would allow farmers to make cheese and other products is important because goats produce excess milk in the summer, which could be made into chevre and frozen for use in winter. She turned to aspects of safety and sanitation and advised the milking location should be out of the barn and in a clean space. Goats are cleaned before and after milking and fed so they remain standing after milking; she further described methods for safe handling and processing of the milk, for complete recordkeeping, and for educating consumers on milk safety (slides 6-8). Ms. Crosby stated SSHB 16 would allow the herd share program to include value-added products such as Queso Fresco, feta cheese, and chevre (slides 9-12).

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PETE KENNEDY, Attorney, Westin Price Foundation, informed the committee the Westin Price Foundation is a 501(c)(3) nonprofit and is the biggest raw milk advocate group in the U.S. He said he also works for the Farm-to-Consumer Legal Defense Fund that has a mission to protect the rights of farmers and consumers to engage in direct commerce. Mr. Kennedy confirmed [herd share] agreements are closed-loop transactions that create a higher degree of transparency and traceability than any other arrangement. He opined the majority of food-borne illness outbreaks blamed on raw milk consumption are false; in two cases

where milk distributed through a herd share agreement was responsible [for illness], affected parties were notified without public notice. He referred to a report included in the committee packet related to raw milk safety and said his experience is that the demand for raw milk has increased, but incidents of illness have not - or have decreased - due to the better education of dairy farmers and consumers [document not provided].

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MR. KENNEDY opined there are three built-in safety incentives that ensure the safe production of raw milk: the milk is consumed by the producer; the small herd share dairies cannot afford an outbreak of illness; raw dairy products have a better track record for safety than fluid raw milk. From an economic standpoint, raw milks sales encourage consumers to visit the farm and make other purchases. Finally, he advised there is case law supporting herd share farmers who distribute raw dairy products to their consumers.

[HB 16 was held over.]

[3:01:57 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:01 p.m.