Dear House Finance Committee Members:

These written comments follow-up on my verbal testimony provided before the House Finance committee on April 12, 2014.

As SB 138 moves through the legislative process, it is becoming clearer what the bill will authorize should it become law. Among other things, in passing SB 138, the legislature will sanction the administration moving forward on the state holding an equity position in the proposed Alaska liquefied natural gas project; authorize the Alaska Gasline Development Corporation to enter agreements for the LNG project; give the Department of Natural Resources commissioner complete discretion to confidentially negotiate commercial agreements and contracts, including gas shipping agreements; allow the state to take its royalty gas and gas production tax as gas rather than cash; and establish the production tax rate for gas.

There remains the question of what contract terms SB 138 would authorize, and what will come back to the legislature for future approval. Many of the principles identified in the Heads of Agreement are disproportionately favorable to the Producers and I am concerned that these, as well as terms not yet negotiated, will be part of agreements that will not come to the legislature for approval or be subject to public review.

For example, SB 138 authorizes AGDC to enter into joint venture ownership, operating, marketing and other agreements for an Alaska liquefied natural gas project. As explained during the administration's testimony on April 13, agreements negotiated by AGDC will not come before the legislature for approval, but rather will be overseen by the AGDC board. Legislative involvement will be limited to providing funding. Consequently, by passing SB 138, the legislature is giving de facto approval to whatever principles in the HOA, or any other terms, will be in agreements entered into by AGDC.

Under SB 138, short-term agreements entered into by DNR will not be subject to legislative approval. These include the precedent gas shipping agreement and equity option agreement that will incorporate significant state commitments identified in the Memorandum of Understanding with TransCanada. These agreements will establish the terms for final agreements that will be presented for legislative approval, at which time the legislature will be limited to an up or down vote with little to no opportunity to make changes.

It is apparent that future legislative approvals are likely to happen on a piecemeal basis, making this the best time to address the project as a whole. Questions you may want to ask yourself include:

- Are you certain the State should assume the near-term and long-term risks and costs of partial ownership in the pipeline project? Do you have enough information to decide?

- If a final contract were being presented today that incorporated the principles in the Heads of Agreement, or the term sheets in the Memorandum of Understanding, would you be satisfied that the terms are in the State's best interests and should be approved?

If the answer is no to any of the above, now is the time to stop or change SB 138, rather than leaving it to a future legislature to stop a bad deal.

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Lisa Weissler – Public Comments 4/14/14
SB 138 – House Finance

For your information, I have attached my notes from my April 12, 2014 public testimony:

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Is the Alaska LNG Project a good deal for the State? No.

But the project is shaping up to be a good deal for ExxonMobil, BP and ConocoPhillips.

Heads of Agreement and Memorandum of Understanding	
PRODUCERS' DEAL	**STATE'S DEAL**
• Each company owns and controls 100% of their share of the project with few, if any, obligations to the host government • State shares upfront costs and risks • State takes royalty gas in kind; gives up right to switch between higher-of in kind or in value • Producers decide whether the conditions for continuing pre-front-end engineering and design work (Pre-FEED) through completion are acceptable • Producers decide whether State fiscal and commercial terms are acceptable before proceeding to FEED • Producers decide when to request the State take its production tax as gas • Costs of gas infrastructure deductible from oil tax • State gas tax structured to allow gas to be bookable as reserves by the Producers • State pays treatment, transportation and marketing costs for state royalty and tax gas • State potentially pays Producers for marketing state gas • State has minority vote in management decisions • Producers control gas production • Property tax based on throughput rather than property value • No regulation of pipeline tariff • No requirement to provide instate gas • No requirement to help pay for expansions • No requirement to provide pipeline access to third party producers • The end of AGIA and its requirements for pipeline terms favorable to the State • More "project-enabling" terms to be negotiated, including the potential for oil tax related terms	Before Pre-front-end engineering and design work is complete, the State will commit to: • Ownership in a pipeline project the State cannot afford; and • Paying the costs of shipping gas the State does not produce. In exchange for these commitments and other concessions to the Producers and TransCanada, the State may get a continuation of Pre-FEED work through to completion. [HOA Article 4] Continuation of Pre-FEED work is contingent on: • Passage of acceptable "Enabling Legislation;" • The State maintaining progress on funding and permitting necessary infrastructure, use of eminent domain, support for a "healthy long-term oil industry," [HOA Articles 4, 7 and 10] If a pipeline is ever built, commitments made by the State too soon, with too little project information, could result in greater risks and fewer rewards to the State. If the pipeline is not built, the State may lose billions in upfront investment costs.

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