

**ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

Anchorage, Alaska

November 28, 2014

2:06 p.m.

MEMBERS PRESENT

Senator Anna Fairclough, Chair
Representative Mike Hawker, Vice Chair
Senator Cathy Giessel
Senator Kevin Meyer
Senator Mike Dunleavy (alternate) (via teleconference)
Representative Kurt Olson
Representative Bob Herron (via teleconference)

MEMBERS ABSENT

Senator Click Bishop
Senator Donald Olson
Representative Alan Austerman
Representative Andy Josephson
Representative Scott Kawasaki
Representative Bill Stoltze

OTHER LEGISLATORS PRESENT

Senator Peter Micciche
Representative Lindsey Holmes
Representative Mia Costello
Representative Lynn Gattis

COMMITTEE CALENDAR

EXECUTIVE SESSION: ALASKA LIQUEFIED NATURAL GAS BRIEFING

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JOE BALASH, Commissioner
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint on the Alaska Liquefied Natural Gas Project (AKLNG).

ANGELA RODELL, Commissioner
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Assisted with the PowerPoint on the Alaska Liquefied Natural Gas (AKLNG) Project.

REPRESENTATIVE LINDSEY HOLMES
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified during the presentation on the AKLNG Project; Legislative Update.

ACTION NARRATIVE

2:06:51 PM

CHAIR ANNA FAIRCLOUGH called the Legislative Budget and Audit Committee meeting to order at 2:06 p.m. Senators Giessel, Meyer, Dunleavy (via teleconference) and Fairclough and Representatives Hawker, Olson, and Herron (via teleconference) were present at the call to order. Also present were Senator Micciche (via teleconference), Representative Holmes, Costello and Gattis.

Executive Session

2:08:27 PM

CHAIR FAIRCLOUGH announced that the only order of business today would be an executive session to receive a briefing on the Alaska Liquefied Natural Gas Project by Commissioner Joe Balash, Department of Natural Resources; and Commissioner Angela Rodell, Department of Revenue. She stated that the Legislative Budget and Audit Committee (LB&A) is facilitating two meetings today in order to provide a confidentiality briefing from the current administration on the Alaska Liquefied Natural Gas (AKLNG) Project. Everyone participating in today's meetings has signed a confidentiality agreement required to receive the briefing. The Alaska State Legislature passed SB 138 and in doing so anticipated that the legislature would need to be briefed on sensitive information to protect Alaska's interests in the AKLNG Project on behalf of the citizens of Alaska. It is critical that this information remain confidential so the legislature and the state doesn't provide information to the producers or other partners on the state's strategy and thereby undermine the state's interest. It is the legislature's job to be informed

and understand the reasons certain decisions and commitments have been made. Further, it is important to understand the work that has been done to date for the future development of the AKLNG Project [the Alaska Liquefied Natural Gas (AKLNG) Project, as well as to provide input on the process and decision-making.

CHAIR FAIRCLOUGH informed members that a confidentiality agreement is meant to share confidential information, information that some may not receive by choice; however, those who do receive the confidential information will need to determine how to use the information to make decisions on behalf of Alaskans. She informed members that this briefing will take place in executive session to protect the confidential information that will be shared with us.

[2:09:43 PM](#)

REPRESENTATIVE HAWKER made a motion to move into executive session as provided under Uniform Rule 22(b)(1) and (3) since the meeting will involve a discussion of matters that the immediate knowledge of which would adversely affect the finances of a government unit. There being no objection, the committee went into executive session at 2:10 p.m.

[4:26:40 PM](#)

CHAIR FAIRCLOUGH brought the committee back to order at 4:26 p.m. She reported that those members and staff who had signed the confidentiality agreement were allowed to remain in the room and on teleconference during executive session.

CHAIR FAIRCLOUGH named the staff who participated during the executive session, including Meridon Boario, staff, Representative Nageak (via teleconference) until 3:56 p.m.; Pete Fellman, staff, Senator Bishop (via teleconference) until 4:05 p.m.; Jane Pierson, staff, Representative Thompson (via teleconference); Robert Ervine, staff, Representative Holmes; John Wood, staff, Senator Dunleavy, and Larry Semmens, staff, Senator Micciche (via teleconference).

Presentation

[4:28:24 PM](#)

CHAIR FAIRCLOUGH announced that Commissioner Joe Balash and Commissioner Angela Rodell would provide the public with a briefing on the Alaska Liquefied Natural Gas (AKLNG) Project.

4:28:50 PM

JOE BALASH, Commissioner, Department of Natural Resources, offered to provide an update on the Alaska Liquefied Natural Gas Project (AKLNG). The Alaska Gas Development Corporation (AGDC) represents a key part of carrying Alaska's interest in the AKLNG project. He reported, on behalf of the administration, that the project is on track to maintain the schedule in effect when SB 138 passed the legislature. The state's AKLNG project team's top priorities are to ensure that the state's interests are fully protected and that the complete spectrum of opportunities and benefits, as well as the costs and risks are appropriately understood, thoroughly assessed, and well communicated to decision-makers, including the legislature [slide 2].

COMMISSIONER BALASH reported that the administration has assembled a highly-experienced "leadership team" to manage and direct current efforts, which has accelerated the project's pace. The potential contributions and expertise of the team will serve the next administration and the legislature very well, he stated. The team is now well positioned to guide and influence the project from a technical perspective. The producers are working in good faith with all parties, with major capital and "A-team" resource commitments clearly evident. There isn't any good reason to slow down or otherwise derail this project. He said, "We have a good project. We have a fundamentally sound project and the opportunities in front of the state are tremendous."

4:31:56 PM

COMMISSIONER BALASH directed attention to the Alaska LNG project highlights [slide 3]. The AKLNG Project is now in Phase 2 - Pre-FEED [Pre-Front End Engineering Design Engineering Development], which is anticipated to go through the end of calendar year 2015. Most of the work plan and budget for 2015 has been identified and approved. The administration has been moving forward with all the parties on a work plan and schedule that will facilitate the legislature's approval of key decision points to enable phase-gate review for a FEED decision in the first quarter of 2016 (1Q 2016). Significant work will need to take place over the next 15 months, he said. He offered to walk the committee through the work, in a general sense that can be conveyed to the public. The schedule is feasible, workable, and the administration has the right resources available. The other parties have resourced their respective teams appropriately and

as long as the current alignment is maintained, the AKLNG project should be on track and move forward in early 2016.

4:33:26 PM

REPRESENTATIVE HAWKER reiterated the importance of maintaining alignment. He acknowledged that the AKLNG project schedule is an ambitious one, noting significant challenges loom ahead. The commissioners have given a public briefing on the project this morning that outlines very well how the state got to this point and where it is heading. In addition, in a confidential legislative briefing, the administration has given the legislature the critical "granular" information that backs up the process, which is very important for legislators to understand in order to move this project forward.

REPRESENTATIVE HAWKER, with respect to the transition of the administration, asked whether the commissioner has had an opportunity to give the incoming administration an orientation briefing.

COMMISSIONER BALASH answered that he has not yet done so, but he will continue to make himself available to the incoming administration. He stated that Governor-elect Walker has indicated his desire to keep the AKLNG project on track. The purpose of today's legislative briefing is to identify what "on track" looks like.

4:35:40 PM

COMMISSIONER BALASH directed attention to the project schedule entitled, "Alaska LNG - Work Plans/Key Decision Points" that represents the project schedule the legislature has previously seen in presentations [slide 4]. This identifies the "beginning, the middle, and the end" starting with the Point Thomson settlement joint work agreements that occurred at the start of the Parnell administration, continuing with concept selection and the decision to go into Pre-FEED, which occurred with passage of SB 138 and the signing of documents in late June 2014. Currently, the AKLNG Project is in the Pre-FEED stage. The total work plan and budget will consist of \$500 million by the end of calendar 2015. An opportunity to move into FEED [Front-End Engineering & Design] will occur in the first quarter 2016 [1Q 2016]. The FEED decision will be an approximate \$2 billion decision between the parties. Since the "price tag" is so large, it is very likely to be treated very similar to an FID [final investment decision], he said. In other words, the

[parties] are unlikely to move forward unless they know the project will result in an FID.

COMMISSIONER BALASH, in terms of timing, said it could take two or three years to complete the federal permitting process. Once the FEED phase - the permitting phase - is done, the actual construction should be completed in just over five years, depending on the commencement date. It may take longer due to the seasonal windows associated with movement of modules for the gas treatment plant into the North Slope. The state could see first gas as soon as 2023, but 2025 would still be within a reasonable "on-time" window.

[4:38:13 PM](#)

COMMISSIONER BALASH turned to the calendar entitled, "Alaska LNG - Anticipated Timelines in Pre-FEED" that highlights the next 15 months [slide 5]. This timeline can help the administration and the legislature determine whether the pace is being kept and if the project is on track. A number of enabling agreements will allow the parties to move into FEED, including durability, also known as the fiscal agreement, property tax, expansion principles, gas supply, service agreements, and disposition - the sale of the LNG. The state must have these service agreements in place with TransCanada and/or Alaska Gas Development Corporation (AGDC) to provide project services for the state's 25 percent equity in the AKLNG project.

COMMISSIONER BALASH directed attention to the line on slide 5 above the timeline, to a parallel process in which the DNR will make certain decisions related to oil leases and the rights and prerogatives that the state enjoys under those leases. He reported that SB 138 enabled the commissioner to alter those leases and limit the state's ability to switch from royalty-in-value (RIV) to royalty-in-kind (RIK), or vice-versa, noting there are valid commercial reasons to do so. A section of statutes was created within SB 138 that doesn't become effective until January 1, 2015. Therefore, in early 2015 he anticipated a proposal will collectively be brought forward by the lessees. The [DNR] commissioner will make certain determinations with respect to long-term LNG prices, project costs, and an evaluation of what the NPSL [net profit share lease] and sliding-scale royalties would have provided for the state, converted to a flat value that will be added to the specific leases. This will provide a fixed royalty amount for those specific leases to provide predictability as to what the

state's share of gas will be once the AKLNG project is in operation.

[4:40:47 PM](#)

COMMISSIONER BALASH anticipated that a special legislative session will need to be scheduled for October 2015. In addition, a window of approximately 60 days prior to the special session - beginning in early August - is necessary for the legislature, its consultants, and the public to review the documents and the agreements that the legislature will be asked to approve. The agreements will need to be finalized by July 2015, he said. He cautioned that getting closure on agreements at the working level is one thing, but obtaining corporate reviews and approvals in Dallas and London [by the producers] will also take time. Thus, having term sheets by the end of March or early April is a sign that the project is on track.

COMMISSIONER BALASH directed attention to Municipal Advisory Gas Project Review Board (MAGPR), noting some aspects of the fiscal system, specifically property taxes will need to be determined as well. He anticipated that the MAGPR will issue a report in mid-December. The MAGPR will continue to hold meetings and provide another forum for discussions on certain aspects of the project. He characterized the calendar as "a busy calendar" and one that he felt confident can be met, in particular, if the incoming administration will rely on the team that this administration has assembled.

[4:43:31 PM](#)

COMMISSIONER BALASH discussed the summer field season [slide 6]. He pointed out the accomplishments to date, which were concentrated in an area between Livengood and Big Lake. The final route for the last leg of the pipeline to Nikiski has yet to be determined although this corridor has been studied by the AGDC in support of the work. He commended the cooperation and data-sharing between AGDC and the AKLNG Project, which has benefitted both parties.

COMMISSIONER BALASH pointed out the Denali State Park doesn't have any purpose to serve the needs of either project. He envisioned statutory changes will likely be necessary in order to obtain rights-of-way and permits in the park.

[4:45:13 PM](#)

COMMISSIONER BALASH directed attention to the "NEPA Pre-File Update" on slide 7, which is intended to identify the ongoing regulatory work that the AKLNG has with the Federal Energy Regulatory Commission (FERC). The AKLNG has submitted the pre-file NEPA documents and draft resource reports, numbers 1 and 10 of the 13 reports required, for a Section 3 project. Prior to submittal of the remaining reports to the FERC by the end of January 2015, each of the project sponsors, including the state, will have an opportunity to review and comment on the reports. This process is laid out in the flags and boxes on slide 7. The agencies must abide by the short review periods of the draft reports to essentially identify any major "red flags" since the draft documents can be revised over the course of the next year. If everything goes according to schedule and the draft resource reports are submitted to the FERC timely, it will allow the FERC and other federal agencies to provide meaningful feedback to the project. In turn, this will shape the scope of activities to be undertaken during the 2015 summer field season. Any delays in filing the resource reports will, in turn, cause delays to the feedback process, and could adversely impact the summer field work, which is necessary for a complete application by Spring 2016. He suggested that the administration's transition team must meet the FERC deadlines.

[4:48:04 PM](#)

ANGELA RODELL, Commissioner, Department of Revenue, stated that resource report number 5 will outline all of the socio-economic impacts on the state and the communities as a result of the AKLNG project. Developing this report presents an opportunity for Alaskans and communities to make their voice heard. The Municipal Advisory Gas Project Review Board (MAGPR) is working to determine impact payments and the AKLNG project will also do so. It's important that communities participate at this juncture since it will become an important part of how the project proceeds and any impacts the construction will have on Alaskans.

[4:49:56 PM](#)

COMMISSIONER BALASH directed attention to the state agency gas team organization chart that depicts the DNR and DOR [slide 8]. He said the organization chart does not include any TransCanada or Alaska Gas Development Corporation (AGDC) personnel, but it does include contractors. Although he and Commissioner Rodell are transitioning out with the change in administration, the remaining team, including the leadership team and sub-teams can

help keep the project on track. He cautioned that any significant changes to the project personnel could adversely impact the overall schedule.

COMMISSIONER BALASH turned to the SOA AKLNG's working teams and sub-teams [slide 9]. Per the Heads of Agreement (HOA) and SB 138, which continue to be the guiding documents for the activities of the state, the parties are actively progressing the principles and agreements necessary to make a decision to proceed to the FEED stage of the project. The parties are negotiating in specific groups [fiscal, upstream, project, governance, expansion, and TransCanada/SOA bilateral agreements]. In addition, several working groups or subgroups were formed to work on the finer points, including regulatory, midstream technical, finance, and tax. Each of these groups has been meeting regularly to identify tasks, deliverables, and plan the work, conduct the work, and continue planning.

[4:52:08 PM](#)

COMMISSIONER RODELL directed attention to the terms of finance and property tax [slide 10]. She informed the committee in terms of the financing plan, the DOR has an interim draft report due to the legislature on the first day of the upcoming legislative session. She advised that report is underway, with Lazard, the consultant, hired to prepare the report. In accordance with federal rules, the administration retained an Independent Registered Municipal Advisor (IRMA), FirstSouthwest, who has been working on putting together the spectrum of options for the state in terms of state financing, as well as identifying the risks and possibilities of other parties within the state participating, whether it is individuals, Native Corporations, or other parties identified under SB 138. The final financing report will be submitted at the same time the agreements come to the legislature for approval and will be based on some of the feedback received. In terms of property tax and impact payments, the MAGPR Board continues to meet, with the first recommendations due on December 15, in accordance with the administrative order and SB 138. Further, the department has a tremendous amount of information on the DOR website with respect to the work done to date. She wished to publically commend the MAGPR on its outstanding performance, in speaking collegially, and in recognizing the varied interests each of the communities - within the project's geographical area and outside the geographical area. She predicted that the legislature will be pleased to observe the level of detail and significant amount of work by the MAGPR.

4:54:29 PM

COMMISSIONER BALASH, in closing, commented on confidentiality. He thanked the Legislative Budget & Audit Committee's Chair for the committee's efforts with the administration to get an agreement in place that has allowed the departments to make this presentation today.

COMMISSIONER BALASH related that the State of Alaska is endeavoring to take on an equity role in a very big project that is important to the state's future. The administration and the legislature provide some unique solutions to move the AKLNG project forward, including how SB 138 contemplates the negotiation of agreements by the executive branch and the ratification of those agreements by the legislature.

COMMISSIONER BALASH emphasized the administration's desire to include the legislature in the development of these agreements. Rather than provide the legislature with a complicated agreement to consider, provisions in SB 138 allow for confidential briefings by the executive branch to the legislative branch, providing essential dialogue and input between the administration and the legislature. This legislative input is critical in order for the administration to make a decision, or a series of decisions, which will result in a product the legislature and ultimately the public can have confidence in.

COMMISSIONER BALASH characterized this process as being unique and critical since the producers are essentially negotiating with the people of Alaska through their respective legislators, who are the elected representatives of the people of Alaska. Further, being able confer across branches of government to discuss matters of the state without any of the counter parties, project sponsors, leaseholders at Prudhoe Bay and Point Thomson, or prospective buyers being a party to the discussions is important since the goal is to maximize the value for Alaskans. Every dollar that the state can make on gas is important today, especially given the current dollar value of oil. He said, "We have to be vigilant and vicious in those negotiations, keeping in mind, of course, the need to be aligned and working to find 'win-win' solutions to the challenges this project does face."

COMMISSIONER BALASH said he hoped the progress that has been started here can continue. He thanked members for the work the legislature has done to get the state to this point.

4:59:16 PM

CHAIR FAIRCLOUGH, on behalf of the Legislative Budget & Audit Committee, extended gratitude for the work the AKLNG project team has put forth to benefit Alaskans. She wished to personally thank Commissioner Balash, Commissioner Rodell, and Deputy Commissioner Pawlowski. She also identified Deputy Commissioner Bob Swenson for participating in the morning session and to have the AKLNG project team member, Vasilios "Akis" Gialopsos in the audience this afternoon. She said, "I just wanted to say a public thank you, and Alaskans can benefit from your hard work."

5:00:22 PM

REPRESENTATIVE LINDSEY HOLMES, Alaska State Legislature, emphasized some of the things Commissioner Balash mentioned. She acknowledged that substantial comments from the public with respect to confidentiality; however, she observed that this is an Alaska project for the people of Alaska. Certainly, the legislature wants to avoid the mistakes made during the Stranded Gas Act, in which the substantial proposal came before the legislature, was deliberated during a special legislative session, but ultimately was declined and went "back to ground zero." Further, the legislature went through the lengthy Alaska Gasline Inducement Act (AGIA) process.

REPRESENTATIVE HOLMES offered her belief that the legislature wants the AKLNG project to move forward. In fact, the two-way dialogue was requested by the legislature and offered by the administration to allow producers to go "hand-in-hand" with the state and the administration to go "hand-in-hand" with the legislature. Certainly, this project will take a lot of moving parts all working together for the state to get to first gas in the next 12 years. She cautioned that without complete candor between the administration and the legislature at every step of the way, the state faces the risk of putting all this time and money into the proposed AKLNG project and the legislature and the administration not being in synch. Thus, she applauded the administration's efforts to keep the legislature completely informed, which is why confidentiality is necessary. She said confidential briefings are not an attempt to hide information from Alaskans, but represent a process to ensure that the legislature and the administration continues to go "hand-in-hand" but also cautioning that these briefings should be limited to information that is truly confidential. Confidential briefings provide an important tool, which is why she chose to

sign the agreement and attend today's hearing. She observed that the AKLNG project is lengthy and will undergo several administrations before gas is flowing [in 2023-2025], as well as numerous changes in the legislature and in industry. Communication will be key and confidentiality is one small part of that, she stated. She thanked the team for working so openly with the legislature in the past several years, noting this may be her last legislative hearing in her tenure as an elected official.

[5:05:00 PM](#)

REPRESENTATIVE HAWKER commended Commissioner Balash, Commissioner Rodell, and Deputy Commissioner Pawlowski on their service to the state and for all the work their agencies have put forth on the AKLNG Project. He said he has worked for 12 years with Commissioner Balash, noting he has sometimes agreed and sometimes disagreed with him. The administration and the legislature, along with the people they represent, have converged on a solution to a long-held dream of getting Alaska's North Slope natural gas to market in the most efficient and effective manner for the greatest benefit of Alaskans. He acknowledged that the AKLNG project can go wrong in so many ways; however, in working together the administration and the legislature have developed primary and back-up options to move forward in an organic way to allow this AKLNG project to develop. In closing, he again thanked the commissioners and their teams for the work they have done for Alaska.

[5:07:59 PM](#)

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 5:07 p.m.