

**ALASKA STATE LEGISLATURE**  
**SENATE SPECIAL COMMITTEE ON NATURAL GAS DEVELOPMENT**

August 3, 2006

9:34 a.m.

**MEMBERS PRESENT**

Senator Ralph Seekins, Chair  
Senator Lyda Green  
Senator Gary Wilken  
Senator Con Bunde  
Senator Fred Dyson  
Senator Bert Stedman  
Senator Lyman Hoffman  
Senator Donny Olson  
Senator Thomas Wagoner  
Senator Ben Stevens  
Senator Kim Elton  
Senator Albert Kookesh

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Senator Gary Stevens  
Senator Hollis French  
Senator Charlie Huggins  
Senator Bettye Davis  
Representative Paul Seaton  
Representative Ralph Samuels  
Representative Kurt Olson  
Representative Jay Ramras  
Representative Mark Neuman  
Representative John Coghill  
Representative Gabrielle LeDoux

**COMMITTEE CALENDAR**

SENATE BILL NO. 3002

"An Act relating to the Alaska Stranded Gas Development Act; relating to municipal impact money received under the terms of a stranded gas fiscal contract; relating to determination of full and true value of property and required contributions for education in municipalities affected by stranded gas fiscal contracts; and providing for an effective date."

FAILED TO MOVE OUT OF COMMITTEE

Alaska Gasline Port Authority Presentation

**PREVIOUS COMMITTEE ACTION**

BILL: SB3002

SHORT TITLE: STRANDED GAS AMENDMENTS

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

07/12/06	(S)	READ THE FIRST TIME - REFERRALS
07/12/06	(S)	NGD
07/13/06	(S)	NGD AT 9:00 AM SENATE FINANCE 532
07/13/06	(S)	Heard & Held
07/13/06	(S)	MINUTE(NGD)
07/14/06	(S)	NGD AT 9:00 AM SENATE FINANCE 532
07/14/06	(S)	Heard & Held
07/14/06	(S)	MINUTE(NGD)
07/24/06	(S)	NGD AT 1:30 PM SENATE FINANCE 532
07/24/06	(S)	Heard & Held
07/24/06	(S)	MINUTE(NGD)
07/25/06	(S)	NGD AT 9:00 AM SENATE FINANCE 532
07/25/06	(S)	Heard & Held
07/25/06	(S)	MINUTE(NGD)
07/26/06	(S)	NGD AT 9:00 AM SENATE FINANCE 532
07/26/06	(S)	Heard & Held
07/26/06	(S)	MINUTE(NGD)
07/27/06	(S)	NGD AT 9:00 AM SENATE FINANCE 532
07/27/06	(S)	Heard & Held
07/27/06	(S)	MINUTE(NGD)
07/28/06	(S)	NGD AT 9:00 AM SENATE FINANCE 532
07/28/06	(S)	Heard & Held
07/28/06	(S)	MINUTE(NGD)
07/31/06	(S)	NGD AT 1:30 PM SENATE FINANCE 532
07/31/06	(S)	Heard & Held
07/31/06	(S)	MINUTE(NGD)
08/01/06	(S)	NGD AT 9:00 AM SENATE FINANCE 532
08/01/06	(S)	Heard & Held
08/01/06	(S)	MINUTE(NGD)
08/02/06	(S)	NGD AT 1:30 PM SENATE FINANCE 532
08/02/06	(S)	-- Meeting Canceled --
08/03/06	(S)	NGD AT 9:00 AM SENATE FINANCE 532

**WITNESS REGISTER**

JIM WHITAKER, Chair  
Alaska Gasline Port Authority  
Mayor, Fairbanks North Star Borough

PO Box 71267  
Fairbanks, AK 99707

**POSITION STATEMENT:** Presented background on AGPA and the basis for its LNG plan.

BILL WALKER, General Counsel and Project Manager  
Alaska Gasline Port Authority  
411 4th Avenue, Suite 200  
Fairbanks, AK 99701

**POSITION STATEMENT:** Provided an overview of the AGPA plan.

RADOSLAV SHIPKOFF, Director  
Greengate LLC  
2001 L Street NW, Suite 901  
Washington, DC 20036

**POSITION STATEMENT:** Presented an economic analysis of the AGPA plan.

DAVID VAN TUYL, Commercial Manager  
Alaska Gas Group  
BP  
Anchorage, AK

**POSITION STATEMENT:** Testified against Amendment 7 to CSSB 3002.

WENDY KING, Director of External Strategies  
ANS Gas Development Team  
ConocoPhillips Alaska, Inc.  
PO Box 100360  
Anchorage, AK 99510

**POSITION STATEMENT:** Testified against Amendment 7 to CSSB 3002.

MARK NELSON, Commercial Negotiator  
ExxonMobil

**POSITION STATEMENT:** Testified against Amendment 7 to CSSB 3002.

JIM CLARK, Chief Negotiator  
Office of the Governor  
PO Box 110001  
Juneau, AK 99811-0001

**POSITION STATEMENT:** Provided sectional analysis of CSSB 3002\F.

JOSEPH K. DONOHUE  
Preston Gates & Ellis  
Counsel to the Governor  
Office of the Governor  
PO Box 110001  
Juneau, AK 99811-0001

**POSITION STATEMENT:** Provided sectional analysis of CSSB 3002\F.

DAN DICKINSON, CPA  
Consultant to the Governor  
Office of the Governor  
PO Box 110001  
Juneau, AK 998811-0001

**POSITION STATEMENT:** Provided clarification of Section 5 of CSSB 3002\F. Testified against Amendment 12 (fourth amendment to Version F).

#### **ACTION NARRATIVE**

**CHAIR RALPH SEEKINS** called the Senate Special Committee on Natural Gas Development meeting to order at [9:34:36 AM](#). Present at the call to order were Senators Fred Dyson, Bert Stedman, Gary Wilken, Thomas Wagoner, Ben Stevens, Kim Elton, Lyman Hoffman, and Chair Ralph Seekins; Senators Olson, Green and Kookesh arrived shortly thereafter, and Senator Bunde arrived as the meeting was in progress.

#### **SB 3002-STRANDED GAS AMENDMENTS**

[9:35:38 AM](#)

CHAIR SEEKINS announced SB 3002 to be up for consideration. He said that he would like to correct Amendment 5, which was adopted 08/01/2006, and asked if the members had other amendments to offer.

[9:36:22 AM](#)

SENATOR BEN STEVENS said that he had a new amendment and a revised Amendment 2.

The committee took an at-ease from [9:36:46 AM](#) to [9:40:48 AM](#) to copy and distribute the amendments.

CHAIR SEEKINS reminded the committee that Amendment 5 was amended to add two subparagraphs, one referenced traversing land beneath navigable waters, and the other entering Canada at any point north of 64 degrees.

He moved to rescind the committee's action of 8/1/06 in adopting Amendment 5 as amended. There being no objection, it was so ordered.

CHAIR SEEKINS offered Amendment 5A, which read:

**^AMENDMENT 5A**

**Sec. 43.82.100. Qualified project.**

Based on information available to the commissioner, the commissioner may determine that a proposal for new investment is a qualified project under this chapter if the project

(1) principally involves

(A) the transportation of natural gas by pipeline to one or more markets, together with any associated processing or treatment;

(B) the export of liquefied natural gas from the state to one or more other states or countries; or

(C) any other technology that commercializes the shipment of natural gas within the state or from the state to one or more other states or countries;

(2) would produce at least 500,000,000,000 cubic feet of stranded gas within 20 years from the commencement of commercial operations; [AND]

(3) is capable, subject to applicable commercial regulation and technical and economic considerations, of making gas available to meet the reasonably foreseeable demand in this state for gas within the economic proximity of the project; and

**(4) no project may be considered a qualified project under this chapter if the pipeline to transport natural gas from land within the Prudhoe Bay oil and gas lease area follows a route that:**

(1) traverses land beneath navigable waters (as defined in section 2 of the Submerged Lands Act (43 U.S.C. 1301)) beneath, or adjacent shoreline of, the Beaufort Sea; or

(2) enters Canada at any point north of 64 degrees north latitude; and

There being no objection to adopting Amendment 5A, it was so ordered.

The committee took an at-ease from [9:42:51 AM](#) to [9:49:35 AM](#).

CHAIR SEEKINS announced that Senators Donny Olson, Lyda Green and Albert Kookesh had joined the meeting.

[9:50:58 AM](#)

SENATOR BEN STEVENS offered Amendment 8 and objected for discussion purposes:

^AMENDMENT 8

Delete "30"  
Insert "60"

In the following section:

Sec. 43.82.430. Final findings, determination,  
and proposed amendments; execution of the contract.  
(a) within [30] 60 days after the close of the public  
comment period under AS 43.82.410(4), the commissioner  
of Revenue shall

He explained that it is an extension of the amount of time in the Alaska Stranded Gas Development Act (ASGDA) from 30 to 60 days for the commissioner to assemble the final fiscal interest finding and determination.

SENATOR BEN STEVENS removed his objection and moved to adopt Amendment number 8.

[9:52:37 AM](#)

SENATOR WAGONER said he has no objection to the amendment, but is not ready to vote on the Stranded Gas Act as amended. He wondered if it might behoove the committee to handle this matter differently.

SENATOR DYSON asked whether Senator Wagoner was suggesting that Amendment 8 become a separate bill.

SENATOR WAGONER pointed out that would ensure that the commissioner is allowed the additional 30 days.

[9:53:51 AM](#)

CHAIR SEEKINS said that might be a point for further discussion; but he wanted to vote on Amendment 8 to SB 3002 at this time.

[9:54:39 AM](#)

CHAIR SEEKINS asked if there were any objections to the motion to adopt Amendment 8 to SB 3002. There being no objection, the motion carried.

[9:54:50 AM](#)

SENATOR BEN STEVENS moved to adopt Amendment 7, and objected for discussion purposes:

^AMENDMENT 7

Page 7, lines 3-12

Delete all material and insert the following new material in its place:

**Sec. 12.** AS 43.82.270 is amended to read:

**Sec. 43.82.270. Project plans and work commitments.** A contract under AS 43.82.020 must include provisions for implementation of the qualified project plan approved under AS 43.82.140, as may be modified as a result of the development of a contract under this chapter, and provisions for updating the plan at reasonable intervals until the commencement of commercial operations of the approved qualified project. The commissioner of revenue, in consultation with the commissioner of natural resources, may, as a term in a contract under AS 43.82.020, include work commitments or other obligations in the contract to be accomplished before the commencement of commercial operations of the approved qualified project. A minimum project expenditure commitment shall be included in a contract under AS 43.82.020 that meets the requirements set out in (b)-(d) of this section.

**Sec. 13.** AS 43.82.270 is amended by adding new subsections to read:

- (b) The sponsors of the Alaska Highway Natural Gas Pipeline Project shall incur a minimum of \$1,500,000,000 in project expenditures beginning with the date the contract is fully executed by the parties and continuing until December 31, 2010. The project expenditures required by this subsection must be necessary to finance the planning and permitting phase of the project leading up to the decision on full project funding. The sponsors shall allocate and incur expenditures regularly throughout the period covered by the minimum expenditure commitment. If the commissioner of natural resources determines that a sponsor breached minimum expenditure commitment imposed by the contract, the unexpended balance of the expenditure obligation attributed to that sponsor shall be paid to the state treasury.
- (c) The sponsors shall establish an escrow account, letter of credit, or other form of financial security satisfactory to the commissioner of revenue to cover the minimum project expenditure commitments imposed in (b) of this section.

(d) The sponsors shall provide the commissioner of natural resources with an expenditure report at the end of each month containing enough information to permit an audit of compliance with the expenditure commitments imposed in (b) of this section.

Renumber remaining sections.

He explained that the intent of this amendment is embodied in Section 13, subsection (b), which requires that, upon execution of a contract between the sponsor group and the state, a \$1.5 billion account shall be funded to cover all preliminary front-end engineering design work and permitting costs. That account shall stay in existence for approximately 40 months from time of execution, until 12/31/2010. At that time, if the project has not moved to full project funding and the commissioner determines that there is a breach in the process to that point, the balance of the account shall revert to the state treasury.

[9:57:44 AM](#)

SENATOR DYSON said he wanted to hear from the producers and/or the state's consultants on the issue before voting on it. He also wanted to set forth some performance deadlines such as dates for filing the Environmental Impact Statement (EIS) and for an open season.

[9:58:52 AM](#)

SENATOR ELTON asked Senator Stevens if the sponsors would apply to the commissioner for reimbursement of expenses from the escrow account that Amendment 7 creates.

SENATOR BEN STEVENS said that is correct. All front-end engineering and design work would be credited to that account. The commissioner and the parties to the contract would have to approve those expenditures to ensure that they fall under the contract before funds would be disbursed.

He added that the State has already set aside \$300 million for that purpose in the Alaska Housing Finance Corporation (AHFC) account.

CHAIR SEEKINS likened it to an earnest money account that is drawn down for project expenditures.

SENATOR BEN STEVENS agreed.

[10:00:31 AM](#)

SENATOR WILKEN offered Amendment 1 to Amendment 7. He proposed that language be inserted in Section 13, line 9, after the word "resources", so that line would read "commissioner of natural resources, with the concurrence of the commissioner of revenue".

He objected for discussion purposes, and explained that these would be weighty decisions that should be shared across agencies.

SENATOR BEN STEVENS said he had no objection to that.

CHAIR SEEKINS asked for further objections to Amendment 1 to Amendment 7.

[10:01:40 AM](#)

SENATOR GREEN inquired about any impacts that the committee may not have considered.

CHAIR SEEKINS said he would ask.

[10:02:38 AM](#)

SENATOR STEDMAN asked if it is correct to infer from Section 13, subsection (c) that the account does not have to be funded; it is sufficient that the full faith and credit of the corporation be behind expenditures up to \$1.5 billion.

SENATOR BEN STEVENS answered that he is correct; a cash deposit is not required. Each party would have to put up a letter of credit equal to its participation, and those letters of credit would be drawn upon as expenses are incurred. If a sponsor were found in breach of its duty to execute, the unexpended balance of the obligation attributed to that sponsor would be called to the state treasury.

CHAIR SEEKINS noted that it is not a drawdown account.

SENATOR BEN STEVENS agreed.

SENATOR STEDMAN asked for confirmation that there would be no initial cash call of \$1.5 billion on the participants.

SENATOR BEN STEVENS answered that one could view it as "upon execution" the parties agree to spend \$1.5 billion by the end of 2010.

CHAIR SEEKINS asked what happens if the money is not spent by December 31, 2010.

SENATOR BEN STEVENS replied that the remaining balance would be paid to the state.

SENATOR STEDMAN prefaced his question by saying that a considerable amount of money has already been spent. He asked how the "look back" would be dealt with.

[10:05:11 AM](#)

SENATOR BEN STEVENS referred to the first sentence of subsection (b), which reads, "The sponsors of the Alaska Highway Natural Gas Pipeline Project shall incur a minimum of \$1.5 billion in project expenditures beginning with the date the contract is fully executed by the parties and continuing until December 31, 2010."

[10:05:24 AM](#)

SENATOR DYSON recommended that the committee delay a vote on this amendment for a couple of hours, until the producers and the administration's consultants have had some time to look at it.

SENATOR BEN STEVENS said he knows the producers' response will be "no"; every substantive amendment the committee has put forward to the stranded gas act has been met with a resounding "no". He said that there should be a commitment to perform. If the sponsors want to drag their feet, there is \$1.5 billion on the line.

CHAIR SEEKINS clarified that, if the state has a \$300 million commitment, the three sponsors have \$1.2 billion on the line between them.

SENATOR BEN STEVENS said that's right.

SENATOR DYSON said that he was impressed by some of the producers' testimony yesterday and still wants to hear from them before voting.

CHAIR SEEKINS assured him that the committee would hear from them.

[10:08:10 AM](#)

SENATOR ELTON said he would also like to hear from Mr. Joseph Donohue whether, if there were an issue about payments under this amendment, it would go to the contractual dispute resolution process.

SENATOR STEDMAN pointed out that the state has already put up its portion of \$300 million.

[10:09:44 AM](#)

CHAIR SEEKINS welcomed former Governor Hickel.

[10:10:12 AM](#)

CHAIR SEEKINS moved to table Amendment 7.

SENATOR BEN STEVENS objected.

CHAIR SEEKINS announced Amendment 7 would be set aside.

[10:10:33 AM](#)

SENATOR BEN STEVENS moved to withdraw Amendment 2 and re-offer it in a new form as Amendment 6. There being no objection, it was so ordered.

[10:10:53 AM](#)

SENATOR BEN STEVENS moved to adopt Amendment 6 and objected for discussion purposes.

#### ^AMENDMENT 6

Page 1, line 3, following "terms;":

Insert **"providing for an advisory vote, treatment of certain laws, and approval and ratification regarding a stranded gas fiscal contract;"**

Page 8, following line 8:

Insert new bill sections to read:

**\*\*Sec. 14.** AS 43.82.430(b) is amended to read:

(b)After considering the material described in (a) of this section and securing the agreement of the other parties to the proposed contract regarding any proposed amendments prepared under (a) of this section, if the commissioner determines that the contract is in the long-term fiscal interests of the state, the commissioner **may execute** [SHALL SUBMIT] the contract [TO THE GOVERNOR].

**Sec. 15.** AS 43.82.430(c) is amended to read:

(c) The commissioner's final findings and determination under (a) of this section **and decision regarding whether to execute the contract under (b) of this section** are final agency decisions under this chapter.

**Sec. 16.** AS 43.82.440 is amended to read:

**Sec. 43.82.330. Judicial review.** An [A PERSON MAY NOT BRING AN] action challenging the constitutionality of a law authorizing a contract developed under this chapter [ENACTED UNDER AS 43.82.435] or the enforceability of a contract executed under a process authorized by [A] law may not be brought [AUTHORIZING A CONTRACT ENACTED UNDER AS 43.82.435] unless the action is commenced within 120 days after the date that the contract was executed by the state and the other parties to the contract."

Renumber the following bill sections accordingly.

Page 11, line 30:

Delete all material and insert the following:

**\*\*Sec.23.** (a) AS 43.82.435 is repealed.

(b) AS 43.82.445 is repealed. "

Page 11, following line 30:

Insert new bill sections to read:

**\*\*Sec. 24.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPROVAL AND RATIFICATION. Notwithstanding AS 43.82.435, repealed by sec.23(a) of this Act, the provisions of the Alaska Stranded Gas Fiscal Contract between the State of Alaska and BP Exploration (Alaska) Incorporated, ConocoPhillips Alaska, Incorporated, and ExxonMobil Alaska Production, Incorporated, as amended to conform to the provisions of the Act, are approved, and the process and procedures followed in formulating that contract are ratified.

**\*Sec. 25.** The uncodified law of the State of Alaska is amended by adding a new section to read:

SUSPENSION OF OTHER LAW. The provisions of the Alaska Stranded Gas Fiscal Contract between the State of Alaska and BP Exploration (Alaska) Incorporated, ConocoPhillips Alaska, Incorporated, and ExxonMobil Alaska Production, Incorporated, as amended to conform with the provisions of the Act, are effective notwithstanding the provisions of any other law, including AS 43.82.200-43.82.270. Any inconsistency between the Alaska Stranded Gas

Development Act (AS 43.82) and the fiscal contract executed under AS 43.82 are cured and authorized by this section.

**\*Sec. 26.** The uncodified law of the State of Alaska is amended by adding a new section to read:

ADVISORY VOTE. At the 2006 general election to be held on November 7, 2006, in substantial compliance with the election laws of the state, the lieutenant governor shall place before the qualified voters of the state a question advisory to the governor and the commissioner of revenue. Notwithstanding other laws relating to preparation of the ballot proposition, the question shall appear on the ballot in the following form:

QUESTION

Shall the commissioner of revenue sign and make binding upon the State of Alaska the Alaska Stranded Gas Fiscal Contract between the State of Alaska and BP Exploration(Alaska) Incorporated, ConocoPhillips Alaska, Incorporated, and ExxonMobil Alaska Production, Incorporated?

Yes [ ]                      No [ ]"

Renumber the following bill sections accordingly.

Page 12, line 7:

Delete "Sections 2-14 and 17-20"

Insert "Sections 2-13, 17, 20-22, and 23(b)"

Page 12, following line 9:

Insert new bill sections to read:

**\*\*Sec. 29.** CONDITIONAL EFFECT. Sections 14-16, 23(a), and 24 of this Act take effect only if a majority of the votes cast in the 2006 general election on the ballot proposition in sec. 26 of the Act favor execution by the commissioner of revenue and binding effect on the State of Alaska of the Stranded Gas Fiscal Contract between the State of Alaska and BP Exploration (Alaska) Incorporated, ConocoPhillips Alaska, Incorporated, and ExxonMobil Alaska Production, Incorporated.

**\*Sec. 30.** If secs. 14-16, 23(a), and 24 of this Act take effect under sec. 29 of this Act, they take effect on the date that the director of

elections certifies the results of the 2006 general election."

Page 12, line 10:

Delete "This"

Insert "Except as provided in sec. 30 of the Act, this"

[10:13:41 AM](#)

SENATOR BEN STEVENS explained that Amendment 2 had some complexities that were based upon the original bill, regarding when certain sections would become effective. When the CS came out, there were inconsistencies between the amendment and the CS that caused errors. The memo circulated by Senators Olson and French is based upon one of those major errors, which is when section 24 would be enacted.

He said that Amendment 6 corrects those inconsistencies. Page 1 of Amendment 6 includes the purpose of the amendment in the title. Section 14 changes the process for submitting the contract to say that, "the commissioner may execute the contract." Section 15 has to do with making that execution the final agency finding. Section 16 re-states that the contract is developed under this chapter.

SENATOR BEN STEVENS continued to page 2 of the amendment. Line 7 inserts a new provision 23 (a) that repeals the requirement for legislative authorization and is tied to the effective date under Section 29. That is, if a vote of the people is ratified to favor execution of the fiscal contract, the requirement for legislative authorization is repealed.

He said that Section 24 has raised concern, and stressed that approval and ratification of the provisions of the contract is not intended to authorize execution. Section 24 is not effective until the conditional effect of the requirement for the general vote. Section 25 is the enabling legislation that says any inconsistencies between the SGDA and the fiscal contract are cured by this section, under the assumption that the contract is accepted by a majority of the general public and becomes executable by the commissioner. Section 26 establishes a vote of the general public to execute.

[10:16:08 AM](#)

SENATOR BEN STEVENS pointed out that Section 29 is the most important because it provides the conditional effect that, "Sections 14-16, 23 (a) and 24 of this Act take effect only if a

majority of the votes cast in the 2006 general election on the ballot proposition in Section 26 of this Act favor execution by the commissioner of revenue".

He re-emphasized that, if the vote is taken to the people and the people ratify it, legislative authorization is not necessary.

[10:17:13 AM](#)

SENATOR BEN STEVENS announced that he wished to set Amendment 6 aside and bring it up later. There being no objection, it was so ordered.

CHAIR SEEKINS suspended the hearing on SB 3002 until after the Alaska Gasline Port Authority presentation.

The committee took an at-ease from [10:17:27 AM](#) to [10:28:22 AM](#).

#### **Alaska Gasline Port Authority Presentation**

[10:28:22 AM](#)

CHAIR SEEKINS announced the committee would hear a presentation by the Alaska Gasline Port Authority.

JIM WHITAKER, Chair, Alaska Gasline Port Authority: Mayor, Fairbanks North Star Borough, introduced Bill Walker and Radoslav Shipkoff.

MAYOR WHITAKER outlined today's presentation. He would present a slide overview of the basis for the Alaska Gasline Port Authority (AGPA) project. Mr. Walker would provide a project overview, and Mr. Shipkoff would present an in-depth economic analysis. Finally, they would go into details of the project plan and answer questions.

CHAIR SEEKINS said that he would try to accommodate questions from committee members without interrupting the flow of the presentation.

MAYOR WHITAKER began a PowerPoint slide presentation titled "ALASKA GASLINE PORT AUTHORITY Presentation to Senate Special Committee on Natural Gas Development". He explained that the basis for the Port Authority project is rooted in the principals brought forth in the May 22, 1958 discussions of statehood, and read passages from the Congressional Record and the Alaska Statehood Act.

10:33:21 AM

MAYOR WHITAKER stressed that Alaska may lease, but may not sell its mineral deposits.

He read from the Alaska State Constitution, Article VIII, Natural Resources, "Statement of Policy" and "General Authority", emphasizing that the legislature is responsible for the utilization, development and conservation of all natural resources belonging to the state. He also quoted from the Right-of-Way Leasing Act, AS 38.35.010(a):

It is the policy of this state that the development, use, and control of a pipeline transportation system be directed to make the maximum contribution to the development of the human resources of this state, the increase in the standard of living for all of its residents, the advancement of existing and potential sectors of its economy, the strengthening of free competition in its private enterprise system, and the careful protection of its incomparable natural environment.

10:35:43 AM

MAYOR WHITAKER summarized that Alaska was given the opportunity to be a part of the United States, the principal being that it must pay its own way. It was given the means to do that with ownership of the land and all the minerals inherent to it. That principal is in federal law and the state's constitution. It is clear that the state has the authority and the legislature has the responsibility to ensure that the resources of the state are developed in a manner that is appropriate and in the maximum best interests of the people of the state.

10:38:02 AM

MAYOR WHITAKER read quotations from Senator Bob Bartlett at the 1955 Constitutional Convention on the dangers of economic exploitation with regard to mineral development. He charged the legislature with ensuring that Alaska retains ownership and control of its resources and that they be developed according to the constitutional mandate.

10:41:07 AM

MAYOR WHITAKER went on to say that the AGPA is a municipal port authority established by 80 percent of the voters in the Fairbanks North Star Borough, the North Slope Borough, and the city of Valdez on October 5, 1999 for the purpose of building, or causing to be built, a pipeline project to take gas from

Alaska's North Slope to tidewater at Valdez. He said that a 62 percent vote of the people approved that ballot language four years ago.

He described the structure of AGPA and its board of directors, and went on to its mission, which is to keep as much of the wealth for Alaska's resources in Alaska as possible.

[10:45:06 AM](#)

MAYOR WHITAKER continued that AGPA's mission statement includes the intention to sell Alaska's natural gas to North American markets at competitive prices.

[10:46:50 AM](#)

BILL WALKER, General Counsel and Project Manager, Alaska Gasline Port Authority, has been involved with AGPA since its inception. He was involved with the Organization for Managing Alaska's Resources (OMAR) during the late 1970's, working on the all-Alaska oil pipeline.

He continued with the slide presentation started by Mayor Whitaker, beginning on slide 12 titled "Wyoming Natural Gas Pipeline Authority - Mission". The Wyoming pipeline authority is interesting because its mission and natural gas project plan are similar to the Alaska Gasline Port Authority's.

[10:49:30 AM](#)

MR. WALKER discussed the next slide, "Wyoming Natural Gas Pipeline Authority - Projects" that shows what the Wyoming pipeline authority is working on and who its partners are. He went on to the slide labeled "AGPA Project Team" listing Bechtel Corporation, Greengate LLC, Yukon Pacific Corporation (YPC)/CSX, Totem Ocean Trailer Express (TOTE), and Burma Gas Transport (BGT). He provided some detail and history on each of the team members, noting that Bechtel has put 55,000 man-hours into preparing the project estimate.

[10:52:03 AM](#)

He addressed shipping options on slides 16-19. Yukon Pacific Corporation/CSX (YPC) was started by Governors Egan and Hickel to further the All-Alaska Gasline project and has spent over \$100 million in that effort to date. TOTE has proposed to build LNG tankers in the U.S. using technology from foreign shipyards that have more experience building that type of vessel. It has already approached a U.S. shipyard and a foreign builder of LNG tankers and the proposal was well received. BGT owns a fleet of LNG tankers built in the late 1970's that are currently under

contract to foreign nations, but that will be out of contract in 2010 or 2011 and could be re-flagged for use in the United States.

[10:55:01 AM](#)

MR. WALKER went on to slide 20, a photograph of the Sempra facility labeled "LNG and LPGs to Market." The plan is to bring the LNG to an extraction facility in Valdez and ship the LPG to the best markets on the West Coast or in Asia. Slide 21, "AGPA Project: All Alaska Gasline", illustrates the proposed route of a 48 inch dense-phase line to carry the liquids. The project also calls for a spur-line to Southcentral Alaska that would be sized to accommodate a future project to Delta Junction. He stressed that AGPA's project does not preclude or discourage a trans-Canadian line or other project. Slides 22-23 list AGPA Project Development Progress to Date. He explained that O'Melveny & Myers LLP of New York was retained to submit a request for tax exemption, which was approved. He made copies of both the request and the ruling available to the committee.

[10:58:33 AM](#)

SENATOR DYSON asked if the committee could get copies of the entire presentation.

CHAIR SEEKINS said staff would work with the Port Authority to get copies out to committee members.

MR. WALKER said that Dr. Pedro van Meurs reviewed the tax-exempt ruling and estimated its value at \$20 million.

[10:59:42 AM](#)

MR. WALKER presented a slide of the "Construction Cost Estimate for Pipeline (Bechtel Corp)" that outlines what AGPA asked for and to whom the completed estimate has been provided. AGPA and Bechtel have met with the three sponsors, Lukens Energy, and Sempra Energy, to present the estimate and answer questions. Bechtel updated the estimate in May 2005 and adjusted construction figures to accommodate a significant change in the price of steel.

[11:02:25 AM](#)

MR. WALKER turned the presentation over to Radoslav Shipkoff to cover the economics of the project.

[11:03:12 AM](#)

RADOSLAV SHIPKOFF, Director, Greengate LLC, began a new slide presentation on project economics. His first slide, "Important

Notice About Financial Projections", offered a standard disclaimer that any numbers shown are based on the best reasonable estimates at the time and cannot be guaranteed.

Slide two, "Overview", listed the areas covered in his presentation:

- Introduction
- Price Assumptions
- LNG Project Concept and Gas Volumes
- Cost Assumptions
- Netback Calculations
- Upstream Returns to the Producers
- PTU Case - Point Thomson Unit
- Comparison of State Revenues
- Conclusions/Questions

[11:05:40 AM](#)

MR. SHIPKOFF reviewed a slide of "Project Component Terms". Upstream refers to the lease production activities, or field unit level operations. Midstream refers to feeder lines from the leases to the conditioning or treatment plants or the main lines downstream of the treatment plants. Downstream refers to the liquefied natural gas (LNG) vessels, the regasification terminal, and takeaway pipelines. The natural gas liquids (NGL) extraction facilities in Alberta are considered downstream.

[11:07:07 AM](#)

SENATOR WAGONER asked if the plan is to put a saddle plant on line and extract only methane for shipment to Valdez, leaving the liquids in the line to go to Alberta.

MR. SHIPKOFF answered that the LNG project will ship the rich gas that contains the liquids to Valdez. Liquefied petroleum gas (LPG) made up of propane and butane, will be extracted in Valdez and shipped separately from the LNG. Propane and butane cannot be easily shipped on TAPS and are recycled on the North Slope at this time, because of the valve pressure.

[11:08:37 AM](#)

SENATOR WAGONER said that Mr. Shipkoff did not entirely answer his question, because he did not address ethanes and other liquids. He asked what exactly would be shipped from the takeoff point to Valdez.

MR. SHIPKOFF answered that the gas composition is C-1 (methane), which is the majority of the gas that will go into the LNG; C-2 (ethane), propane, butane, and pentanes plus. All of that would

be transported to Valdez, where the LNG facility would extract the propane and the butane for shipment separately as LPG, primarily to East Asian markets. The ethane will stay in the gas composition to be liquefied, so it will increase the British thermal unit (Btu) content by a certain amount. It does not make sense to extract the ethane in Valdez at this time, because there is no existing petrochemical industry in the vicinity to use it as a feedstock. Everything heavier than pentanes plus is going to be extracted on the North Slope, just as it is now, as part of the reinjection program.

SENATOR HUGGINS arrived.

11:11:33 AM

MR. SHIPKOFF explained that the Port Authority anticipates building a main pipeline downstream of the gas conditioning plant (GCP), possibly a link to Canada and the LNG facility in Valdez. He assumes that the producers will own and operate the conditioning plants, the feeder pipelines upstream of the plant, and any upstream field production facilities that they need. If a highway project is built in the future, those components might be built by the producers or a third party.

He noted that Bechtel's engineering work for AGPA included detailed work on the conditioning plant; so the Port Authority is prepared to build and own the conditioning plant if the producers do not want to do it.

11:13:04 AM

MR. WALKER clarified that the Port Authority proposal is to own the line from Prudhoe Bay to Valdez. If a "Y line" or "spur line" were built, it would tie into AGPA's project in Delta Junction.

MR. SHIPKOFF said that means his first bullet is a bit misleading.

CHAIR SEEKINS asked if that has always been the plan.

MR. WALKER answered that the Port Authority has looked at many different structures of ownership and believes what it is presenting today is the best structure for development of this project.

MR. SHIPKOFF added that he does not believe AGPA has considered owning the line in Canada; but it has looked at owning the line

from Delta Junction to the border. From the standpoint of his presentation however, the structural assumptions are irrelevant.

[11:15:13 AM](#)

CHAIR SEEKINS noted that the project seems to have had many faces, and it is important for the committee to understand what the face of this project really is.

MR. SHIPKOFF responded that he hopes that will become clear during today's presentation but, from AGPA's perspective, it has been the same project since 1999. It is an LNG project that transports gas from the North Slope to Valdez via pipeline, and from Valdez to market. It has tried to present possible configurations to accommodate other projects that might benefit from working with the Port Authority. So, the "Y" line isn't the Port Authority's project, but AGPA has attempted to optimize the LNG project to accommodate that and other projects in the future. He stressed that the Port Authority project has not changed.

[11:17:10 AM](#)

MAYOR WHITAKER added that, after significant review, AGPA concluded that there will ultimately be a trans-Canada project, and that Canada will own the rights to it.

SENATOR WAGONER asked if the scope of the Port Authority project is still a pipe from Prudhoe Bay to Valdez and an LNG facility located in Valdez.

MR. SHIPKOFF replied that is correct.

SENATOR WAGONER said he was under the assumption that the Port Authority was talking about a Y-line for the LNG project off of the gas pipeline that the producers are going to build. He asked if that assumption is wrong.

MR. SHIPKOFF answered that both are correct.

MR. WALKER continued that its project is a direct line from Prudhoe Bay to Valdez for LNG; but it is designed to accommodate other projects tying in at a later date. The LNG project does not exclude any other.

[11:19:52 AM](#)

SENATOR STEDMAN asked if the presentation would include analysis and comparisons of different options and referenced the earlier mention of a \$50 billion spread between alternatives.

MR. WALKER answered that he believes the \$50 billion referred to the amount the federal government would take over the life of a producer highway project. Mayor Whitaker mentioned that, with the Port Authority project, that money would stay in Alaska.

[11:21:03 AM](#)

SENATOR STEDMAN asked about a detailed comparison of alternatives.

MR. SHIPKOFF answered that he will show a comparison that will demonstrate the Port Authority project generates the highest value for the state of Alaska and for the producers.

SENATOR STEDMAN asked if he would tie this into the fiscal interest findings on page 182.

MR. SHIPKOFF answered that he did not have that in front of him, but would be glad to answer questions and would try to relate his answers to that table if it is provided to him.

SENATOR STEDMAN said the table is in the section of the fiscal interest findings that compares the pipeline project, the LNG project and the Y-line, with jobs, value, and cash flows.

MR. SHIPKOFF responded that, now that it had been described to him, he knew what Senator Stedman was referring to, and that the Port Authority disagrees with that table completely.

He returned to the slide labeled "Project Component Terms (continued)" and said he wanted to clarify that third party components, in the context of the LNG project, would be everything downstream of Valdez.

MR. SHIPKOFF moved on to "Gas Price Assumptions," noting that these are critical for the projection of netback, because netback is price less costs to transport the gas to market. He noted that, although there is no single gas price in the U.S., Henry Hub Price is generally accepted as the benchmark, and that is what the New York Mercantile Exchange bases its forward pricing future delivery contract on. Regional prices are generally expressed as a differential above or below Henry Hub.

He said the graph on slide 9, labeled "Henry Hub Price Assumption," shows the historical movements of the Henry Hub Price for the past ten years and the current futures pricing on the NYMEX market. The NYMEX contract is monthly, so it takes

into account the seasonal variation of Henry Hub. AGPA has used a base case assumption of \$5.50, which is below both the Henry Hub 5-year average and the NYMEX 12-month average. It is a somewhat conservative assumption that AGPA believes will not be challenged by potential lenders.

[11:26:37 AM](#)

SENATOR DYSON asked when the Port Authority anticipates obtaining firm transportation commitments that he assumes will be needed to attract financing.

MR. SHIPKOFF said that the Port Authority does need gas-supply commitments, whether in the form of firm transportation commitments or some other commonly accepted form, before it can obtain financing.

SENATOR DYSON asked if Mr. Shipkoff is anticipating an alternative to an open season.

MR. SHIPKOFF answered that it is a commercial structuring decision that AGPA has not finalized. To decide how to structure the commercial arrangements for gas supply, it first needs to have discussions with potential suppliers.

[11:28:49 AM](#)

He returned to slide 9 and said that, if the starting assumption is \$5.50, he has to translate that into regional price assumptions for the markets that Alaska gas will be reaching. The target market for the LNG project is Southern California (SoCal), which has averaged \$.47 less than Henry Hub over the past five years.

MR. SHIPKOFF compared that to the next slide, "Alberta Gas Price Assumption," noting that the Alberta Hub (AECO) has a 5-year average discount of \$.93 to Henry Hub.

SENATOR DYSON asked if that is in the U.S.

MR. SHIPKOFF replied yes.

[11:30:40 AM](#)

MR. SHIPKOFF explained that slide 12, labeled "Crude Oil Prices," is included because oil prices influence the liquids prices; so there has to be an oil price assumption that is consistent with the gas price assumption in order to generate a liquid price assumption. The 5-year West Texas Intermediate (WTI) average is \$40 per barrel (bbl). The NYMEX forward pricing

is \$70 bbl. The question is, what oil price assumption is consistent with the Henry Hub assumption of \$5.50. In the graph on slide 13 "Crude Oil Prices (continued)," price per barrel was converted using 5.8 million Btu per bbl, so one can make a comparison per million Btu (MMBtu). Gas prices are very volatile relative to oil and the ratio can range from as low as 65 percent to as high as 105 percent; the average ratio over the past five years has been 86 percent. So, using an 86 percent oil price ratio, the \$5.50 base case assumption translates to an oil price of \$37 per barrel. AGPA has used \$36 because that is the figure Econ One used in its analysis.

[11:33:51 AM](#)

MR. SHIPKOFF showed a slide labeled "Japan LNG Prices", pointing out that Japan imports nearly all of its gas in the form of LNG, and that prices correlate closely with oil prices. Japanese Crude Cocktail "JCC" is very closely related to WTI. The graph on this slide uses a 3-month average oil price instead of the current price, because the price formula in most Japanese LNG contracts has a retrospective averaging component.

[11:36:02 AM](#)

MR. SHIPKOFF turned to a slide labeled "Propane Price Assumptions" and explained that Mont Belvieu, Texas is the benchmark against which to measure regional prices in the U.S. and regional prices are expressed as a premium or discount to that.

[11:37:42 AM](#)

He continued to slide 16, "Propane Price Assumptions; Japan," showing that the 5-year average in Japan is \$.044 per gallon over Mont Belvieu. AGPA has used \$.04 per gallon premium in its assumptions. Slide 17, "Propane Price Assumptions: LA," shows a 5-year average in the LA market of \$.076 over Mont Belvieu.

[11:39:21 AM](#)

MR. SHIPKOFF went on to "Propane price Assumptions: Alberta," on slide 18, and noted that the 5-year average in Alberta is \$.062 less than Mont Belvieu. Butane price assumptions are less important than propane, because propane extraction volumes will make up most of what comes out of Alaska's gas; but the butane price is slightly higher.

MR. SHIPKOFF said this concludes the price assumptions section and went on to "LNG Project Concept and Gas Volumes," covering volumes, project configuration, and the implications for commercialization of Alaska gas.

CHAIR SEEKINS welcomed Senators Charlie Huggins and Con Bunde.

[11:41:10 AM](#)

SENATOR BUNDE said he took the opportunity to tour the Kensington Mine, a project that actually has an economic future. He went on to say that, because Mayor Whitaker expressed concern about other parties' conflicts of interest, he wanted to lay his own on the table before he is subjected to unwarranted and inaccurate accusations of conflict. He receives a PFD, which could be impacted by the legislature's decision in this matter. He hunts and fishes and the money available to manage fish and game could be impacted. He is a homeowner and the legislature's decision could impact the amount of money available for revenue sharing, thus affecting his property taxes. He is a pilot and might be affected by the amount of funds available for airport maintenance. He also represents an area with a number of constituents who work with and for the oil industry. Many of them think the Port Authority proposal is a pipe dream and, as their elected representative, he would have to share those views.

CHAIR SEEKINS said that Senator Bunde's acknowledgement of conflict is noted for the record.

MAYOR WHITAKER pointed out that Senator Bunde is neither directly employed [by the oil industry] nor is he the spouse of an employee, so his conflicts are reasonable and appropriate.

[11:44:55 AM](#)

MR. SHIPKOFF returned to slide 21, a stylized representation of the highway project proposal that is discussed in the fiscal interest findings. That project assumes that approximately 4.3 Bcf/d of gas will go into the pipeline at Prudhoe Bay and be shipped to Canada. Only 4.2 will reach the other end, due to fuel consumption losses.

CHAIR SEEKINS pointed out that the figures are approximate, and have been updated as recently as last week.

MR. SHIPKOFF agreed and said he has used the numbers most frequently quoted by administration representatives and by the administration's consultant, Econ One Research, Inc. He said he understands that the producers anticipate a start-up no earlier than 2016.

[11:47:12 AM](#)

Slide 22, labeled "AGPA Proposal: Immediate Implementation," is a stylized representation of the Port Authority project. Provided that AGPA can obtain gas supply, it believes gas can flow in 2012. The timeline is based on Bechtel's estimated time for construction and the time required to conclude commercial and financing arrangements.

MR. SHIPKOFF noted that, although the project anticipates an initial volume of 1.2 Bcf/d, the pipe would be sized to accommodate eventual volume expansions.

CHAIR SEEKINS asked if he anticipates volume expansions up to 4.3 versus 6 Bcf/d.

MR. SHIPKOFF answered that AGPA does not know what the expansion will be, because the ultimate size depends on the producers and whoever develops the highway project.

CHAIR SEEKINS asked if the Port Authority is talking about 1.2 with expansion capability to 4.3, or 4.3 with expansion to 6.

MR. SHIPKOFF replied that the ultimate expansion capability is determined by diameter. AGPA intends to size the pipe to accommodate up to 6 Bcf/d. That volume can flow through a 48", 52" or 56" pipe. The producers propose 52", Bechtel recommends 56", and trans-Canada says it can move 6 Bcf/d in a 48" pipe. If the pipe is smaller than 48", the volume cannot be expanded to 6 Bcf/d.

[11:51:13 AM](#)

SENATOR DYSON said he understands that the gas will be shipped at high pressure, or "critical phase".

MR. SHIPKOFF corrected "dense phase".

SENATOR DYSON continued that he understands it is efficient, but makes off-ramps for in-state distribution more difficult and expensive. He asked Mr. Shipkoff to comment on that.

MR. SHIPKOFF explained that North Slope gas is very rich in liquid content, very "wet gas", which requires a dense phase pipeline to limit condensation inside the pipe. Both the producers' and AGPA's proposals are for dense phase pipelines, which increases the cost of the pipeline and any tie-ins.

SENATOR DYSON commented that most members are interested in many off-take points for in-state use.

MR. SHIPKOFF said that the Port Authority is prepared to have as many off-takes as necessary.

SENATOR DYSON asked if that includes whatever is required for Cook Inlet at that time.

MR. SHIPKOFF answered yes.

[11:54:52 AM](#)

CHAIR SEEKINS asked if Mr. Shipkoff is saying that this proposal can get 1.1 Bcf/d to Valdez four years sooner than the highway project could get its 4.3 Bcf/d to market.

MR. SHIPKOFF answered yes, and referred Chair Seekins to the stylized representation of the highway project. None of the 4.2 goes to Valdez; it all goes to Alberta.

CHAIR SEEKINS said he assumes that the 1.1 to Valdez will be going from there to some other market.

MR. SHIPKOFF replied yes, that the 1.1 LNG would be shipped to southern California. He removed all of the in-state consumption from his numbers to illustrate that the project economics work even without it, although the unit cost is higher due to lower volumes. The return on in-state consumption is gravy that reduces unit costs and improves returns.

[11:57:12 AM](#)

MR. SHIPKOFF continued that an advantage of the Port Authority proposal is that it can be implemented as soon as it has gas supply, and can be operational in 2012. That means revenue generated for the state and the producers between 2012 and 2016 that would not otherwise exist. The next question is how the volumes will be distributed after the highway project is implemented.

He showed a slide labeled "AGPA Proposal: Y-Line Scenario A - Constrained Volume," showing a scenario that was addressed in the fiscal interest findings. It illustrates an upside-down Y with the pipeline from Prudhoe Bay at the top (4.3 Bcf/d), Alaska LNG at the bottom left (1.1 Bcf/d), and Gas to Canada at the bottom right (3.1 Bcf/d). This configuration causes the project in Alaska to lose value because the gas to Canada loses its economies of scale at 3.1 Bcf/d, resulting in a lower netback. He does not believe it makes sense, but pointed out that there is a present value benefit despite the lower netback

each year, because of the revenue generated between 2012 and whenever the highway project is built.

12:01:40 PM

MR. SHIPKOFF continued that he does not want to focus on that scenario, as it is an arbitrary representation and there is no reason to limit the volume to 4.3 Bcf/d. He turned to a slide labeled "AGPA Proposal: Y-Line Scenario B - Incremental Volume" and pointed out that the 1.1 required for the LNG project can be in addition to the 4.3 required for economies of scale on the highway project. A total of 4.3 will require 49 Tcf over the life of the project; 5.5 will require 62. The currently known resource is 35 Tcf, so the highway project will require substantial new discoveries whether it proceeds as a stand-alone or as part of a Y-line. The LNG project can proceed without new discoveries and could operate on Prudhoe Bay volumes alone.

12:03:45 PM

CHAIR SEEKINS asked what the gas consumption losses would be from Valdez to market.

MR. SHIPKOFF answered that boil-off in the ships, fuel and losses at the terminal and at the takeaway pipeline would account for about 2.5 percent.

SENATOR DYSON asked if most modern LNG tankers use cargo as fuel.

MR. SHIPKOFF said that they have the option of using either cargo or bunker fuel. He noted that newer ships generally use bunker fuel and have on-board re-liquefaction so they do not experience any boil-off losses.

SENATOR DYSON asked if the ships are designed to use either type of fuel.

MR. SHIPKOFF answered that most ships are. The economics in today's presentation are premised on using BGT's existing LNG tankers, which were built between 1978 and 1982, so the associated boil-off is taken into account.

12:06:26 PM

SENATOR DYSON said he was under the impression that the Port Authority was trying to get an exemption from the Jones Act; but it sounds as if it has changed tack and is now planning to ship on American vessels. He asked if that is correct.

MR. SHIPKOFF responded that he would let Mr. Walker answer.

SENATOR DYSON asked how Alaska's LNG would compete with what appears to be a very large supply of LNG on the Pacific Rim.

MR. SHIPKOFF assured Senator Dyson that he would talk about that later.

SENATOR STEDMAN asked if the Port Authority would provide copies of its presentations to the committee during the lunch hour.

[12:07:35 PM](#)

CHAIR SEEKINS offered to have committee staff assist the Port Authority in preparing copies of the presentations.

The committee took an at-ease from [12:08:17 PM](#) to [1:59:39 PM](#).

GOVERNOR WALLY HICKEL joined the committee. He said the issue that the committee is dealing with is very important to the state. He took the idea to Washington in 1952 when Truman was president and is a long-time believer in the all-Alaska pipeline. He has read the contract and believes it just serves to tie the state up for 30 to 45 years. He did not want to go further, but commented that the public is beginning to understand the obligations of ownership, and left the committee with the idea that "If it's good for Alaska, do it; if it's bad for Alaska, screw it!"

CHAIR SEEKINS said they would pick up where they left off, and handed the gavel to Senator Wagoner.

MR. WALKER responded to Senator Dyson's question about the Jones Act. He explained that the Port Authority looked seriously at getting a Jones Act waiver, but decided that might cause delays; so, it found a way to resolve the shipping issues without an act of Congress.

MR. SHIPKOFF added that all of the projections and results in today's presentation assume the LNG shipping is fully Jones Act compliant.

He ran through the information on gas volumes again briefly, stressing that a project splitting 4.3 Bcf/d between the LNG and the highway projects is not what AGPA wants to build. It is looking at 1.2 starting in 2012, and another 4.3 in 2016 when the highway project is implemented. He noted that both projects would realize savings, because the economies of scale at 5.5

Bcf/d will reduce the tariff for both projects between Prudhoe Bay and Delta Junction.

MR. SHIPKOFF said the next issue is whether the 1.1 Bcf/d project is economic in its own right, in case the highway project does not materialize.

SENATOR WILKEN interrupted to ask Mr. Shipkoff if the Port Authority is proposing to build a 5.5 Bcf pipe and run it at 20 percent capacity until the Y line comes along.

MR. SHIPKOFF replied yes, with a caveat; the capacity of the pipeline will not be 5.5 initially because it will only compress for 1.2, and capacity is a function of both size and compression.

SENATOR WILKEN asked if Mr. Shipkoff was saying that the pipe would be built for 1.2, expandable through compression or looping to 5.5.

MR. SHIPKOFF answered that AGPA is proposing a 1.2 project that could be expanded up to 6 by compression.

[2:14:21 PM](#)

He continued to say that it makes sense to build for a future highway project so it will not be necessary to run parallel lines. Then the question is whether the LNG project can support the extra cost of the larger pipe until the highway project is built, and the answer is yes. That does increase the tariff and reduce the netback; but it is still income that would not otherwise be realized for that period.

SENATOR WILKEN asked how to increase the volume from 1.2 to 5.5.

MR. SHIPKOFF replied through compression.

SENATOR WILKEN explained that the committee was told that volume could be increased by between 25-40 percent using compression; but from 1.2 to 5.5 is a lot bigger increase than that.

MR. SHIPKOFF speculated that the committee heard the 25 percent expansion figure in a proposal for the highway line, which contemplates expansion from 4.3 to 5.9. That is not a hard limit.

MR. WALKER pointed out that every other LNG project in the world adds trains and compression as the market warrants.

2:17:40 PM

MR. SHIPKOFF went back to slide 27, "Stand-Alone LNG Project concept," and emphasized that subsequent slides will show the LNG project at 1.2 is economic on a stand-alone basis.

2:18:46 PM

MR. SHIPKOFF addressed the question of whether 5.5 is more gas than the market can bear. If the highway project succeeds, it will be sending 4.2 to the Lower 48. The Sempra plant in Costa Azul will be fully subscribed at 1.5 Bcf/d, so that amount will be flowing to the West Coast starting in 2012 or earlier, with or without Alaska's gas.

2:21:07 PM

SENATOR DYSON said he understands that Qatar can sell gas at tidewater for \$.50-\$.60. He asked if Alaska can compete with that when its shipping costs alone come to \$1.50 or \$2.00.

MR. SHIPKOFF replied absolutely. The question to ask when looking at the economics of the project is what the price in the target market will be; then subtract the costs of getting the gas to market and see what profitability remains. This project is profitable under these very reasonable and conservative price assumptions. He reminded the committee that Alaska would not be competing only with other LNG suppliers, but with every other gas supplier in the Lower 48. So, one has to ask if Alaska can beat the marginal supplier price, which forms the floor price. The marginal price right now is around \$3.75-\$4.00 and is set by the production costs of non-conventional producers.

SENATOR DYSON asked if these are Henry Hub prices rather than competitive spot market prices.

MR. SHIPKOFF replied that Henry Hub is a competitive spot market both on a daily and a monthly basis. The LNG project would be selling to SoCal rather than Henry Hub. On average during the past five years, SoCal has been about \$.47 below Henry Hub.

SENATOR DYSON asked if Mr. Shipkoff would show the committee what he projects the cost will be to get the gas, condition it, and transport it to the coast.

MR. SHIPKOFF answered yes. He said that if he assumes \$5.50 Henry Hub and a \$.50 discount to SoCal, that's \$5.00 in California. Subtract the cost of regas, shipping, liquefying, sending the gas down the Alaska pipe, conditioning on the North

Slope, feeder lines if any, and what remains is wellhead. That figure has to be enough to give the upstream a satisfactory return and, in this case, it is a very good return.

[2:24:52 PM](#)

SENATOR STEDMAN said he is still struggling with the concept. He referred to Senator Dyson's comments about Qatar's lower lift costs and asked how the Port Authority, as a high-cost producer, can adjust for business risks if it faces market squeezes.

MR. SHIPKOFF replied that he disagrees with Senator Stedman's assessment that the Port Authority will be a high-cost producer. It has relatively high transportation costs to market, but production costs are very low. North Slope gas can be produced at a low cost because it is a fully developed field; there is almost no incremental development required from Prudhoe. The gas is being reinjected; all the wells are there. Almost all of the other projects have significant upstream capital expenditures associated with them.

He used Qatar to illustrate his point. Shipping gas from Qatar to the Gulf of Mexico costs about \$1.20-\$1.50, and there are upstream costs. The tariff early in the Alaska LNG project could be as high as \$2.00, but it does not have upstream costs and its shipping costs from Valdez are less than \$.40.

SENATOR STEDMAN said he believes there are numerous fields around the world with stranded gas at tidewater, and asked if those would be our competition rather than new fields that need billions of dollars of infrastructure to develop.

MR. SHIPKOFF replied yes. However, in the Lower 48 LNG represents a relatively small part of the overall supply picture, so it does not set price. LNG suppliers today take the price set by the market; their volumes alone cannot influence the market. That may change in the future because the Lower 48's indigenous production is declining and LNG will become a larger percentage of the overall supply.

He pointed out that this project is not uneconomic just because some producers have lower costs. Using the Qatar example, its tidewater costs are relatively low; but it has high transportation costs at \$1.20-\$1.50. Trinidad is also a tidewater supplier that has relatively low-cost production; its transportation cost at the gulf is \$.20, or \$1.00-\$1.30 less than Qatar. That does not make the Qatar project uneconomic.

SENATOR STEDMAN said his question was how the Port Authority will adjust for some of the business risk it faces by being one of the higher cost producers in a commodity market in a downward pricing environment.

MR. SHIPKOFF replied that he agrees a risk evaluation is an important component of the project analysis. The project has to demonstrate viability at stress case pricing, and that pricing has to be what is reasonably expected to be the worst-case scenario going forward. That price in today's market is generally accepted to be \$3.75-\$4.00. This project cannot survive with a price of \$3.00 or less; but it can survive in a market in the worst-case scenario.

[2:33:18 PM](#)

SENATOR STEDMAN said the state has several projects to pick from and has to look at which has the best risk return relationship to the state at stress case pricing. He said he is not convinced that this proposal would put the state in the best position at those lower prices and asked Mr. Shipkoff to comment.

MR. SHIPKOFF directed Senator Stedman's attention to slide 26 and reminded him that the state should not view this as choosing one project over another. The Port Authority is not presenting the LNG project as a substitute for the highway project, but as adding incremental value to that or another project. If the highway project is built and shares the line to Delta Junction with the LNG project, both projects and the state benefit. If the highway line is never built, the only choice is between the LNG project and nothing.

[2:36:32 PM](#)

MR. WALKER interjected that he thinks what AGPA is proposing greatly enhances the possibility of a highway line because of the pre-build and because some of the negotiations necessary for it will be easier if there is already a line being constructed. He also pointed out that the Port Authority is not proposing that the state own or finance this project, so the risk is not the state's.

SENATOR STEDMAN clarified that he wasn't referring to ownership by the state, but the citizens' interest in monetizing the natural resource.

MR. SHIPKOFF agreed and said that is why it is so important to have a project that can proceed immediately and start generating revenues in 2012.

[2:38:32 PM](#)

REPRESENTATIVE SAMUELS asked why it makes sense to incur twice the construction costs for the same units. Instead of sending 4 to Alberta and 1 to Valdez, why not send all 5 to LNG or all 5 to Alberta, thus saving \$20 billion in construction costs that are recouped in the tariff.

MR. SHIPKOFF pointed out that there is no assurance a highway project will ever be implemented, and it will need 15 Tcf in new gas to implement it as it has been presented. The advantage of the Port Authority project is that it takes only 13 Tcf and can be implemented immediately. If the highway project comes on later, both projects benefit. If it does not, this project will generate revenue that would not have existed otherwise. He said that, although there will be some additional cost, it will certainly not be twice as much.

MR. WALKER repeated that there is no guarantee there will be a highway project. If it does not materialize, Alaska still has a project and a way of monetizing the gas.

[2:43:23 PM](#)

MR. SHIPKOFF skipped to Slide 32 to address Representative Samuel's question. He said that, if the Port Authority were sure there would never be a highway project, it would build a smaller pipe; but a highway project of some kind is anticipated. It believes that having available capacity will encourage exploration to discover additional reserves.

REPRESENTATIVE SAMUELS said Trans-Canada testified that less than 3.5 Tcf across the continent was not economic. A legitimate argument could be made that taking this 1.2 to Valdez would delay or preclude a highway line, because it would reduce the amount of gas available to below the economies of scale needed.

MR. WALKER said it is clear that the highway project requires exploration. There has never been exploration for gas on the North Slope and the Port Authority does not think it is possible that none will be discovered, or that it will result in exactly 15 Tcf.

REPRESENTATIVE SAMUELS responded that his fear is that the state could be stuck paying for a large capacity pipeline to Delta Junction that will never be filled because there isn't enough gas to go across continent.

[2:49:47 PM](#)

MAYOR WHITAKER responded that 1 Bcf to Valdez and the ability to expand that capacity is certain. What is uncertain is whether a highway line is going to be built.

CHAIR SEEKINS asked what the extra capacity to Delta would cost in the tariff.

MR. SHIPKOFF replied that it would cost an extra \$1 per MMBtu while there is no other gas.

CHAIR SEEKINS asked if that extra dollar is for a line that would carry just 1.2 Bcf to market.

MR. SHIPKOFF answered yes; the unit cost increases because it is spread out over fewer Btu's.

[2:52:10 PM](#)

CHAIR SEEKINS asked Mr. Whitaker if the expansion from Delta Junction to Valdez would be compression, looping, or something else, and how big he expects the pipe to be.

MR. SHIPKOFF said that current assumptions for the line from Delta to Valdez are for a 36" pipe.

CHAIR SEEKINS asked how the independent explorer fits into this project without a highway line.

MR. SHIPKOFF said that the 36" pipe from Delta Junction to Valdez could carry more than the 1.2 Bcf, and it could build another train. The volume would be limited by the receipt capability of the regas terminal; but once it is liquefied in Valdez, it can go to a number of terminals.

[2:55:48 PM](#)

CHAIR SEEKINS said that, in terms of basin control, it seems that this is a bottleneck and doesn't satisfy the independent producers' uncertainty about their ability to get gas to market.

MR. SHIPKOFF said that, if there were no LNG project, the only option explorers would have is to fit into the highway pipe when and if it is done. They need some level of certainty to begin spending money on exploration capex.

CHAIR SEEKINS asked if AGPA anticipates additional compression, and what kind of pricing the independents should expect to pay to get their gas to market.

MR. SHIPKOFF replied that he would expect rolled-in tariffs. The tariff they could expect prior to expansion gives them a very healthy netback and upstream return. Any incremental gas reduces the unit costs, improves the netback, and improves returns. In terms of capacity to accommodate independent explorers, this project can give them certainty at least to Delta Junction, and can accommodate volumes to Valdez within the limitations of the 36" pipe. If the 36" pipeline were filled, one could also build another line from Delta Junction.

SENATOR WAGONER asked how the Port Authority could get financing without firm shipping commitments to fill the line.

MR. SHIPKOFF said that is why this presentation focuses on what will happen if the highway line is never built. He knows that is what the lenders will look at.

[3:03:27 PM](#)

SENATOR STEDMAN said that a half empty pipe would not necessarily encourage production; Alaska has a half empty oil line and still has production problems.

MR. SHIPKOFF agreed that it is not a guaranty that exploration will happen; but it provides more incentive than no pipe.

SENATOR STEDMAN said that previous discussions of the administration's proposal have included four off-take points, one of which could facilitate transport of gas from Delta to a Valdez LNG plant. Why wouldn't the state go with a proposal that has sufficient capital backing and have the Port Authority use one of those off-take points to move gas to their own LNG project.

MR. SHIPKOFF said that, if the state had a proposal for gas by 2012 and was looking at accommodating AGPA, he would agree. But the proposal before them is for a project that may happen in 2016 or 2020, if at all.

SENATOR STEDMAN said he would want the state's consultants to look at the time-frame data, as the information he has seen has the LNG project coming on a little later. He would also like to look at capital backing and hear more about the FERC permits.

REPRESENTATIVE SAMUELS asked Mr. Shipkoff if he heard his comment correctly, that it would cost an extra \$1 in the tariff for the empty capacity to Delta.

MR. SHIPKOFF said he misunderstood the question. He thought Representative Samuels was asking what the difference was between the tariff for the full 5.5 versus the 1.2.

[3:10:07 PM](#)

CHAIR SEEKINS asked Mr. Shipkoff to confirm that the project is over sizing the pipe because it fully expects that a project like the highway project will happen at some point in the future, and that it would build a smaller pipe if it were planning for only 1.2 Bcf.

MR. SHIPKOFF said that he sees the potential inconsistency that Chair Seekins is referring to; but AGPA believes that, if it sizes the pipeline in anticipation of a highway project, one will happen.

REPRESENTATIVE SAMUELS said he wanted to know what the increase in the tariff is due to the oversized pipe; but if Mr. Shipkoff hasn't run those numbers, he has no other questions.

MR. SHIPKOFF said he has a comparison versus a 36" line all the way and he will get that to Representative Samuels after the meeting.

MR. WALKER added that the Port Authority believes Alaska benefits by having an independent opportunity, so it is a little bullish on the line to Delta. He would think from an independent's standpoint, this project would be a plus.

[3:13:27 PM](#)

MR. SHIPKOFF said that, in his opinion, if the LNG project goes forward, the state will see the highway project going forward as quickly as the producers can do it, because they want to be the ones to fill the spare capacity.

He returned to the presentation on slide 29, showing the hypothetical flows to the Lower 48 under the highway proposal: 4.2 starting in 2016, and 1.5 starting in 2012 for a total of 5.7. Under the Port Authority proposal, 1.1 will initially be delivered to the West Coast. Out of the incremental Costa Azul capacity, foreign suppliers will fill .4. In 2016, the highway project will go to market with 4.2. Notice that the amount of gas going to Lower 48 is still a total of 5.7; but Alaska's share of the market is larger. The Port Authority's concern is that, unless the LNG project is finalized soon, the LNG will come from somewhere else, not Alaska.

3:16:20 PM

CHAIR SEEKINS referred to slide 30 and asked how the total of 5.4 ties into proven reserves. He asked if Mr. Shipkoff's assumption is that the additional capacity will spur discovery and development in order to provide 5.4 by 2016.

MR. SHIPKOFF said yes, that is part of the argument. The highway project alone will need 15 Tcf of additional gas and, although no one knows how much will actually be discovered, the expectation is about 100 Tcf of unknown reserves. If none is discovered, the highway project is in trouble; if more is discovered, there may be multiple projects.

CHAIR SEEKINS commented that, for Alaska to realize the promise of 5.4 Bcf, there would have to be robust exploration and discovery beyond what is known today.

MR. SHIPKOFF agreed and went on to say that, what he has been talking about is Alaska gas capturing Lower 48 markets. It is also possible, although it is not captured in the base case, that there will be expansion of the LNG facilities to sell gas to other markets including Japan and Korea.

3:20:16 PM

MR. SHIPKOFF stressed the importance of being consistent when using capital cost estimates for the purpose of economic analysis and comparative analysis. He addressed slides 36-39, "Consistency of Capital Cost Assumptions" and noted that the same components for different projects should have the same assumed costs in comparison. The AGPA capital cost assumptions for 745 miles of 48" Alaska pipeline, were 42 percent higher than the producers' estimates for 806 miles of 52" diameter pipe. The difference in distance cannot account for it. It is because different methodologies and different cost inclusions have been incorporated into the numbers. Comparisons between the two projects have often failed to make adjustments for such inconsistencies.

He noted that, AGPA's previously published capital cost figures included contractor contingencies, profit and risk premiums, escalation allowance during construction, owners' contingency, and owners' insurance during construction. The cost figures used for the highway analysis are capex estimates without contractor guaranties that are expressed in real constant dollar terms and adjusted for inflation to the point that the project is implemented.

[3:27:44 PM](#)

CHAIR SEEKINS asked if the Port Authority has a guaranteed lump sum price for building its project.

MR. SHIPKOFF replied yes, for large portions of the pipeline and for the LNG plant.

CHAIR SEEKINS asked if the committee could have a copy of the estimate from Bechtel.

MR. SHIPKOFF replied yes, that the April 2005 proposal included Bechtel's detailed update at that point. Of course, that is out of date now and will have to be revised.

CHAIR SEEKINS asked if copies are available to the committee.

MR. SHIPKOFF said that a formal document from the Port Authority and Sempra was delivered to the state.

MR. SHIPKOFF said slide 36 shows that guaranteed price at \$8.4 billion. The guaranty for the LNG plant was \$2.1 billion.

[3:30:23 PM](#)

REPRESENTATIVE SAMUELS asked if the \$8.4 billion quoted to them meant that Bechtel would eat any cost overruns.

MR. SHIPKOFF repeated that Bechtel would cover all overruns except in certain areas where they were unwilling to provide a guaranty because of the terrain. The LNG plant is guaranteed because these are off-the-shelf designs.

REPRESENTATIVE SAMUELS asked about ships.

MR. SHIPKOFF said there is no uncertainty surrounding the ships; AGPA just has to sign a long-term charter agreement when the project is implemented.

REPRESENTATIVE SAMUELS asked what the tariff would be for the 1.2 Bcf.

MR. SHIPKOFF replied \$2.50 per MMBtu nominal terms in 2012.

[3:33:13 PM](#)

REPRESENTATIVE SAMUELS noted that Mr. Shipkoff has talked about chartering ships and building Jones Act compliant ships. He asked whether the charter ships are flagged U.S. now, or if it

will take an act of Congress to reflag them, and whether his economic analysis includes the cost of building Jones Act compliant ships, or just the cost to charter.

MR. SHIPKOFF said they do need to be reflagged. BGT and its parent company have offered to help AGPA obtain new Jones Act compliant ships; but because the Port Authority is not sure that will happen, he has included only the cost to lease existing ships.

He proceeded with slide 39 and pointed out that, when he strips away the various risk premiums and allowances that are not included in the highway project estimates, it reduces the LNG project's capital cost assumption from \$2.1 billion to \$1.5 billion.

CHAIR SEEKINS asked when that estimate was updated.

MR. SHIPKOFF answered April of 2005. Since that time, prices on steel have actually come down.

[3:35:36 PM](#)

Slide 40 answers the question "How reliable are the cost estimates?" Mr. Shipkoff explained that Bechtel performed extensive work in 2000 to prepare the original estimates and did a detailed cost update in 2005. All of the technical details were shared with the state's consultants. He commented that he is a little puzzled by the cost estimates for the highway project. The 2001 estimate was \$11.6 billion, and the 2006 estimate was \$11.0 billion, despite a 28 percent price increase.

MR. SHIPKOFF explained that slide 41 shows the "APGA BASE case capital cost assumptions" used in his presentation today, which have been adjusted for consistency with those used by the legislative consultants at Econ One. He stripped out the contractor premiums and the allowance for escalation during construction, used real 2005 numbers and applied an escalation assumption of 2.5 percent per year until the capital is expended.

[3:39:09 PM](#)

He continued that the figure used for the LNG facility is \$1.5 billion; the pipeline to Valdez is \$5.3 billion; the expansion for the highway line is \$.9 billion; the Delta Junction to Alberta pipeline (taken from the highway project using their 5.1:5.9 ratio for the Alaska to Canada legs) is \$8.5 billion; and the conditioning plant is \$2.6 billion (from the fiscal

interest findings). All of the midstream components include a 10 percent capital expenditure contingency and a 5 percent owner's contingency. The sum total of upstream expenditures is \$8.4 billion, consistent with the legislative consultants' assumptions.

[3:41:20 PM](#)

MR. SHIPKOFF went on to slide 43, "Netback Pricing".

CHAIR SEEKINS interrupted for a brief recess.

Recess from [3:41:28 PM](#) to [3:56:06 PM](#)

SENATOR WILKEN said he just added up the five numbers on slide 41 and they total \$18.8 billion. He asked if Mr. Shipkoff is saying that, for \$18.8 billion, the Port Authority would get those components, a line to Valdez, and a line to Alberta.

MR. SHIPKOFF replied that he has included the Alberta segment to show what will happen to the project if and when the highway line is added but, because it is not AGPA's project, the \$8.5 billion figure is a rough estimate. The initial 2012 project will not include the Alberta pipeline or the expansion of the Prudhoe Bay to Delta Junction line.

CHAIR SEEKINS asked if the total for the other components is \$10.3 billion.

MR. SHIPKOFF replied yes.

[3:58:29 PM](#)

He went on to slide 43, "Netback pricing." The tariff assumptions listed for midstream components are the same as those used by the legislative consultants. Sempra agreed to operate the LNG facility for 12 percent.

CHAIR SEEKINS asked if the Port Authority is confident that it can exercise the federal loan guarantees.

MR. SHIPKOFF replied yes, if it has a project with gas supply.

CHAIR SEEKINS asked what the qualifications are for the loan guarantee.

MR. SHIPKOFF deferred to Mr. Walker.

MR. WALKER replied that the Department of Energy (DOE) has to see that it is a viable project with an acceptable debt-service coverage ratio and that risks are appropriately covered. DOE will want to see the same type of documentation that one would provide to any business lender.

[4:01:17 PM](#)

SENATOR LYDA GREEN said that, when a group came from Washington D.C. to discuss progress on the gas pipeline, she got the impression that this project would not qualify.

MR. WALKER replied that he has never received any indication of that from them, and the language in the federal legislation was amended to specifically include this project.

MR. SHIPKOFF said there is no reason the Port Authority would not qualify as long as it meets FERC's requirements. The question is whether it can accelerate the process.

SENATOR GREEN said she remembers that it had to do with the destination for the oil.

MR. WALKER said his recollection of that discussion is that routing the gas through Costa Azul before it comes back into the United States was not viewed any differently from routing it through Canada at Beaver Creek before coming back into the United States. It would make no difference to the loan guarantee.

[4:04:56 PM](#)

MR. SHIPKOFF wanted to elaborate on the tariff assumptions before moving on to the netback. He said that he has shown that the Port Authority can offer significant benefits and cost savings; but those benefits have been debated. So, for this presentation, he decided to eliminate the discussion by using the same assumptions that everyone else is using.

He said the combined tolls for the pipeline and LNG facility are projected to be \$2.50 per MMBtu in 2012. He anticipates levelized negotiated tariffs in nominal terms, which means they decline in real terms; so, a \$2.50 tariff in 2012, converted into today's terms assuming 2 percent inflation, is \$2.17. All of the downstream components including shipping, regas, and takeaway pipeline total \$1.50 in 2012 and \$1.30 in today's terms.

CHAIR SEEKINS asked if the tariff would be \$4.00 in nominal terms in 2012 and \$3.47 in 2005 real terms to take the gas from Prudhoe Bay to the regasification terminal.

MR. SHIPKOFF replied yes, these are the tolls the shippers will be paying in 2012. Toll covers the facilities' revenue requirement to pay for costs and capital. He noted that the \$1.30 in 2005 dollars for downstream components includes the combined value of the fuel consumption and losses for all the components.

CHAIR SEEKINS said he is just trying to get it from Prudhoe Bay to the regasification plant.

MR. SHIPKOFF apologized and said he had given figures to the market point, which includes the regasification plant and the pipeline tolls downstream of the regasification plant.

CHAIR SEEKINS asked if by "market point" he means somewhere on the west coast, not after it is distributed.

MR. SHIPKOFF answered that the takeaway pipeline from Costa Azul is owned by Trans-Canada and Sempra, and is called Baja North on the Mexican side and North Baja on the U.S. side. It connects with the El Paso system at Ehrenberg, on the border of California and Arizona and can go either direction. When the gas gets to that point, it will sell for the index price.

CHAIR SEEKINS said he is trying to fix the point Mr. Shipkoff is measuring from.

MR. SHIPKOFF responded that is from Ehrenberg to Prudhoe Bay. He explained that the total of the tolls overstates cost and understates netback, because there is uplift from the extraction of liquids in Valdez. By "uplift", he meant that the pipeline is transporting a certain number of Btu's from Prudhoe Bay to Valdez that include the LPG's (propane and butane) extracted in Valdez. Those attract a higher value than gas. The uplift, when spread out over all of the Btu's on the North Slope is \$.23 nominal, \$.20 today per MMBtu. Econ One estimated the uplift in Alberta from the highway project would be \$.12 per Mcf due to the lower price of LPG's in Alberta.

He said that the nominal netback obtained by subtracting all of the tolls and taking into account the liquids uplift at the pipeline inlet starts at \$2.11 per MMBtu in 2012 and, in nominal terms, increases to \$7.87 in 2041. In real terms that is \$1.84

to \$3.86. Once the gas moves beyond the pipeline inlet to the wellhead, one has to take into account the conditioning plant toll, shrinkage (subtracting CO2 and impurities), and the cost of the feeder pipeline; so, the nominal netback range at the wellhead is \$1.47 to \$7.16.

MR. SHIPKOFF referred to the graph on slide 45 and explained that he escalated costs at 2.5 percent and revenues at 2.0 percent, in order to present a more conservative picture. The top line of the graph represents the Henry Hub price. The space between that line and the bars represents the \$.47 discount between Henry Hub and SoCal. The blue bars at the top show the total netback at the pipeline inlet. The nominal netback in 2012 for Henry Hub is about 6, and for SoCal is \$5.53. In real terms, Henry Hub stays flat at \$5.50 and SoCal at \$5.03.

[4:13:36 PM](#)

Slide 45 illustrates the assumed supply. He said that the cheapest and most obvious supply for 1.2 Bcf would be Prudhoe Bay, however Mr. Shipkoff prioritized the returns from Point Thompson recognizing that is not the best way to do it, so that the returns illustrated on the graph would be the lowest possible returns. If he assumed all of the gas would come from Prudhoe Bay, the internal rate of return (IRR) would skyrocket to over 100 percent.

[4:15:51 PM](#)

SENATOR WILKEN asked if Mr. Shipkoff had done an NPV at 10 percent and 8 percent.

MR. SHIPKOFF replied no, but that he could do so. He commented that he has seen analyses that use 10 percent across the board; but the discount rate is supposed to be a representation of the cost of capital that takes into account the risks associated with the particular type of investment. Riskier investments would use a higher discount rate than less risky investments, and because upstream investments are generally higher risk and have a higher capital expectation than midstream, 12 percent would be more realistic.

REPRESENTATIVE SAMUELS asked Mr. Shipkoff to go back to slide 43 on tolls and asked how much of the pipeline Bechtel guaranteed.

MR. SHIPKOFF replied that he would have to check on it, because he did not have the precise percentage available; but he does not think it was more than 50 percent.

REPRESENTATIVE SAMUELS said that, without cost overruns, the administration's proposal talks about a tariff to AECO of \$1.62 and to Chicago of \$2.35. He realized that the figures would have to be adjusted for overruns, but noted that the difference between those tariffs and the Port Authority's at \$3.27 is significant.

MR. SHIPKOFF asked if Representative Samuel's question has to do with the Port Authority's higher cost to market, resulting in a lower netback compared to the other project. He reiterated that the LNG project does not preclude a highway project and, when one does happen, it will produce a higher netback because its expenses will be reduced by the LNG project.

REPRESENTATIVE SAMUELS said that he would still argue that this project might hurt the chances for an eventual highway project by taking gas that will be needed for economies of scale. He asked if Mr. Shipkoff had run NPV's for the entire 5.5 Bcf at a tariff of \$2.35 compared to 1 at \$3.27.

MR. SHIPKOFF responded yes, he has looked at this case even though he thinks it is unrealistic and conceptually flawed. If the amount of gas is limited to 4.3 so that only 3.1 is available to go to Alberta, the NPV is still slightly higher due to the time value of money.

He commented that he still does not understand under what circumstances the LNG project would prevent a highway project from occurring.

CHAIR SEEKINS said that he thinks there is an open discussion point there.

[4:22:24 PM](#)

SENATOR BEN STEVENS said that one of the independents testified last week that 3.8 Bcf/d might be all the AOGCC would allow off the proven reserves. He also said that the committee has heard conflicting testimony about what volume is required to build the project and what the source(s) will be.

MR. SHIPKOFF said he is also confused about what the magnitude of the highway project is, as he has seen proposals for 3.5, 4.3 and 5.9. He pointed out that, if the AOGCC approves only up to 3.5 Bcf/d, that means the highway projects figure of 4.3 is arbitrary.

SENATOR BEN STEVENS said the point he is making is that the Port Authority said it had the ability to go to 4.3 or 6.0; but how will it conduct an open season for that amount if the AOGCC won't approve it. He asked if the Port Authority intends to have multiple open seasons.

MR. SHIPKOFF said that when the project starts up, AGPA will price the tariff assuming only 1.2 Bcf. The figures are still good, despite carrying the extra cost of a larger pipe. If the highway line occurs later, it will adjust the tariff accordingly.

[4:26:13 PM](#)

SENATOR BEN STEVENS asked Mr. Shipkoff to show him where in the upstream portion of his presentation it shows a gas treatment plant (GTP) that is expandable to 5 Bcf.

MR. SHIPKOFF clarified that he said upstream production costs for an Alaska project are lower than in other parts of the world.

[4:27:09 PM](#)

SENATOR BEN STEVENS said he understands, and asked if the 8.4 Bcf upstream portion includes a GTP that is expandable to 5-6 Bcf.

MR. SHIPKOFF replied that the Port Authority assumes the producers will want to own and operate the GCP, so it has used the 2.6 billion that is assumed in the fiscal interest finding. Bechtel did the engineering however, so the Port Authority is willing and able to take that on if the producers do not want to.

SENATOR BEN STEVENS thanked Mr. Shipkoff for the explanation and apologized for asking questions that he might have answered earlier in the presentation. He asked about the concept that the real access to the pipe is under the GCP or GTP or the basin control, and asked what benefit it is to future independent shippers, if the Port Authority assumes the producers will own the GCP. That brings the committee back to the question of who will regulate it and how do other producers get access.

MR. SHIPKOFF said that is a good question, and agreed that there might be strategic benefit to the Port Authority owning and operating the GCP itself, since a GCP owned by the producers could become a bottleneck.

[4:29:53 PM](#)

SENATOR STEDMAN commented that the current proposal includes substantial credits for the construction of that plant. He asked if the Port Authority intends to modify it and ask for state help.

MR. SHIPKOFF replied no, that AGPA has never suggested it needs the state's help financing any component of the project. It believes the project can be fully funded on a non-recourse project finance basis. That is what Mr. Shipkoff specializes in and he believes the economics are sufficiently robust to qualify.

[4:31:18 PM](#)

SENATOR STEDMAN commented that, if the Port Authority goes ahead with its project and the producers are left to build the GCP, it would substantially increase their costs. He also asked if Sempra was out of the picture.

MR. SHIPKOFF asked Senator Stedman if he is referring to the proposed 35 percent credit under the fiscal contract, which is basically an incentive. If so, there is no reason that he can see to apply for that credit. If the producers will do the GCP without the credit, so will the Port Authority. He deferred to Mr. Walker to answer the second part of the senator's question.

MR. WALKER said that Sempra's was interested in the project because of the economics and the location. It became disinterested due to the adversarial relationship of the administration to the project. As recently as a week before this meeting however, the president of Sempra called to say that he is still interested in the project if the administration will support it.

[4:33:36 PM](#)

REPRESENTATIVE SAMUELS asked if the \$3.27 tariff to market includes a tariff going through a GTP.

MR. SHIPKOFF replied that pages 43-44 show the tariff without the GTP, which results in a real netback at the pipeline inlet of \$3.86, nominal \$7.87 in 2041. When the GTP cost, shrinkage, and the feeder pipeline cost are subtracted, wellhead value is \$1.47, \$7.16 in nominal terms. The GTP tariff is expressed in dollars per MMBtu, which is the process used in the fiscal contract.

REPRESENTATIVE SAMUELS said he thinks the \$2.35 includes the tariff to the GTP, but that he would verify it.

MR. SHIPKOFF said that may be, but tariffs are calculated on the basis of capital cost assumptions, so one has to ask what the capital cost assumption of getting it to Chicago is. He does not know how the producers calculated the \$2.35 tariff. He reiterated that AGPA is not trying to compete with another project's tariff; its project is incremental and stands on its own.

SENATOR WAGONER said he is still confused about whether the GTP is included in the Port Authority's pricing.

MR. SHIPKOFF said the GTP is fully included for purposes of calculating the economics of the project and the returns to the producers. The Port Authority does not know whether it will be owned and operated by the producers or by AGPA, but that is a strategic issue.

[4:36:11 PM](#)

SENATOR BEN STEVENS said that who owns and regulates it is also a major policy issue. He commented that the committee has enough information to know that this project is an upstream fiscal contract. It is only part three of a three-part project and, in order for it to move forward and obtain a certificate of public convenience, it has to have an upstream fiscal contract, access to a facility that is expandable, and a tariff rate set for the capital costs so that those making shipping agreements will know what they are getting into.

He reminded Mr. Shipkoff that the Port Authority doesn't know where it will get the shipping commitments, and asked if the state is expected to take the shipping commitment on this project.

MR. WALKER responded no.

SENATOR BEN STEVENS asked where the gas will come from if there is no upstream fiscal agreement.

MR. SHIPKOFF said that Senator Stevens is asking the question that is at the heart of the issue. The Port Authority does not have gas supply today. If it did, it would not be at the table, it would be building a pipeline.

SENATOR BEN STEVENS said he did not mean to be disrespectful, but the comment that "we could build this project tomorrow if we had gas" is not true because there are too many things that have not been addressed.

[4:39:39 PM](#)

MR. WALKER responded by jumping ahead in his presentation. One of the things the Port Authority looked at is a structure. It knows it is tax-exempt, and was advised that it is FERC exempt. It submitted the FERC opinion to the Department of Energy and is working with DOE on a conclusion. DOE said to bring the project there for the loan guarantee. The Regulatory Commission of Alaska (RCA) would regulate the project. These are significant steps forward on the timeline. So, to say that the project could start tomorrow is perhaps overstating, but, because of the structure and benefits that the Alaska Gasline Port Authority brings to the process, it does have certain advantages that others do not.

[4:42:02 PM](#)

SENATOR BEN STEVENS said he appreciates that information and apologized for getting ahead of the presentation. He asked about the AGPA application for FERC exemption. He said that one of the conditions under the loan guarantee (in section 116(b) of the natural gas pipeline act) is that "the secretary may issue a federal loan guarantee instrument for a qualified infrastructure project only after a certificate of public convenience has been issued". He asked if Mr. Walker had said that the waiver from FERC regulation would not disqualify the project from the federal loan guaranty.

MR. WALKER said it would not. He could not quote the specific language, but paraphrased that if a project does not go through the FERC process, it goes directly to the Department of Energy for the loan guarantee.

[4:43:25 PM](#)

SENATOR BEN STEVENS said this is the first time he has heard that the project is FERC exempt, and he would like to hear more about that.

[4:43:37 PM](#)

SENATOR STEDMAN asked if the project would still be exempt from FERC regulation if it were extended through the Y-line.

MR. WALKER answered that, because the Port Authority would not be doing the Y-line expansion, it would still be exempt.

SENATOR STEDMAN said that his understanding is that, from the GTP to Valdez would be FERC exempt, but the line from there through Canada would be FERC regulated.

MR. WALKER said that is correct; but the Canada line will be someone else's project.

[4:44:28 PM](#)

CHAIR SEEKINS said that is something the committee needs to look closely at. He said it seems that, once the FERC is involved, it extends its jurisdiction all the way up into the feeder lines.

MR. WALKER said he agreed, and that is why the Port Authority retained a former general counsel of FERC to look at it.

CHAIR SEEKINS clarified that the project would not be RCA exempt.

MR. WALKER agreed that it would not.

[4:46:07 PM](#)

MR. SHIPKOFF went on to slide 49, "Producer Returns" showing the profitability measurements for the upstream producers. Slide 50, "Sensitivity of Producer Returns" shows what happens to producer returns under different price scenarios. The break-even price of Henry Hub, the price at which the IRR is 12 percent and the net present value (NPV) is zero, is \$4.30 per MMBtu.

He pointed out that he has not taken into account that, once the gas is liquefied and loaded on a ship, it can go to whatever market provides the highest value. For the purpose of analysis, he assumed that the entire volume would be contracted to go to southern California or Arizona via Costa Azul however, at these low price levels, diverting to Japan would result in a significantly higher netback.

[4:49:40 PM](#)

MR. SHIPKOFF said that, with the expansion of LNG and the increased value available with diversion options, LNG contractual structures and financing arrangements have more flexibility. On slide 51 he attempted to quantify the value of the diversion option.

REPRESENTATIVE SAMUELS was skeptical that the project would be granted \$18.5 billion in loan guarantees to ship gas to Japan.

MR. SHIPKOFF responded that is a good point. He noted that the loan guarantee is for 80 percent of the project, so he could make a case that the operator should be free to do as it wishes with 20 percent of the capacity. In addition, 100 percent of the capacity will be committed in the United States, so the only time gas would be diverted is when and if the prices in the U.S. are so low that diversion is more profitable despite the cost of paying for those commitments.

[4:54:27 PM](#)

He continued that it is even possible that the guaranteed loan could be replaced by a non-guaranteed loan. Because BGT is partly owned by Mitsui O.S.K. lines, the project would qualify for Japanese financing, which is very inexpensive, along the lines of the loan guarantee rate.

CHAIR SEEKINS said the committee was told that natural gas deals with long-term shipping commitments and marketing agreements. He asked how it is possible that the project could just ignore those and go to another market until the price comes back up in the United States.

MR. SHIPKOFF answered that LNG projects today are financed on the basis of long-term agreements; but the lenders allow diversions. In this supply-constrained world, the suppliers have the power to insert diversion provisions into the long-term agreements. Of course, the seller has to compensate the buyer for the daily spot replacement cost.

[4:57:02 PM](#)

MR. SHIPKOFF said the analysis takes all of this into account. What must also be taken into account is that the seller not only has to compensate the buyer, but must pay for the capacity that the supplier is not using on regas and the takeaway pipeline. So, one would only divert if the price is sufficient to cover all of those additional expenses and still provide a good value.

CHAIR SEEKINS questioned whether one could actually get away with diverting the 20 percent not covered by the loan guarantee.

MR. SHIPKOFF responded that the Port Authority is not relying on that; he was merely speculating. The bill is silent on that point.

[4:58:42 PM](#)

SENATOR STEDMAN said he believes the loan guarantee was pushed by mid-American states that want the gas, so he does not see how the project would be allowed to divert gas to another market.

MR. SHIPKOFF answered that it's a hypothetical issue. This case will not exist unless prices are so low in the U.S. that it is uneconomic to sell to U.S. markets. He stressed that he does not think that will ever happen; but this is the kind of worst-case scenario that lenders look at and want accounted for.

CHAIR SEEKINS said he would like to set this presentation aside until tomorrow and allow the committee to finish up some other matters.

At-ease from [5:02:05 PM](#) to [5:06:56 PM](#)

CHAIR SEEKINS called the meeting back to order and advised the committee that he is waiting for drafting and would recess until 7:00 pm.

Recess from [5:07:20 PM](#) to [7:14:17 PM](#)

Present at the call back to order: Senators Ben Stevens, Bert Stedman, Con Bunde, Fred Dyson, Kim Elton, Lyman Hoffman, Lyda Green, Thomas Wagoner, Gary Wilken, and Chair Ralph Seekins; Senator Olson arrived soon thereafter.

SENATOR BUNDE asked if that is the last iteration of the Port Authority's plan, the one it would take to RCA and FERC.

CHAIR SEEKINS said this is the current plan, and that he can put the question to them tomorrow.

### **SB 3002-STRANDED GAS AMENDMENTS**

[7:15:49 PM](#)

CHAIR SEEKINS returned attention to SB 3002. He informed members that drafting was proofreading a new proposed committee substitute (CS).

[7:16:13 PM](#)

CHAIR SEEKINS said he would open with Amendment 7 (already moved and set aside), having to do with the \$1.5 billion good-faith account.

[7:17:22 PM](#)

DAVID VAN TUYL, Commercial Manager, Alaska Gas Group, BP, said that BP does not support this amendment. It believes it may have unintended consequences that will be bad for the project, including higher costs. He estimates the total cost to project sanction would approach \$1 billion, but fears that this amendment wipes out any incentive to work efficiently. Even if the producers perform well and deliver, they could still have to write a check to the state. It increases costs at the front end of the project when it especially hurts project economics. BP fears it will result in schedule-driven behaviors that historically result in cost overruns and failed projects.

7:20:04 PM

He also thinks the amendment raises a number of awkward questions and concerns regarding the project. Specifically, the state might be conflicted out of voting in project management decisions. It raises the question, "What is a sponsor?" The term is not defined in the act, nor does it say whether the state is considered one. In addition, it creates difficulties for project economics. The language does not provide a specific amount, saying only that the commissioner can set it at a minimum of \$1.5 billion. There is no detail of what is included in project expenditures or how they will be audited.

BP is committed to diligently advance this project, and the contract currently drafted does that. It is evaluating public comments in an effort to constructively address valid concerns; but the producers negotiated a balanced contract and, if the costs and risks increase, the contract will have to be re-balanced in order to go forward.

7:22:20 PM

SENATOR DYSON asked for clarification of the term "full project funding" from Sec. 13(b) that reads: "Project expenditures required by this subsection must be necessary to finance the planning or permitting phase of the project leading up to the decision on full project funding."

MR. VAN TUYL replied that is a good question, and said he is not sure the term is defined in the act. He thinks it means project sanction, which is when the companies commit the funds necessary to fund the project; but he isn't sure.

SENATOR DYSON said he thinks that is what the sponsor intended, and asked what the producers have to accomplish in order to get to that point in the process.

MR. VAN TUYL answered that they have to complete all of the preliminary engineering and the environmental fieldwork necessary to prepare a FERC application; hold a successful open season; and submit the project application to FERC and the National Energy Board (NEB) in Canada. Those regulatory processes have to run their course and the producers would have to receive a "Record of Decision" from the FERC and a "Leave to Construct" from the NEB, either conditional or unconditional. Once those are received, the companies will decide whether they are acceptable, then they would commit funds.

SENATOR DYSON asked if all of those things could be accomplished in four years.

MR. VAN TUYL answered yes, but reminded Senator Dyson that there are processes in that time frame over which the producers have no control.

[7:25:45 PM](#)

SENATOR DYSON asked if the timeframe is realistic. He said that he does not believe the sponsor of the bill intended the producers to spend more money; the intention was that money spent during this phase would be provided for by this account. He also pointed out that the account doesn't have to be funded; they only have to provide a letter of credit. So, although this is a hassle, it does not take any money out of the producers' pockets. He asked if \$1.5 billion is an unreasonable number for all that has to be done to get to project sanction.

MR. VAN TUYL replied that BP estimated that costs to get to sanction might approach \$1 billion, but it hopes to beat that. He said his concern is the language that says if the commissioner determines that a sponsor has breached the minimum expenditure commitment, the unexpended balance would be paid to the state treasury. That seems to mean that the producers have to spend at least that much by December 31, 2010, whether the work could be completed for less or not.

[7:27:40 PM](#)

SENATOR ELTON asked Mr. Van Tuyl if, relative to a definition of "sponsor", it would be clearer to say the "mainline LLC" rather than "the sponsors of the Alaska highway natural gas project".

MR. VAN TUYL answered that he supposed it would address the question of who has the obligation for the expenditure. The specific expenditure amount in the amendment is still a concern.

SENATOR ELTON asked if disputes would be handled by the commissioner of DNR with the concurrence of the commissioner of DOR, or would go through an arbitration panel.

MR. VAN TUYL said that is not clear.

[7:30:07 PM](#)

CHAIR SEEKINS asked Mr. Van Tuyl to restate his concern regarding the use of the word "sponsor" in this amendment.

MR. VAN TUYL replied that he isn't aware that "sponsor" is specifically defined in the act, although "sponsor group" and "member of a qualified sponsor group" are used generally to refer to the producers.

CHAIR SEEKINS said that the meaning of "sponsor" or "sponsor group" is assumed, and asked if Mr. Van Tuyl was sure it is not defined in the act.

MR. VAN TUYL said he does not see it in the definitions section in the act.

[7:31:36 PM](#)

CHAIR SEEKINS said it is not in definitions, but there is a whole section on what it takes to be a qualified sponsor or qualified sponsor group.

MR. VAN TUYL agreed, and pointed out that it would seem to exclude the state. If that were the case, then the state's share would be excluded.

CHAIR SEEKINS said he would ask the drafter; but he thinks the intent was that, since the state is a 20 percent owner, it would have to put up 20 percent of the amount.

[7:32:07 PM](#)

SENATOR BEN STEVENS said he would like to clarify his intent. The first sentence of Section 13(b) reads: "The sponsors of the Alaska Highway Gas Pipeline Project shall incur" [A Minimum Of \$1,500,000,000] "in project expenditures beginning with the date the contract is fully executed". So, once contract is fully executed, all parties to the contract become the sponsors.

[7:33:32 PM](#)

CHAIR SEEKINS said that he couldn't find any definition. He asked Senator Stevens what he proposes if the costs are less than \$1.5 billion.

SENATOR BEN STEVENS responded that, if the total expenditures to full project funding were less, then the sponsors would not be liable for the balance of the \$1.5 billion. The only time funds would revert to the state treasury is if there was a breach.

[7:36:16 PM](#)

MR. VAN TUYL said he wanted to emphasize his concern about the deadline. If all of the activities are not completed by January 1, 2011 as required by the contract, and the total cost is only \$800 million, the commissioner could say that the producers are in breach and require them to pay the full amount, which is a minimum of \$1.5 billion. That could cause participants to cut corners or operate in a way that is different from the norm, in order to make the deadline.

[7:37:17 PM](#)

MARK NELSON, ExxonMobil, said that ExxonMobil is also opposed to Amendment 7 due to the hard completion date and minimum spending requirements. Just as the producers have a responsibility to shareholders, the state has a responsibility to Alaskans to pursue the project in a disciplined manner using best practices. Project management experts and individual project analysis have concluded that, "When the calendar rather than the data drives the project, the project usually fails." Rushing to meet imposed deadlines serves to increase costs, compromise safety, and increase the risk of project failure. As with other amendments presented by this committee, this amendment may prevent the project from being commercially viable. An economic project does not need guaranteed start-up dates and mandated spending rates, because the parties already have a substantial incentive to advance it. In conclusion, being schedule-driven won't deliver the best project to the state of Alaska and participating companies.

[7:40:40 PM](#)

WENDY KING, ConocoPhillips, said she appreciates that, from the public comment perspective and the comments that she has heard in committee over the past couple of months, work commitments are a significant issue to the legislature. For the producers, it is a heart-of-the-deal issue. The producers have emphasized that it is not advisable to tie work activities and dollars to dates. Schedule-driven projects are set up for failure.

She stressed that ConocoPhillips wants to move this project forward and is committed to spend the money necessary to get to project sanction, but cautioned that, until project sanction,

all of those funds are likely to be equity funds, not financed funds. Also the federal loan guarantees won't provide backup financing until the project gets to the completion tests, so the sponsors are "on the hook" for those dollars.

Ms. King said that Conoco Phillips is trying to work with all parties to find a solution to work commitments. This could include committing some money to project development in the contract itself. She said that Conoco Phillips is not opposed to spending commitments, but it sees challenges with this particular amendment. The \$1.5 billion monetary requirement is more than ConocoPhillips expects to have to spend, and the focus should be on keeping costs down. Another issue is the timeline. The contract hasn't even been approved and the producers do not know when the project will begin, but there is already pressure to get to sanction by 2010. Schedule-driven behavior is a concern.

[7:44:14 PM](#)

She continued to say there should be some mechanism whereby, if there is a spending commitment, but all parties agree it should be spent at a later date, it could be deferred. She is also concerned that putting up \$1.5 billion in the beginning could create some time-value of money issues. To conclude, ConocoPhillips has not had time to fully assess this amendment internally. It is willing to entertain some of the concepts in the amendment, but it needs to advance that in the context of discussions on work commitments.

[7:45:28 PM](#)

SENATOR STEDMAN said that, in the second line from bottom of Amendment 7, it talks about providing the commissioner with a monthly expenditure report; so that should alleviate some of the concern about a big expenditure coming in only one day into the project. The intent is not to get remuneration to the state, it is to keep the project moving forward and deal with other concerns.

MR. NELSON said that ExxonMobil's concern is that it does not have control over a lot of things that can happen prior to project sanction, such as a judicial challenge. It would be putting money at risk, or could be forced to continue spending money during a challenge of the contract.

[7:47:26 PM](#)

SENATOR BUNDE commented that Mr. Van Tuyl mentioned fairness, and one of the consistent tenets he has heard from the producers

is certainty. He thinks fairness would dictate some certainty for the state as well. The producers are putting money at risk; the state is putting its economy and the well being of its citizens at risk. He said he was heartened to hear that the producers have thought about how to bring more certainty to the state, and is wondering when the committee might hear more about that.

MS. KING replied that the public comment period closed July 24, and ConocoPhillips is just beginning discussions with the administration and its partners to find a balance that works for all parties. She said she is unable to provide a firm timeline for a decision at this point.

[7:49:46 PM](#)

SENATOR BUNDE asked if it is possible that a decision might be available before next Thursday.

MS. KING said that is very optimistic.

[7:50:08 PM](#)

SENATOR WILKEN said that is the best testimony Ms. King has given, and it is clear that she understands the state's position; so, he addressed his comments to the representatives of the other two producers. He said he will vote for this amendment, but does so with some concern, because he does not like deadlines either. This contract won't leave the legislature as a "trust me" contract. He does not want to get to the end of the four years estimated to project sanction and hear that the producers aren't ready yet. He said he does not know what the benchmarks are, but there have to be some specific goals the state can use to measure whether the producers are expending the effort necessary to move this project ahead.

[7:53:36 PM](#)

MR. VAN TUYL said he appreciates Senator Wilken's concern, and BP is committed to advance the project and monetize the resource for the benefit of BP and the state. The challenge is how to structure the contract to ensure that outcome. The work commitments in the contract are the product of a lot of consideration, and he thinks the formula provides as much certainty as it is reasonably possible to provide. Deadlines and spending rates may not result in the desired outcome.

[7:56:12 PM](#)

SENATOR WILKEN said he believes what Mr. Van Tuyl said, but he does not want Mr. Van Tuyl's replacement talking to his

replacement about these same issues. He wants some type of a yardstick.

MR. NELSON echoed Mr. Van Tuyl's remarks, saying that ExxonMobil is committed to this project and will continue to work hard; but it does not want to put inefficient measures in place that will cost extra money.

[7:57:19 PM](#)

SENATOR BEN STEVENS said he wanted to make a clarifying point. In Section 13 when it says, "the contract is fully executed by the parties", the term parties is defined as "the state and all participants" and participant means "BP, ConocoPhillips, and ExxonMobil". The sponsor is the one that takes it to the federal government.

[7:58:21 PM](#)

CHAIR SEEKINS pointed out that this is \$1.5 billion, and \$300 million has already been set aside by the state.

SENATOR BEN STEVENS clarified that the state is putting risk money up front as well, and once the contract is executed, the state will agree to pay 20 percent of the expenses incurred. He said he does not agree that all of the \$300 million will come back to the state if a breach has occurred.

SENATOR ELTON asked Senator Stevens if it was his intent to kick any disputes under Section 13(b) or (d) into the arbitration dispute resolution process, or for them to be settled by the commissioners.

SENATOR BEN STEVENS said he cannot answer the question, but his intent was for the minimum project expenditure to be agreed upon in the contract. As part of the contract, it would be subject to dispute resolution; but the statute does not become part of dispute resolution.

[8:03:36 PM](#)

CHAIR SEEKINS asked if the unexpended balance attributed to that sponsor would be subject to forfeiture.

SENATOR BEN STEVENS answered yes; it doesn't say whole project would come to a stop.

[8:04:59 PM](#)

SENATOR ELTON said he is struggling with language that would make it clear that disputes under Section 13(b), (c) or (d)

would be settled by the commissioners of revenue and natural resources outside the dispute resolution process established in the contract, and is thinking of a possible conceptual amendment to clarify that.

[8:05:41 PM](#)

SENATOR BEN STEVENS said he does not think that language is necessary, because the contract cannot dictate what statute says. He said he does not want to put anything in statute that can be dictated by contractual terms.

[8:08:32 PM](#)

SENATOR DYSON said he agrees with Senator B. Stevens, but he worries about the curative language the committee saw earlier, which he is told is standard in a contract. If the contract is ratified and it later proves to be in conflict with any existing law, the curative language says the contract trumps the legal statute; so he feels that the point Senator Elton raises is a valid one. He also feels that the producer's concern about the deadline is valid. If the contract is not ratified quickly, it would be better to specify a number of days or years instead of naming a firm end date. He thinks accommodation should also be made for events beyond the producers' control.

[8:09:45 PM](#)

SENATOR HOFFMAN asked Chair Seekins to refresh his memory regarding the amendment before the committee.

CHAIR SEEKINS said that the amendment to Amendment 7, to include "with the concurrence of the commissioner of the Department of Revenue" is before the committee.

SENATOR HOFFMAN asked Senator Stevens how he arrived at \$1.5 billion in light of the fact that all three sponsors have said they think they can get to project sanction for less than \$1 billion.

[8:10:42 PM](#)

SENATOR BEN STEVENS said the legislature voted on a \$300 million set-aside, and the state is a 20 percent partner, so he calculated the total based on that.

[8:11:59 PM](#)

SENATOR STEDMAN commented that the state had some concerns about its ability to come up with the funds to build this, and the \$300 million set aside is a good start toward the full 20 percent it will have to come up with.

The committee took an at-ease from [8:12:54 PM](#) to [8:17:20 PM](#).

CHAIR SEEKINS called the meeting back to order. Not all of the members were present, so he went off the record until they arrived.

SENATOR KOOKESH arrived.

The committee took an at-ease from [8:18:06 PM](#) to [8:19:08 PM](#).

CHAIR SEEKINS called for discussion among the members.

SENATOR ELTON said he will vote yes, but still has concerns about the dispute resolution process and plans to discuss it with Legislative Legal Services before the bill gets to the floor.

[8:19:45 PM](#)

CHAIR SEEKINS interrupted to clarify that the matter before the committee is whether there is any objection to adopting Amendment 1 to Amendment 7 (proposed earlier by Senator Wilken) to insert "with the concurrence of the commissioner of revenue" in Section 13. There being no objection, it was so ordered.

[8:20:12 PM](#)

CHAIR SEEKINS said that the committee is now discussing Amendment 7, as amended.

SENATOR ELTON said he appreciates the effort to create some work commitments and monetary incentives, and does not think it is too burdensome for the producers. He does not put aside their concerns however, and thinks that they should have time to come up with a way to tweak this approach if they feel it is necessary.

[8:21:59 PM](#)

SENATOR BUNDE asked Senator Stevens whether, if there is a delay and the reason for it is disputed, the dispute would go to arbitration.

SENATOR BEN STEVENS replied that is not his intent. It is intended to provide leverage to the commissioners. The intent was to create financial commitments, while giving the producers latitude to be efficient within that framework. How a dispute would be handled relates to whether a determination is made that

there has been a breach in the spending commitment imposed by the contract.

[8:24:38 PM](#)

SENATOR BEN STEVENS removed his objection.

SENATOR DYSON objected.

[8:25:12 PM](#)

The roll was called:

Yea: Senator Olson, Senator Wilken, Senator Hoffman, Senator Kookesh, Senator Ben Stevens, Senator Stedman, Senator Bunde, Senator Green, Senator Wagoner, Senator Elton, Senator Seekins

Nay: Senator Dyson

Amendment 7 was adopted as amended by a vote of 11 yeas, 1 nay.

[8:26:34 PM](#)

CHAIR SEEKINS introduced a new draft CS, Version F.

[8:26:46 PM](#)

SENATOR GREEN moved to adopt Version F as the working document. There being no objection, it was so ordered.

[8:27:23 PM](#)

JIM CLARK, Chief Negotiator, Office of the Governor, introduced himself.

CHAIR SEEKINS asked Joe Donohue if he would explain the intent behind Section 1 of the CS.

[8:27:44 PM](#)

JOSEPH DONOHUE, Preston, Gates & Ellis, said the intent of Section 1 of the bill (Version F) is to provide authority for the state to agree to the Federal Arbitration Act. So, this is an exception to the revised Alaska Uniform Arbitration Act. The contract provides that the Federal Arbitration Act will control the arbitration procedures, and this exception is designed to clarify that.

[8:28:36 PM](#)

SENATOR DYSON asked if he is correct that the Federal Arbitration Act will apply except where this contract has exceptions.

MR. DONOHUE answered that the concern was that state law might conflict with the contents of the proposed contract. This allows the state to negotiate in the context of a Stranded Gas Development Act contract, to stipulate to arbitration procedures outside of title 9 of the state law.

SENATOR DYSON asked if the contract doesn't conform to state law, this paragraph puts it under federal arbitration law.

MR. DONOHUE said this allows the state to stipulate as a contractual term in a fiscal contract under 43.82 that the Federal Arbitration Act will control arbitration proceedings.

[8:30:02 PM](#)

CHAIR SEEKINS asked if there were objections or proposed amendments to Section 1. Hearing none, he asked Mr. Donohue to address paragraph 1 of Section 2.

MR. DONOHUE explained that paragraph 1 of Section 2 was intended to clarify that the contract developed under 43.82 could include fiscal certainty terms relating to oil and to the business activities of the qualified sponsors generally, not just those related to new investment, or the gas pipeline project.

CHAIR SEEKINS asked for questions or amendments.

[8:31:10 PM](#)

SENATOR ELTON asked Mr. Donohue to speak to a suggestion he made earlier, when explaining Version G to the committee, that this section be moved to another part of the bill.

MR. DONOHUE replied that his comment was related to lines 6-7, the language "including gas pipeline expansion pricing that encourages further gas exploration." At one point, the administration considered proposing language to 43.82.200 that would deal with this issue and take it out of the purpose clause.

SENATOR ELTON asked if the administration decided against that.

MR. DONOHUE answered yes.

CHAIR SEEKINS commented that the committee added "or a related party" to that paragraph and the next, as well as a definition of related party in a later section. He explained that Section 3 was the committee's amendment to the earlier CS (Version G).

[8:32:41 PM](#)

CHAIR SEEKINS reminded the committee that Section 4 is an amendment that was offered by Senator Stedman and has been included in the new CS. He asked Mr. Donohue to explain the deletion on page 3 of Section 5.

MR. DONOHUE explained that Section 5 inserts the concept of "related party" to make it clear that fiscal certainty terms can relate to owners of the GTP, the mainline LLC, and other entities. Also, the deletion on page 3 is designed clarify that fiscal terms do not necessarily have to relate directly to this new investment.

CHAIR SEEKINS asked for questions on Section 6.

[8:34:09 PM](#)

SENATOR ELTON commented that, under Version G, there was an amendment to 43.82.020, which was negotiation of contract terms and deals with the related party issue, and that section seems to be missing in this version.

CHAIR SEEKINS said he would come back to the sections that were removed for convenience, to discuss whether any should be reinserted.

[8:35:00 PM](#)

MR. DONOHUE explained that Section 6 deletes the reference to royalties. AS 43.82.220 currently deals only with royalty-in-kind and royalty-in-value issues, and the intent was to broaden the application of 43.82.220 to deal more generally with oil and gas lease and unit agreements.

He went on to Section 7, which states that compliance with 43.82.220(a) is sufficient to satisfy all statutory requirements under AS 38. That is primarily intended to make clear that those are the sole criteria that apply to decisions to enter into shipping commitments under the stranded gas act, and that the royalty advisory board has no role in those decisions.

[8:36:45 PM](#)

CHAIR SEEKINS explained that Section 8 on pages 3-4, is the amendment adopted regarding Project Labor Agreements (PLA's),

which has been incorporated into the new CS. He asked Mr. Donohue to go on to Section 9.

MR. DONOHUE said Section 9 deletes language that would limit the term of the contract to the period necessary to develop the stranded gas, in order to avoid legal issues relating to how long that period might be. It also contains the committee amendments passed earlier in the week, changing the term from commencement of operations from 35 years to 25 years, and maximum contract period from 45 years to 35 years.

[8:38:08 PM](#)

SENATOR BEN STEVENS offered Amendment 9 (the first amendment to Version F) and objected for discussion purposes. He said this amendment came before the committee during the last special session and has not changed.

#### ^AMENDMENT 9

AS 43.82 is amended by adding a new section to read:

**Sec. 43.82.255. Term of contract provisions related to oil.** (a) The provisions of this section apply to a contract developed under AS 43.82.020 that provides for periodic payment in lieu of taxes on oil under AS 43.55.

(b) For the part of the contract term beginning immediately after the date of full project funding or the date of issuance of a certificate of public convenience whichever date is later, and ending 14 years after that date, the commissioner may develop a term for the contract that provides for payments in lieu of the taxes on oil set out in AS 43.55. For the part of the contract term established with as much certainty as the Constitution of the State of Alaska allows.

(c) For the part of the contract term beginning immediately after the period described in (b) of this section, and ending on a date not later than 25 years after the effective date of the contract, the amount of the payment in lieu of tax on oil under AS 43.55 must be

equal to the amount of the tax levied by the law. However, the commissioner may develop a contract term that, in the event of a material change in the taxes enacted after the effective date of the contract, establishes a procedure for restoring the parties to substantially the same economic position they had as of the end of the period described in (b) of this section immediately before the change.

(d) Implementation of a contract provision authorized in this section may be made subject to the dispute resolution procedures of the contract.

CHAIR SEEKINS said he assumed that Senator Stevens wanted to make some modifications, and that is why it was not incorporated into the CS. He asked if there were questions regarding Amendment 9.

SENATOR WILKEN referred to line 18, the word "commissioner", and reminded the committee that the administration was going to prepare language to clarify that this refers to the commissioner at the time of the fiscal certainty. He asked if the administration has had the opportunity to work on that.

MR. DONOHUE apologized and said he does not have it ready.

[8:40:09 PM](#)

CHAIR SEEKINS asked Senator Stevens if he would like to hold the amendment to look at the new language.

SENATOR BEN STEVENS replied that it is up to the discretion of the chair.

CHAIR SEEKINS asked if Senator Stevens' intent is that it be automatic and negotiated now, or that it be negotiated in the future, if the legislature raises taxes making an economic balancing agreement necessary.

SENATOR BEN STEVENS answered that it would be negotiated as the result of a material change at a future date.

CHAIR SEEKINS asked if it would satisfy his intent to say: "However, in the event of a material change in the taxes enacted after the effective date of the contract and after the period of time specified in paragraph (b), the commissioner of revenue may

develop a contract term that establishes a procedure for restoring the parties to substantially the same economic position they had..."

[8:41:59 PM](#)

SENATOR BEN STEVENS asked Chair Seekins to repeat his proposed language.

CHAIR SEEKINS did so.

SENATOR BEN STEVENS replied that, if that helps to clarify it, he has no problem with it; but he feels it is already prescribed on line 14.

[8:42:52 PM](#)

MR. DONOHUE interjected that, given the context of 43.82 generally no clarification is needed.

CHAIR SEEKINS said that, as he understands the statute, the commissioner referred to is the commissioner of revenue, and the economic balancing procedure would not take effect automatically unless the economic rents changed after the prescribed period of time. He asked Senator Wilken if he was satisfied with that determination.

SENATOR WILKEN answered that he is not. He said he does not understand why the committee feels it should deal with this at all. The sitting commissioner can maintain the fiscal equilibrium during that 14-year period.

[8:45:04 PM](#)

CHAIR SEEKINS replied that this section takes place after the 14 years.

SENATOR WILKEN responded that it is at the tail of 25 years.

MR. DONOHUE explained that, under this provision, the current commissioners might offer a contract term that would lock in the tax that is in effect by law at project sanction. The producers may or may not agree to that, since they don't know what is being locked in; so there is uncertainty related to the second phase as to whether the producers would even be willing to consider this. As to the third phase, it seems as if the commissioner could negotiate provisions now that help refine the concept of material change and how it would work when there is fiscal stability.

[8:46:24 PM](#)

MR. CLARK suggested that the administration meet with producers to craft language that fulfills the committee's direction, and bring it back for review before the legislature ratifies the contract.

[8:47:31 PM](#)

CHAIR SEEKINS said he understands it would be the sitting commissioner that would make the decision to do it.

SENATOR GREEN pointed out that this is language that the committee already adopted two or three times.

SENATOR BEN STEVENS said he did not think there were any proposed changes.

SENATOR WILKEN said that, when the committee talked about this amendment previously, there were three sections: four years to sanction, five years to build, 9 years for capital cost recovery. Then there was a piece of time at the end and, if there were changes that would require the state to change oil, it would seek balance through gas, or vice versa. This amendment proposes to address something that, best guess, starts 14 or more years from now. He did not understand why one would suppose this legislature can do a better job of it today than the commissioner and the administration could in 14 years, given all the circumstances that could arise.

[8:50:54 PM](#)

MR. CLARK said that the language for fiscal balancing agreements exists in many types of contracts. It is usually included on the front end so all parties know what the rules will be in the future. It may be that, at end of the 14-year period, it needs to be changed; but that could happen to other sections of the contract as well.

[8:52:38 PM](#)

SENATOR DYSON asked what is before the committee now.

CHAIR SEEKINS replied that it is Amendment 9 (the first amendment to Version F).

SENATOR DYSON said that it looks as if disputes under this section are subject to the contractual arbitration process, and asked Senator Stevens to comment on the last two lines of the amendment.

SENATOR BEN STEVENS answered that terms of a contract are subject to dispute resolution. Disputes concerning the timing would be settled in arbitration.

[8:55:18 PM](#)

CHAIR SEEKINS confirmed that it is when it is implemented.

SENATOR DYSON said that confirmed what he thought was true. He said he appreciates what Senator Stevens has done, but is not convinced of the efficacy of that dispute resolution process.

[8:56:14 PM](#)

SENATOR STEDMAN asked Chair Seekins if he could provide a brief timeline to the people listening from home.

CHAIR SEEKINS summarized that there is a period of approximately four years until project sanction, prior to which there is no fiscal certainty. For a period of approximately five years after sanction and nine years of construction, during capital cost recovery, the state has established what taxes on oil will be. That is a total of 14 years after project sanction. The remaining 25 years, minus the pre-build years and the capital cost recovery years, is a period of economic balancing during which, if taxes are raised resulting in a substantive change in the distribution of rents, the commissioner can enter into the process to restore economic balance. (This was illustrated using the chart Senator Wilken created for SB 2004.)

[8:58:06 PM](#)

CHAIR SEEKINS asked if he had summarized it correctly.

SENATOR BEN STEVENS replied yes.

SENATOR STEDMAN paraphrased that, under this amendment, the oil tax structure would not be locked in until after sanction. The state would stabilize the taxation on oil through the construction.

CHAIR SEEKINS interrupted that it may be unconstitutional to do so.

[8:58:52 PM](#)

SENATOR WILKEN said he would vote for the amendment because it addresses one of the issues the committee has with the contract, but told Mr. Clark that he expects to have further discussions with him on this subject.

SENATOR ELTON said he would vote for the amendment because it is marginally better than what is in the contract that he supposes will be presented to the legislature. He does not think it does anything to alleviate the constitutional questions, and he does not think the state should lock itself into a tax rate for any period of time.

[9:00:01 PM](#)

SENATOR DYSON removed his objection.

CHAIR SEEKINS asked whether there was further objection to adopting Amendment 9. There being no objection, it was so ordered.

[9:00:25 PM](#)

CHAIR SEEKINS explained that Sections 10 and 11 are the same as Amendment 7 to Version G, which was adopted by the committee. He asked Mr. Donohue to address Section 12.

MR. DONOHUE explained that Section 12, beginning on page 6, extends the minimum public comment period from 30 to 60 days.

CHAIR SEEKINS asked if this is an amendment that was passed earlier today.

[9:01:34 PM](#)

SENATOR BEN STEVENS said yes; it was a curative amendment, because the 60 days expired on the 24th of July.

SENATOR WILKEN said he thought the amendment was on line 23.

CHAIR SEEKINS answered yes. This was a curative amendment to the 60 days of public comment that ended in July.

MR. DONOHUE agreed.

SENATOR WILKEN repeated that he thought the change was on line 23.

CHAIR SEEKINS replied that it would be.

SENATOR BEN STEVENS said he believes the governor announced that he was going to have 75 days of public comment, from May 10 to July 24.

MR. CLARK confirmed that it was 75 days.

[9:03:07 PM](#)

SENATOR BEN STEVENS moved to adopt Amendment 10, which amends line 19 on page 6 to read "75" in lieu of "60". There being no objection, it was so ordered. (This is the second amendment to Version F.)

CHAIR SEEKINS said that Section 13 is the one that was amended earlier today.

[9:03:47 PM](#)

MR. DONOHUE said that the amendments to Section 14 clarify that the fiscal terms can relate to the qualified sponsor, members of the qualified sponsor group, or related parties. The amendments on lines 11-13 specify that payments are due to the state, but can be made payable to the revenue affected municipalities.

He continued to Section 15, saying that the amendments to 43.82.505 provide that all of the impact payments due under the fiscal contract would be paid to economically affected municipalities under the principals outlined in 43.82.520.

SENATOR WILKEN apologized to the committee for digressing, but said he has been working on the PILT issue and needed to correct an error. Section 16 of Version G was deleted in Version F but contained some really good work and should be retained.

CHAIR SEEKINS said he would put it back in and asked where Senator Wilken would like it to be inserted.

SENATOR SEEKINS said it should go right after economically impacted municipalities and would become a new Section 16. Section 15 would revert to its language in G, because it refers to Section 16.

[9:06:08 PM](#)

SENATOR WILKEN moved to adopt the foregoing as conceptual Amendment 11, the third amendment to Version F. He noted it would take Sections 15 and 16 of Version G and insert them after the current Section 15 in Version F.

SENATOR ELTON interjected that, unless he has misunderstood Senator Wilken's intent, they should be inserted after Section 14, beginning on line 14, because Section 15 in Version F would be replaced.

CHAIR SEEKINS asked for confirmation.

SENATOR WILKEN agreed and restated his motion.

The committee took an at-ease from [9:10:01 PM](#) to [9:10:51 PM](#) and from [9:12:22 PM](#) to [9:14:30 PM](#) to discuss technical aspects of the amendment.

[9:16:31 PM](#)

CHAIR SEEKINS re-stated Senator Wilken's motion to adopt conceptual amendment 11 to Version F: Remove Section 15 of Version F, replace it with Sections 15 and 16 of Version G, and renumber the other sections accordingly. There being no objection, the motion carried.

[9:17:22 PM](#)

SENATOR WILKEN moved to adopt Amendment 12 (fourth amendment to Version F). He objected for discussion purposes.

He said that, under the stranded gas amendment, AS 43.82.210 speaks to payment in lieu of taxes for municipalities, and the amendment intends that the legislature will decide how the PILT monies are distributed. The state gets money from the oil companies in four major ways: a corporate income tax; royalties; severance tax, and an ad valorem tax. The ad valorem tax calls for 2 percent of the total value to be divided between municipalities that have oil and gas properties within their boundaries, with the balance remaining in the general fund. That tax is being replaced by PILT, which will generate approximately \$12.67 billion over the next 35 years.

[9:20:41 PM](#)

SENATOR WILKEN said he researched how the PILT money was distributed and found that one area is benefiting disproportionately to others, and he isn't sure that is in line with the spirit of Section 8.1 of Alaska's constitution. He distributed a chart showing the distribution and pointed out that the North Slope Borough will get 70 percent of the money. Fairbanks North Star Borough will get 4 percent; Valdez will get 3 percent; the state of Alaska will get the 21 percent that remains. If that were distributed on a per capita basis, that would be \$1.3 million each for residents of the North Slope Borough; \$96,000 for those in Valdez; \$5,800 for residents of Fairbanks North Star Borough; and \$4,400 for each of the 626,000 citizens of Alaska.

He said that Amendment 12 provides that the money will go to the state and the legislature will decide how to distribute it to the people of Alaska.

[9:23:28 PM](#)

CHAIR SEEKINS asked Senator Wilken if Version F, page 3, between lines 18-19 would be a good place to insert the amendment.

MR. CLARK interrupted to suggest that it might be helpful for Mr. Dickinson, author of this section, to explain the administration's rationale.

[9:24:34 PM](#)

DAN DICKINSON, CPA, said that Section 20.1 of the contract states that payments are due to the state. It can direct that some of those are paid to political subdivisions, and rules for that are found in Exhibit G. It also states that political subdivisions have no rights under the contract and cannot go directly to the producers for satisfaction on issues.

CHAIR SEEKINS asked if there is a problem with the distribution being directed by law.

MR. DICKINSON answered that Exhibit G, the methodology that determines how it is divided up, provides that no money goes to a political subdivision unless there is a ratio in front of it. That ratio is the political subdivision's mil rate over 20 mils. Under law, the legislature establishes the rules for the mil rate, so he believes that the amendment is superfluous. Having said that, maybe mil rates aren't the best way to determine how certain municipalities get money. Other rules could be made.

[9:28:47 PM](#)

SENATOR WILKEN said that, although everything Mr. Dickinson said is correct, he is not sure how germane it is to what he is trying to do. He referred to Exhibit G, which reads in part: "participant may make a portion of its payments due to the state under articles 15, 16, and 17, payable to a political subdivision." Then it says to go to Exhibit F for calculations, and number 15 under F shows hypothetical examples that really do not illustrate how the money will be distributed. How that money is divided up should be dealt with through deliberative legislative process, not through the contract.

[9:31:42 PM](#)

MR. DICKINSON observed that Section 43.82.210 of the Stranded Gas Act instructs the commissioner that PILT payments to municipalities will be a function of the contract. He also pointed out that there is an assumption as to what mil rates are; but those mil rates can be changed. He urged caution to

ensure that the mil rate is always a critical part of the calculation.

[9:33:10 PM](#)

SENATOR HOFFMAN explained that the vast majority of the money is going to the North Slope because that is where the resource is, and the borough should be incentivized to encourage development.

[9:34:26 PM](#)

SENATOR OLSON pointed out that the pie chart shows North Slope Borough getting 2/3 of the money, twice as much as the rest of the state.

He asked Mr. Dickinson how accurate the percentages are, since nobody knows what the mil rate will be 35 years from now.

[9:35:49 PM](#)

MR. DICKINSON answered that there are a number of assumptions that reflect the situation today. The more distant the projection, the harder it is to predict how those assumptions will hold up. If the tax base increases, all other things being equal, one would expect the mil rate on the North Slope to lower. For example, if the tax base grows by \$3 to \$3.5 billion to a tax base that is currently \$12 billion, that is an increase of almost 30 percent, so the mil rate should decrease by 30 percent and the state's portion should pick up.

SENATOR OLSON asked if Mr. Dickinson is saying that the numbers could be off by 30 percent.

MR. DICKINSON responded that, over 30 years, that would be a generous estimate.

[9:37:35 PM](#)

SENATOR OLSON opined that the administration is not in favor of amendment.

MR. DICKINSON answered that is correct. The administration worked hard to ensure that the legislature retained the ability to control these issues.

[9:38:17 PM](#)

SENATOR STEDMAN asked if the mil rate would have to change statewide to do the property tax adjustment to bring that number down.

MR. DICKINSON replied that is correct. Under the current system, any taxation up to 20 mils by a locality goes to that locality; the difference between its tax rate and 20 mils goes to the state. Under current statute, a municipality can go up to 30 mils for operations. If it is receiving payments to pay back bonded indebtedness, there is no mil rate limit. So, one of the things that happens in the contract is that municipalities' current ability to tax is limited. Even though 20 mils has effectively been the ceiling, the actual cap is at 30. This legislation would reduce it to 20 for operations; there is no cap for debt.

[9:40:33 PM](#)

SENATOR WILKEN agreed with Mr. Dickinson, but noted that a provision in current law allows the North Slope Borough to choose how it establishes its per capita mil rate. Because its expenses exceed the 30 mils, it is allowed to use a formula that takes the average per capita of the state, multiplies it by 225, and divides it by municipal population. That lowers the effective mil rate to keep it below 30 mils. Today it is at 29.7 mils for its operating budget and 40.22 mils for debt, which comes to 69.97. They get to make that choice. Today, the North Slope Borough has approximately 6,894 people. Through the optional calculation for North Slope Borough, the municipal population is counted as 13,047.

[9:42:45 PM](#)

MR. DICKINSON answered yes. Those options are defined in law, and the issue went as far as the Supreme Court about five years ago, which affirmed it. Because it is in law, it remains in the purview of the legislature.

SENATOR BUNDE said one might refer to this amendment as a belt and suspenders. When dealing with \$5 to \$10 billion, that might be a good investment. The numbers may be speculative, but wherever underground resources are found, they belong to all of the people of the state, not to a particular geographic region. When hyperinflation hits, which will happen when the pipeline goes through, all communities will suffer economic impacts.

[9:44:21 PM](#)

SENATOR OLSON said that he is not sure what the previous speaker's point was, but he would like to go back to the point that Senator Wilken made and ask whether the option that North Slope Borough has chosen differs from what other boroughs have available to them.

SENATOR WILKEN responded that the provision was included because of the boroughs extraordinary wealth. Any borough has the option, but only one has the wealth to use it.

[9:45:23 PM](#)

CHAIR SEEKINS asked if there is a continuing objection to the motion to adopt Amendment 12.

SENATOR OLSON objected.

The roll was called:

Yea: Senator Bunde, Senator Dyson, Senator Wilken,  
Senator Green, Senator Wagoner, Senator Seekins

Nay: Senator Kookesh, Senator Stevens, Senator  
Stedman, Senator Olson, Senator Elton, Senator Hoffman

Amendment 12 failed to be adopted by a vote of 6 yeas,  
6 nays

[9:46:12 PM](#)

CHAIR SEEKINS moved on. There were no questions or proposed amendments to Sections 18-22.

[9:47:37 PM](#)

CHAIR SEEKINS asked if there were any other sections that members would like added back into Version F.

SENATOR BEN STEVENS reminded Chair Seekins that Amendment 6 (to Version G) is still on the table. In the interest of time, he asked to reserve the right to offer it on the floor if there is no other debate.

CHAIR SEEKINS agreed.

SENATOR ELTON asked what sections of G have been dropped.

[9:48:39 PM](#)

SENATOR WILKEN answered that the sections deleted from Version G were Sections 3, 4 and 7; Sections 11 and 16 were deleted but put back into Version F.

MR. DONOHUE explained that Section 3 made it clear that fiscal terms can relate to "related parties," including the mainline LLCs and other LLCs. The deleted language in sub-paragraph (1)

clarified that fiscal terms are not restricted to activities, income, and property related to the specific approved, qualified project. Sub-paragraph (2) related to broad amendments that would allow the fiscal contract to negotiate terms that varied from the oil and gas lease agreements and unit agreements. Sub-paragraph (3) provided authority for the state to negotiate for the receipt of production taxes in kind rather than in value.

[9:52:14 PM](#)

MR. DONOHUE explained that Section 4 of Version G relates to amendments to the contract development provisions. Sub-paragraph (1) clarifies that fiscal certainty can attach to oil and that credits can be provided for investments in the project, specifically in the fiscal contract and not related to provisions of excess profits tax (EPT) and related tax. Sub-paragraph (2), lines 11-12, relates to provisions that would expand the scope of 43.82.220 beyond the authority to vary royalty-in-kind notice and timing provisions, and royalty-in-value valuation methodologies to include variations from oil and gas lease agreements and unit agreements. On lines 23-24, the language authorizes the administration to negotiate administrative determination contractual provisions and is associated with a repealer of 43.82.445. Sub-paragraph (7) would broaden the authority of Section 7 to authorize all the terms of the contract that are not specifically mentioned in 43.82.200.

[9:54:23 PM](#)

MR. DONOHUE went on to explain that some of the preceding deletions relate to Section 7, 43.82.220(a), which would broaden the authority of the state to negotiate provisions that would vary from leases and unit agreements within the context of the fiscal contract. Specifically sub-paragraph (1) clarifies the state's right to enter into shipping commitments for the life of the agreement, and to specify by the deletion of the current sub-paragraph (3) that the state's commitment to take its royalty share in value is not limited to initial purchase and sale agreements. Sub-paragraph (2), lines 21-23 are intended to authorize certain provisions of the fiscal contract that vary from lease terms and, in some cases, the terms of title 38.

[9:55:56 PM](#)

CHAIR SEEKINS said that the deletions did not necessarily reflect a lack of intent to consider these provisions; but members felt they did not have enough information to act on them at this time.

MR. CLARK stressed that these are provisions that will have to be discussed at a later time, as they will be needed to make a contract work.

[9:57:06 PM](#)

SENATOR GREEN moved to report CSSB 3002 Version F, as amended, from committee.

SENATOR WILKEN, SENATOR BUNDE and SENATOR ELTON objected.

SENATOR WILKEN explained he would like to see what the administration does to address public comments before giving it further authority. He also wants to see the LLC agreement and do more work on how the PILT will be distributed.

[9:59:08 PM](#)

SENATOR ELTON explained that, in addition to Senator Wilken's concerns, he is not comfortable with the piecemeal fashion in which these amendments are being handled.

SENATOR BUNDE said he shares Senator Wilken's concerns.

CHAIR SEEKINS said he intended to vote for the bill because, even though more work is needed, it provides some sideboards that might help in further negotiations.

[10:02:48 PM](#)

SENATOR HOFFMAN agreed with Chair Seekins that this is just a step toward moving the project forward.

[10:03:50 PM](#)

CHAIR SEEKINS asked for further comment. There was none.

The roll was called:

Yea: Senator Hoffman, Senator Ben Stevens, Senator Stedman, Senator Green, Senator Seekins

Nay: Senator Elton, Senator Kookesh, Senator Bunde, Senator Olson, Senator Dyson, Senator Wilken, Senator Wagoner

CSSB 3002(NGD), Version F, as amended, failed to move from committee by a vote of 5 yeas and 7 nays.

CHAIR SEEKINS said the committee would reconvene at 10 a.m. tomorrow.

10:05:03 PM adjourned.