

ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE
Anchorage, Alaska
November 28, 2014
10:11 a.m.

MEMBERS PRESENT

Senator Anna Fairclough, Chair
Representative Mike Hawker, Vice Chair
Senator Donald Olson
Senator Cathy Giessel
Representative Kurt Olson

MEMBERS ABSENT

Senator Kevin Meyer
Senator Click Bishop
Representative Alan Austerman
Representative Bob Herron
Representative Andy Josephson
Senator Mike Dunleavy (alternate)
Representative Scott Kawasaki (alternate)
Representative Bill Stoltze (alternate)

OTHER LEGISLATORS PRESENT

Senator John Coghill
Representative Doug Isaacson
Representative Tammie Wilson
Representative Dan Saddler
Representative Eric Feige
Representative Lynn Gattis (via teleconference)
Representative Shelley Hughes (via teleconference)

COMMITTEE CALENDAR

EXECUTIVE SESSION: ALASKA LIQUEFIED NATURAL GAS BRIEFING

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JOE BALASH, Commissioner
Department of Natural Resources

Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint on the AKLNG project update; legislative briefing.

ANGELA RODELL, Commissioner

Department of Revenue

Anchorage, Alaska

POSITION STATEMENT: Testified during the PowerPoint on the AKLNG project update; legislative briefing.

MICHAEL PAWLOWSKI, Deputy Commissioner

Department of Revenue

Anchorage, Alaska

POSITION STATEMENT: Testified during the PowerPoint on the AKLNG project update; legislative briefing.

ACTION NARRATIVE

[10:11:45 AM](#)

CHAIR ANNA FAIRCLOUGH called the Legislative Budget and Audit Committee meeting to order at 10:11 a.m. Representative Hawker and Senators Giessel, Olson, and Fairclough were present at the call to order. Representative Olson arrived as the meeting was in progress. Also present were Representatives Gattis (via teleconference), Hughes (via teleconference), Isaacson, T. Wilson, Saddler, and Feige; and Senator Coghill.

Executive Session

[10:12:26 AM](#)

CHAIR FAIRCLOUGH announced that the only order of business today would be an executive session to receive a briefing on the Alaska Liquefied Natural Gas Project by Commissioner Joe Balash, Department of Natural Resources; and Commissioner Angela Rodell, Department of Revenue.

CHAIR FAIRCLOUGH informed members that the Legislative Budget and Audit Committee will conduct two identical meetings today to allow the legislature to receive a confidential briefing from the current administration on the Alaska Liquefied Natural Gas Project (AKLNG). She said that everyone participating in the executive session meetings today will have signed the required confidentiality agreement prior to the briefing. When the legislature passed SB 138, it anticipated the necessity to be briefed on sensitive information in order to protect Alaska's

interest in the AKLNG project on behalf of all Alaskans. She emphasized the need for confidentiality to ensure that the legislature does not reveal the state's strategy and undermine its own interest. It is legislature's responsibility to understand the reasons why certain decisions and commitments have been made, the work that has been done to date on the AKLNG project, as well as to have an opportunity to provide input in the process and on decisions. A confidentiality agreement must be signed in order for the administration to share confidential information with members and staff. While some may choose not to participate, those who elect to receive the information must determine how to use the information to make decisions on behalf of all Alaskans.

[10:13:56 AM](#)

REPRESENTATIVE HAWKER made a motion to move to executive session as provided under Uniform Rule 22(b)(1) and (3) since the meeting will involve a discussion of matters that the immediate knowledge of which would adversely affect the finances of a government unit. There being no objection, the committee went into executive session at 10:14 a.m.

Presentation

[12:52:32 PM](#)

CHAIR FAIRCLOUGH brought the committee back to order at 12:52 p.m. Members present were Representative Hawker and Senators Giessel, Olson, and Fairclough. Also in attendance were Representatives Isaacson, Feige, and Saddler.

[12:52:59 PM](#)

CHAIR FAIRCLOUGH asked for a presentation for the purpose of providing the general public with an update on the Alaska Liquefied Natural Gas Project (AKLNG).

[12:53:19 PM](#)

JOE BALASH, Commissioner, Department of Natural Resources, stated he would provide a status report on the AKLNG project [for the public], including the steps necessary to keep the project on track to reach a FEED [Front End Engineering Design] decision in early 2016. After passage of SB 138, the AKLNG project team was assembled over the summer and project work has been timely and under budget. The venture agreement and

assembled team is well positioned with substantial global experience, he said. Further, the state's team is also well positioned to carry out the work necessary to complete the agreements on the agency side to facilitate the commitment to reach FEED, which is anticipated to occur in 2016. He remarked on the cooperation, constructive dialogue, and energy from all parties. Although they are not always in agreement, the team has been working to solve problems to achieve a "win-win" outcome [slide 2].

[12:55:22 PM](#)

COMMISSIONER BALASH said that the AKLNG project is now in Phase 2 pre-FEED, with a phase-gate decision approaching in 2016 [slide 3]. Substantial work will be necessary to achieve that decision. A number of decisions related to royalty-in-kind (RIK), as well as other fiscal agreements must be developed early in 2015 to allow the legislature and the public to affirm the agreements in a special legislative session, which is likely to occur in the fall of 2015. Although the executive branch is the negotiating party, the authority to approve the agreements comes from the legislature. Thus, the administration has been conducting periodic executive sessions with the Legislative Budget & Audit Committee. The incoming administration will likely hold additional briefings with other legislative committees during the upcoming legislative session to obtain feedback on options and identify pathways available during the negotiating phase.

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REPRESENTATIVE HAWKER related his understanding that Commissioner Balash has been providing the legislature with significant details on the state's bargaining position under the terms of the confidentiality agreement. He further understood that neither the Department of Revenue or the Department of Natural Resources have held a similar transition briefing with the incoming administration. He asked whether there are any plans to have a detailed transition briefing with incoming administration.

COMMISSIONER BALASH answered that there has not yet been a detailed briefing with the incoming administration although he has held a general conversation with Dr. Mark Meyers, the incoming commissioner with respect to the transition at the Department of Natural Resources (DNR). He anticipated that oil and gas issues will arise during face-to-face meetings.

REPRESENTATIVE HAWKER asked whether Commissioner Rodell, who has been instrumental in developing the details and the intricacies involved to date, has had an opportunity to provide any transition to the incoming administration.

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ANGELA RODELL, Commissioner, Department of Revenue, responded that the department has not been asked to provide specific information during the transition, but she will continue to make herself available to do so.

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COMMISSIONER BALASH stressed "the last bullet" [on slide 3] in terms of the work schedule contemplated, requires maintaining project alignment. If the state maintains that alignment, and all parties agree to work constructively in order to progress, the project will be on track; however, any one of the parties can upset the alignment. He noted that the new administration has signaled it wants to keep the AKLNG project on track, which will include what needs to happen in the next 15-18 months.

COMMISSIONER BALASH reported the progress on the AKLNG project to date. The state has worked through the Point Thomson settlement, joint work agreements, concept selection, and is currently making its way through Pre-FEED [slide 4]. The parties have collectively spent \$500 million and the work associated with Pre-FEED should be complete by the end of 2015, then move to the full FEED phase - expected to cost \$2 billion and take two to three years to complete. The overall time to go through this process will depend on the time to complete the federal permitting processes. Once the permits are in place, the parties will be in the position to sanction the project and make a final investment decision and begin construction. He said that "first gas" could occur as soon as 2023 or 2025. Any of these numbers could change if the state fails to obtain the necessary agreements, alignments, or permits for the AKLNG project.

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REPRESENTATIVE HAWKER asked whether the legislature previously saw this chart [slide 4] as part of the development of SB 138. He suggested that the chart represents the highest level, most abstract plan chart for the entire successful project by

outlining the work plans and key decision points. He asked whether this chart is the same aforementioned chart, and if so, if any significant changes have been made to it.

COMMISSIONER BALASH answered that it is the same chart with some of detailed information has been stripped off to allow timeline dates to be inserted.

REPRESENTATIVE HAWKER asked for further clarification as to whether the department is on track with the timeline for the AKLNG project.

COMMISSIONER BALASH answered that the department is on track.

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COMMISSIONER BALASH stated that significant work must be completed during the next 15 months to reach the FEED decision in the first quarter of 2016 (1Q 16) [slide 5]. The anticipated work listed excludes any confidential information with the general timeline stretching from January 2015 through the FEED decision in the first quarter 2016 (1Q16). The top line [from January 2015-August 2015 labeled "DNR RIK Process" refers to royalty-in-kind (RIK) and represents the timeline decision to limit the state's right to switch from royalty-in-value (RIV) to RIK or vice versa. This timeline also includes the flattening of royalty terms on certain leases with a net profit share or sliding scale royalty. This August 2015 deadline will allow the [DNR and DOR] commissioners to enter into an agreement of less than two years duration in advance of a special session in October 2015. Since the agreements will need a duration longer than two years, legislative approval will be required for a number of items. It will take several months for the legislature and the public to review the information prior to the October special legislative session. The DOR and municipalities will also need to negotiate agreements with respect to property taxes. Virtually all of these agreements must have term sheet agreements completed by April, with the agreements "papered" by July, to allow each organization to review them prior to publicizing them in August 2015.

COMMISSIONER RODELL commented that the Municipal Advisory Gas Project Review Board (MAGPR) has been meeting on a regular basis to develop recommendations on changes to property tax for this project to present to the administration and the legislature. Their report will be released on December 15, 2014, as required by the administrative order and SB 138.

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COMMISSIONER BALASH highlighted the 2014 summer field season work update [slide 6]. He briefly reviewed accomplishments to date, which were concentrated in an area between Livengood and Big Lake. The final route for the last leg of the pipeline to Nikiski has not yet been determined. Thus, the 2015 field season [to collect samples, surveys, and data] will be important in terms of keeping the project on track.

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COMMISSIONER RODELL acknowledged a tremendous amount of coordination and sharing of information with AGDC [Alaska Gasline Development Corporation] on the Alaska stand-alone pipeline has been done to avoid a duplication of effort.

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COMMISSIONER BALASH emphasized the importance of drafting the resource reports required by the Federal Energy Regulatory Commission (FERC) for the NEPA pre-file request is critical to the success of 2015 summer field season [slide 7]. Each of the reviews must be completed by state agencies prior to submittal to the FERC in January. This will allow the FERC and other federal agencies time to provide meaningful feedback to the project, which will inform the scope of activities undertaken in the 2015 summer field season. The transition must assess what will need to be done by state agencies in order to meet the deadlines.

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MICHAEL PAWLOWSKI, Deputy Commissioner, Department of Revenue, in response to Representative Hawker, referring to slide 7, stated that the acronym VAMOU stands for Venture Alignment Memorandum of Understanding. Part of the collective work on the AKLNG project is a recognition that the legislature set up AGDC, but SB 138 also designated the state agencies to lead a host of issues outside the direct technical work of the project. Thus, the VAMOU is the entity, a working group, established to discuss and accomplish all of the "outside" work for the AKLNG project.

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COMMISSIONER RODELL added that the NEPA Pre-file process provides an opportunity for municipalities and Alaskans to "make their voices heard" and is a drafting process that allows the FERC to identify areas where additional work should be done. This includes preparing initial rough drafts that will help identify any issues and provide for community involvement to identify the impacts of the project. For example, as property taxes are discussed, determinations can be made in terms of the impact payments. This process also includes developing a socio-economic resources report, number 5, which will be key in identifying project impacts to communities and individuals within the state.

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COMMISSIONER BALASH turned to the illustration of the state agency gas team organization chart [slide 8]. Although he and Commissioner Rodell will be transitioning out, the remaining team can help keep the project on track. He cautioned against making a significant number of changes in the organization chart, which could be an indicator that the project won't be on track.

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COMMISSIONER RODELL added that this organization chart does not include AGDC staff, which is separate from this chart. This chart represents the teams within the DNR and DOR designed to move the AKLNG project forward.

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COMMISSIONER BALASH stated that it also includes contractors. He directed attention to Greenberg Traurig, a firm that has been providing legal advice to the state on these matters across administrations. He cautioned against any changes to the law firms, who will assist in developing the term sheets and drafting the necessary agreements, since this could also signal project delays.

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COMMISSIONER BALASH, in response to Representative Feige, acknowledged that any one of these individuals could be replaced, but it really goes more to the question of how many. Any of these individuals can draw on the experience and prior knowledge of the others remaining in the organization; however,

wholesale changes made throughout the organization chart could impact the AKLNG project timeline. He declined to try to estimate any specific delay.

COMMISSIONER RODELL pointed out that the AKLNG project is a long project, noting the estimated ten years prior to obtaining first gas. She anticipated a number of personnel changes will occur throughout the course of the development of this project. She highlighted the importance to recognize that wholesale organization changes have the potential to slow down the project's forward momentum.

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COMMISSIONER BALASH turned to the SOA AKLNG working teams and sub-teams [slide 9]. The Heads of Agreement (HOA) and SB 138 continue to be the guiding documents for the activities of the state as it moves forward on the principles and agreements necessary to make a decision to proceed to the FEED stage of the project. The parties are negotiating in specific groups: fiscal, upstream, project, governance, expansion, and TransCanada/SOA bilateral agreements. In addition, several working groups or subgroups were formed, including regulatory, midstream technical, finance, and tax subgroups. Each of these subgroups meet regularly to identify tasks, deliverables, and continue to plan the work, and work the plan, and progress the topic. In terms of finance and property taxes, the legislature provided specific tasks to the DOR and the municipal advisory board.

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COMMISSIONER RODELL advised that the DOR retained the financial consultant firm, Lazard, as well as an Independent Registered Municipal Advisor (IRMA), FirstSouthwest, for expertise on certain advisory rules that have been in progress over the last year on the federal side. The department currently works with an investment bank to provide the State of Alaska advice. The consultant firms are working through their first draft report and are on track to submit the report on the due date of first day of the upcoming legislative session. The report will identify a whole spectrum of options available to the state to finance the state's portion of the project. It will include many of the topics the legislature and the Legislative Budget & Audit Committee asked the report to address in terms of risk and participation by others within the state, including Native Corporations or individuals. In addition, this report will

provide a framework through which the state can view other agreements to narrow down the range of financing options and provide guidance back to the administration as to the risks the legislature deems appropriate and which ones are not appropriate for the state to take.

COMMISSIONER RODELL informed members that the department was also tasked with chairing the Municipal Advisory Gas Project Review Board (MAGPR). She characterized the MAGPR as one of the best working groups, who have met every two to three weeks on recommendations for property taxes while recognizing the concerns of the communities along the Railbelt and pipeline route that will be directly impacted. Further, the group continues to examine the AKLNG's impact on the balance of the state, and the state as a whole, as well as identify and recognize the direct benefits of this project on those communities. She characterized it as a tension between those communities directly on the route who will benefit from gas and those that are not. She noted the first MAGPR report due date is December 15, 2014. The MAGPR board does not sunset so it will continue provide a good avenue for ongoing discussions as to property taxes associated with this project.

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COMMISSIONER BALASH identified one key thing the MAGPR board has done is the bifurcation of property tax and impact payments. Certainly, property taxes will be what they are, in some respects, but impacts are real and will be felt by communities during construction. Being able to separate those two issues allows the AKLNG project to deal with the real costs of impacts and to also address issues affecting communities or the state during this enormous project. For example, the Fairbanks North Star Borough (FNSB) will likely have little value from the AKLNG project within its borders; however, the FNSB will be impacted in significant ways during construction. This process has also affected the FNSB's perspective on how to approach the issue. He said it's something to monitor closely and goes back to the importance of draft resource report number 5 in the FERC process.

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COMMISSIONER BALASH, in closing, highlighted the importance of confidentiality, commenting that SB 138 provided the departments with tremendous responsibility to negotiate and further define the details of certain key agreements that will allow the state

to participate as an equity partner in the AKLNG project. However, the negotiations will ultimately require the legislature's approval. To ensure a smooth process, SB 138 also created some unusual windows for the legislature to participate in the negotiation by sharing confidential information with the executive branch. He characterized this process as unique and critical since the producers are essentially negotiating with the people of Alaska, although permission will ultimately be granted through the elected officials. As the state goes through this process, the administration will share information with the legislature that it doesn't want the counter parties to have access to, whether it will be the three producers, TransCanada, or prospective buyers in Korea, Japan, or China. However, advice from the legislature will be important. While some angst exists with respect to confidentiality agreements, these agreements are important to protect the interests of Alaskans and to prevent the counter parties from access to the state's strategies, motivations, or positions upon which the administration will base its decisions.

COMMISSIONER BALASH, in closing, said the administration believes that this course is the way to maximize Alaska's benefits from this project. He reported that currently the AKLNG project is on track and it can remain on schedule. He hoped this briefing provides members with a view of the project timeline and deadlines that need to be met over the next year.

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CHAIR FAIRCLOUGH expressed the Legislative Budget & Audit Committee's appreciation for the legislative briefing.

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ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 1:28 p.m.