

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

April 3, 2014

4:36 p.m.

MEMBERS PRESENT

Representative Eric Feige, Co-Chair
Representative Dan Saddler, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Mike Hawker
Representative Kurt Olson
Representative Paul Seaton
Representative Scott Kawasaki
Representative Geran Tarr

MEMBERS ABSENT

Representative Craig Johnson

COMMITTEE CALENDAR

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 138(FIN) AM

"An Act relating to the purposes, powers, and duties of the Alaska Gasline Development Corporation; relating to an in-state natural gas pipeline, an Alaska liquefied natural gas project, and associated funds; requiring state agencies and other entities to expedite reviews and actions related to natural gas pipelines and projects; relating to the authorities and duties of the commissioner of natural resources relating to a North Slope natural gas project, oil and gas and gas only leases, and royalty gas and other gas received by the state including gas received as payment for the production tax on gas; relating to the tax on oil and gas production, on oil production, and on gas production; relating to the duties of the commissioner of revenue relating to a North Slope natural gas project and gas received as payment for tax; relating to confidential information and public record status of information provided to or in the custody of the Department of Natural Resources and the Department of Revenue; relating to apportionment factors of the Alaska Net Income Tax Act; amending the definition of gross value at the 'point of production' for gas for purposes of the oil and gas production tax; clarifying that the exploration incentive credit, the oil or gas producer education credit, and the film production tax credit may not be taken against the gas production tax paid in gas; relating to the oil or gas producer education credit; requesting the governor to establish an

interim advisory board to advise the governor on municipal involvement in a North Slope natural gas project; relating to the development of a plan by the Alaska Energy Authority for developing infrastructure to deliver affordable energy to areas of the state that will not have direct access to a North Slope natural gas pipeline and a recommendation of a funding source for energy infrastructure development; establishing the Alaska affordable energy fund; requiring the commissioner of revenue to develop a plan and suggest legislation for municipalities, regional corporations, and residents of the state to acquire ownership interests in a North Slope natural gas pipeline project; making conforming amendments; and providing for an effective date."

- -- TESTIMONY <INVITATION ONLY> --

PREVIOUS COMMITTEE ACTION

BILL: SB 138

SHORT TITLE: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/24/14	(S)	READ THE FIRST TIME - REFERRALS
01/24/14	(S)	RES, FIN
02/07/14	(S)	RES AT 3:30 PM BUTROVICH 205
02/07/14	(S)	Heard & Held
02/07/14	(S)	MINUTE(RES)
02/10/14	(S)	RES AT 3:30 PM BUTROVICH 205
02/10/14	(S)	Heard & Held
02/10/14	(S)	MINUTE(RES)
02/12/14	(S)	RES WAIVED PUBLIC HEARING NOTICE, RULE 23
02/12/14	(S)	RES AT 3:30 PM BUTROVICH 205
02/12/14	(S)	Heard & Held
02/12/14	(S)	MINUTE(RES)
02/13/14	(S)	RES AT 8:00 AM BUTROVICH 205
02/13/14	(S)	Heard & Held
02/13/14	(S)	MINUTE(RES)
02/14/14	(S)	RES AT 3:30 PM BUTROVICH 205
02/14/14	(S)	Heard & Held
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02/19/14	(S)	RES AT 3:30 PM BUTROVICH 205
02/19/14	(S)	Heard & Held
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02/20/14	(S)	RES AT 8:00 AM BUTROVICH 205
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02/21/14 (S) RES AT 8:00 AM BUTROVICH 205
02/21/14 (S) Heard & Held
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02/21/14 (S) RES AT 3:30 PM BUTROVICH 205
02/21/14 (S) Heard & Held
02/21/14 (S) MINUTE(RES)
02/24/14 (S) RES RPT CS 2DP 4NR 1AM NEW TITLE
02/24/14 (S) DP: GIESSEL, MCGUIRE
02/24/14 (S) NR: FRENCH, MICCICHE, BISHOP,
FAIRCLOUGH
02/24/14 (S) AM: DYSON
02/24/14 (S) RES AT 8:00 AM BUTROVICH 205
02/24/14 (S) -- MEETING CANCELED --
02/24/14 (S) RES AT 3:30 PM BUTROVICH 205
02/24/14 (S) Moved CSSB 138(RES) Out of Committee
02/24/14 (S) MINUTE(RES)
02/25/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
02/25/14 (S) Heard & Held
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02/26/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
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03/05/14 (S) Scheduled But Not Heard
03/06/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
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 03/12/14 (H) RES AT 1:00 PM BARNES 124
 03/12/14 (H) -- MEETING CANCELED --
 03/14/14 (S) FIN RPT CS 6DP 1AM NEW TITLE
 03/14/14 (S) LETTER OF INTENT WITH FINANCE REPORT
 03/14/14 (S) DP: KELLY, MEYER, DUNLEAVY, FAIRCLOUGH,
 BISHOP, HOFFMAN

 03/14/14 (S) AM: OLSON
 03/14/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/14/14 (S) Moved CSSB 138(FIN) Out of Committee
 03/14/14 (S) MINUTE(FIN)
 03/14/14 (H) RES AT 1:00 PM BARNES 124
 03/14/14 (H) <Pending Referral>
 03/17/14 (H) RES AT 1:00 PM BARNES 124
 03/17/14 (H) <Pending Referral>
 03/18/14 (S) TRANSMITTED TO (H)
 03/18/14 (S) VERSION: CSSB 138(FIN) AM
 03/19/14 (H) READ THE FIRST TIME - REFERRALS
 03/19/14 (H) RES, L&C, FIN
 03/19/14 (H) RES AT 1:00 PM BARNES 124
 03/19/14 (H) Heard & Held
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 03/21/14 (H) RES AT 1:00 PM BARNES 124
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03/28/14	(H)	MINUTE(RES)
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03/31/14	(H)	Heard & Held
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04/01/14	(H)	RES AT 4:30 PM BARNES 124
04/01/14	(H)	Heard & Held
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04/02/14	(H)	RES AT 1:00 PM BARNES 124
04/02/14	(H)	Heard & Held
04/02/14	(H)	MINUTE(RES)
04/03/14	(H)	RES AT 4:30 PM BARNES 124

WITNESS REGISTER

DEEPA PODUVAL, Principal
 Natural Gas and Power Fuels Group
 Management Consulting Division
 Black & Veatch Corporation;
 Consultant, Department of Natural Resources
 Houston, Texas

POSITION STATEMENT: Speaking as consultant to the Department of Natural Resources, answered questions during the hearing on CSSB 138(FIN) am.

JANEK MAYER, Partner, Energy Consultant
 enalytica
 Washington, DC

POSITION STATEMENT: Speaking as consultant to the Alaska State Legislature, answered questions during the hearing on CSSB 138(FIN) am.

NIKOS TSAFOS, Partner, Energy Consultant
 enalytica
 Washington, DC

POSITION STATEMENT: Speaking as consultant to the Alaska State Legislature, answered questions during the hearing on CSSB 138(FIN) am.

ACTION NARRATIVE

[4:36:26 PM](#)

CO-CHAIR ERIC FEIGE called the House Resources Standing Committee meeting to order at 4:36 p.m. Representatives Kawasaki, Hawker, Olson, Saddler, and Feige were present at the

call to order. Representatives Seaton, P. Wilson, and Tarr arrived as the meeting was in progress.

SB 138-GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

[4:36:59 PM](#)

CO-CHAIR FEIGE announced that the only order of business would be CS FOR SENATE BILL NO. 138(FIN) am, "An Act relating to the purposes, powers, and duties of the Alaska Gasline Development Corporation; relating to an in-state natural gas pipeline, an Alaska liquefied natural gas project, and associated funds; requiring state agencies and other entities to expedite reviews and actions related to natural gas pipelines and projects; relating to the authorities and duties of the commissioner of natural resources relating to a North Slope natural gas project, oil and gas and gas only leases, and royalty gas and other gas received by the state including gas received as payment for the production tax on gas; relating to the tax on oil and gas production, on oil production, and on gas production; relating to the duties of the commissioner of revenue relating to a North Slope natural gas project and gas received as payment for tax; relating to confidential information and public record status of information provided to or in the custody of the Department of Natural Resources and the Department of Revenue; relating to apportionment factors of the Alaska Net Income Tax Act; amending the definition of gross value at the 'point of production' for gas for purposes of the oil and gas production tax; clarifying that the exploration incentive credit, the oil or gas producer education credit, and the film production tax credit may not be taken against the gas production tax paid in gas; relating to the oil or gas producer education credit; requesting the governor to establish an interim advisory board to advise the governor on municipal involvement in a North Slope natural gas project; relating to the development of a plan by the Alaska Energy Authority for developing infrastructure to deliver affordable energy to areas of the state that will not have direct access to a North Slope natural gas pipeline and a recommendation of a funding source for energy infrastructure development; establishing the Alaska affordable energy fund; requiring the commissioner of revenue to develop a plan and suggest legislation for municipalities, regional corporations, and residents of the state to acquire ownership interests in a North Slope natural gas pipeline project; making conforming amendments; and providing for an effective date."

The committee took a brief at-ease from 4:37 p.m. to 4:39 p.m.

[4:39:33 PM](#)

CO-CHAIR FEIGE noted the committee had previously discussed the terms of the bill related to the Memorandum of Understanding (MOU) and the Heads of Agreement (HOA). He referred to the end of the initial contract term and asked for information regarding the state's options at that time, and how the options would affect decisions made by the state.

[4:40:15 PM](#)

DEEPA PODUVAL, Principal, Natural Gas and Power Fuels Group, Management Consulting Division, Black & Veatch Corporation, and consultant to the Department of Natural Resources, advised that at the end of the initial 25-year time period, the state's 25 percent equity position in the Alaska LNG Project - in whatever part of the project chosen - will continue. The 25-year time limit pertains to the state's agreements with TransCanada (TC) to the extent that TC assumes a portion of the midstream components of the project. If so, the state and TC would have executed a 25-year [firm] transportation service agreement (FTSA). When the FTSA has expired, the state will have the option of purchasing the equity in the midstream from TC or renewing the FTSA with TC for an additional negotiated period of time. The purchase price would be based on the remaining value of the asset, after full depreciation except for maintenance, capital, and ongoing investments made by TC in the project. Also contributing to the undepreciated capital value and the purchase price would be any expansion of the project.

REPRESENTATIVE HAWKER surmised that after 25 years the buy-out value of TransCanada's share would be small due to depreciation.

MS. PODUVAL said yes, the purchase price would be based on the book value, which should be nominal after 25 years of depreciation.

REPRESENTATIVE HAWKER asked whether it was stipulated that the purchase price was based on the net value.

[4:43:12 PM](#)

JANEK MAYER, Partner, Energy Consultant, enalytica, speaking as a consultant to the Alaska State Legislature, said the buy-back right is based on purchase price equal to the net book value of the transporter's [TC] equity interest in the underlying

facilities used to provide gas treatment plant (GTP) processing and pipeline transportation services at the end of the initial contract term. In response to Co-Chair Feige, he pointed out this is found at the beginning on page 5, [Key Item 6, Key Processing and Transportation Commercial Terms, Alaska LNG Midstream Services Term Sheet] clause 20, Exhibit "C".

REPRESENTATIVE SEATON asked for clarification that this excluded the taxable value, as the TAPS pipeline, although depreciated, maintained a fairly high value.

MR. MAYER replied that the MOU based this on the net book value, and, in principal, this should mean the initial investment was fully depreciated over a 25 year term. There would be a residual value from maintenance and other investment capital made into the project. He explained that, although net book value for rate making purposes implied that it was zero at the end of the initial contract term, he would prefer to review the language in the firm transportation services agreement as it would calculate the value.

REPRESENTATIVE SEATON asked if the enabling legislation would clarify the intention of the legislature.

MS. PODUVAL offered her belief that the intent was captured as it stated that the rate was based on book value. She deferred to the Department of Law for determination of a need for further legislation.

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REPRESENTATIVE HAWKER declared that, although it sounded simple, testimony had proven that it was undetermined for who would own what parts of the project. He referenced the buy back position and the 1 percent general partner interest, which was directed toward buying out the larger interest of TransCanada. He referred to the net book value and the underlying asset value, and suggested that if it did not include the buyout of the 1 percent general partner interest, it could ascribe a completely separate transaction and a huge value to the general partner interest which controlled the entire operation and its distribution rights which, in turn, offered a great deal of intangible book value in the project. This value could mean total control in the project.

MR. MAYER concurred with Ms. Poduval that the intent was clear to base the purchase price on the net book value of the equity

interest in the underlying facilities. He noted that these were only a list of terms to guide the subsequent firm transportation services agreement which the state would design. He suggested a much closer review once the process was being negotiated for approval, and he declared that the concern was appropriate.

[4:49:22 PM](#)

CO-CHAIR FEIGE directed attention to Exhibit C of the MOU, Alaska LNG Midstream Services Term Sheet, page 6, Section 21, [Included in members' packets] and asked for an explanation to the Put Option.

MR. MAYER explained that there were two terms for options: the call option was the right to buy something, and the put option was the right to sell something. He stated that the call option was referred to in this term sheet as the buy-back right [Section 20, page 5] as the state had that right if there was not a renewal to buy back the asset. He noted that the put option could obligate that the state buy back the asset from TransCanada, based on the same terms for net book equity.

CO-CHAIR FEIGE asked what the state should consider at the end of the contract to determine whether to exercise the buy-back.

MS. PODUVAL replied that if, after 25 years, there was more gas and a viable LNG project capable of continuing, the asset would be very valuable. As the asset would be fully depreciated through the initial firm transportation services agreement, it would be a low-cost asset, and the state would want to exercise its buy-back and purchase it. This would allow the state to own a valuable asset, monetize the gas, and look for a pipeline operator. She suggested that it might also make more sense for the state to have someone else operate it. She said that should the gas be gone and the asset was underutilized, the state would not renew its agreement with TransCanada, and TransCanada would want to put the asset back to the state.

[4:53:39 PM](#)

REPRESENTATIVE HAWKER reflected on the unique position of the general partners in this project, and asked about the preferential distribution rights of a general partner with an equity interest of less than 1 percent, while maintaining 100 percent control and exercising all the management authority. He asked if any value had been attributed to these preferential distribution rights for the general partner over the

distribution of equity to other partners, as it was not proportionate to the equity ownership.

NIKOS TSAFOS, Partner, Energy Consultant, analytica, shared that the correct terminology was incentive distribution rights (IDR).

MS. PODUVAL replied that this value had not been incorporated in the Black & Veatch analysis.

MR. MAYER said that the analytica analysis did not incorporate this, either. He explained that the revenue which accrued to the entity holding equity would be determined by the tariff set under the terms. He added that the analytica model did not reflect any additional revenue to TransCanada by virtue of its general partnership.

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REPRESENTATIVE HAWKER asked if the IDRs in a partnership between a state agency and TransCanada would have the potential for being material to the analysis.

MR. MAYER replied that a firm transportation services agreement or an equity option agreement could determine whether there was a significant component for distribution of revenues to a preferential class of shares that received additional shares of revenue.

REPRESENTATIVE SEATON asked whether anything was necessary in the enabling legislation to outline a limit to the incentive distribution rights, or would that be negotiated by the administration.

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MR. MAYER explained that the significance of those rights depended on whether the buy-back option was exercised. If it was not exercised, then TransCanada had the full rights to all the cash flows from the entire tariff. He replied that the question for preferential treatment to the general partner was determined by the exercise of the buy-back option, and was relative to the cash flow. He said that this becomes a secondary matter when the state negotiates the equity option agreement and then decides if it wants to exercise its option. He pointed out that there were an endless number of complexities that must be thought through and negotiated during contractual arrangements. He suggested that the appropriate time to

understand these was during the negotiation, as it was difficult to anticipate many of them in advance.

REPRESENTATIVE SEATON asked whether the legislature would have any input in the pre-agreement between AGDC and TransCanada, and should AGDC make this determination in an equity option.

MR. MAYER suggested seeking clarification from the administration, and he offered his belief that the equity option agreements would be set out in fundamental terms for negotiation by the Department of Natural Resources (DNR).

REPRESENTATIVE SEATON offered his belief that there was a correction on the spreadsheet to now name AGDC.

CO-CHAIR FEIGE explained that the equity option agreement was signed by whoever was designated on the spreadsheet, but that the actual exercise of the equity option was determined by AGDC.

REPRESENTATIVE SEATON asked for clarification that the equity option agreement was signed by DNR, but exercise of the agreement option was by AGDC.

CO-CHAIR FEIGE explained that the equity option agreement was signed by DNR, TransCanada, and AGDC; however, the exercise of the equity option was by AGDC with TransCanada.

[5:02:11 PM](#)

CO-CHAIR FEIGE directed attention to the end of the initial contract term, and asked how important was the relative mix of royalty shares of gas as exploration progressed into the National Petroleum Reserve-Alaska (NPR-A). He noted that the royalty shares on that gas was different as it was on federal leases. He pointed to the possibility of gas from the northwest Arctic coast, which was all federal royalty and not split with the state, and asked about any effect on the buy-back of equity shares.

MS. PODUVAL replied that the State of Alaska would have the option as a mid-stream owner, assuming the extreme case that the state would not have any royalty or tax call on the new production when it came on line. At that point in time, the state would have the option to either own the asset and help the producers monetize the production, or to be a mid-stream operator and earn mid-stream revenues by offering transportation services through the pipeline and LNG plant.

MR. TSAFOS projected that a crucial issue could be the state's expectation for its own gas. The state would be both an owner and an interested party for access to the gas, and could also subcontract some of its capacity to a third party. He explained that the state would need to balance its interest as a business owner and an as an infrastructure owner. He said this was a common issue as LNG projects matured.

MS. PODUVAL added that this also presented an opportunity to expand since there was open access without having to sacrifice transport of your own gas.

CO-CHAIR FEIGE opined that the other partners could sell capacity to someone else.

MS. PODUVAL expressed her agreement that they would be highly motivated to sell gas if they were not able to fill capacity on their own.

REPRESENTATIVE SEATON asked for clarification that the only revenue from that gas would be if the state was a partial owner of the mid-stream and had bought back the equity investment.

MS. PODUVAL replied that this would depend on the origin of the gas.

REPRESENTATIVE SEATON asked about the option for the state to carry the project sanction, and if there was any potential for loss should the project go forward and meet the general terms for size and off-take.

[5:09:25 PM](#)

MR. TSAFOS replied that the challenge for that option was the appearance of wanting alignment in theory but not in practice. He offered his belief that this set the state on a different footing than the other partners. He pointed out that at the final investment decision, the producers would have spent about \$700 - \$800 million more than the state, so the state was looking at different numbers and from a different point of view than the producers. At this point, the state was determining whether to pay in this amount, whereas the producers were looking at receiving this amount. He declared that a more important danger was for the state to be viewed by the other partners as not having an equal drive to accelerate the project,

as the state would not have invested any of the development costs.

REPRESENTATIVE SEATON stated that, although there was alignment in a project that was moving forward, the state would not invest \$800 million to receive a no-go decision by any one of the other partners. He referenced the \$500 million investment into AGIA, and questioned whether the state wanted to follow a similar track.

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MR. MAYER offered his belief that the state should negotiate something to enable this option, if it was an overriding objectivity. He suggested that this deal and the resulting process would look very different than the one currently under discussion. As there was a substantial investment for the pre-feasibility work, the producers would either agree with a finalization of these terms, or they would suggest waiting on many of the decisions, in order to make them concurrently throughout the feasibility work, so that all the partners would be investing equally. He declared that the producers would not carry the state without "nailing down a lot of what the commitments and responsibilities are that go with that upfront." He suggested that continuation of the feasibility work, while there were other negotiations, would require concurrent escalating commitments, rather than waiting for negotiations before having the feasibility work. He declared that it was necessary to have everyone in the project together.

MS. PODUVAL expressed her agreement, and added that early state participation on the project was an opportunity, even though there was a risk. She opined that, as the project was significant to Alaska's long term economic success, the opportunity with early participation was far greater than the potential for loss. She stated that participation during the pre-FEED and the FEED process would offer the state a "seat at the table" and valuable information and input into various factors. She reported that open access, influence on the design of the project, and location of the compressor stations were all important decisions for the state participation and were more valuable than \$500 million. She agreed that, although there was a possibility for cancellation of the project, the alignment of the parties was somewhat unprecedented, and all of the parties were heavily incentivized to have a successful project.

[5:17:42 PM](#)

REPRESENTATIVE SEATON reflected on the multiple worldwide LNG projects that the producers were reviewing and suggested that this project had to be economical for them. He declared that the state was not aligned with the producers for having multiple project options to compare for relative economics. He stressed that there was an important misalignment for the differences and considerations for decision making. He asked if this should be considered.

MS. PODUVAL replied that it should be considered, but that, as this decision will involve billions of dollars, the state's early investment was relatively low while the value was significant enough for participation.

CO-CHAIR FEIGE asked for clarification that the project was more likely to succeed if the state participated from the beginning.

MS. PODUVAL expressed her disagreement, however, she did point out that it was one thing to say everyone was in this together, but it was "another thing to be in this together." She opined that the producers would feel more strongly about the prospects of the project if there was early alignment of the partners. Given the amount of investment early in the project to get through the feasibility stages and its value for information and participation in the early phase versus the overall value to the state, it was a trade-off for which the state should be comfortable.

[5:21:32 PM](#)

MR. TSAFOS added that any LNG project had a better chance for success with an engaged, interested sovereign that supported the project, rather than a distant, less interested sovereign. More generally, although a partner may have other interests and investments and this project would be just one, there was nothing the state can do to change this. Although the other partners would review this project, the state could affect the attractiveness of the project by participating and giving it support. He stated that there was nothing the state could do if the project proved to not be economic.

[5:24:14 PM](#)

MR. MAYER said that an important thing to remember was that the nature of the process was characterized by a series of stage gates for expenditures each based on the results of findings,

which allowed that the project risk falls as time goes on. He noted that spending would increase and the risk for cancellation at FID would decrease as time progressed. He said it was entirely possible to spend the required money on pre-FEED, and then have a good idea of the economics and attractiveness for the project to the producers. After this point, the biggest expenditures would be for detailed, front-end engineering and design of the final project blue prints for construction. He said the pre-FEED would cost a smaller portion and should allow the state more comfort in understanding the potential economics of the project before it embarks on the next stage.

MR. TSAFOS shared the possibility that a partner did not like the project prospect at FID. He shared an anecdote that he was not aware of an LNG project with four partners where one pulled out at FID. He said that, more often, there is an offer to buy out the partner without the enthusiasm for the project. He opined that, if this was a solid project and all the risk had been mitigated prior to FID, it was more likely for a change in ownership for the partner lagging in enthusiasm, rather than a prolonged stalling of the project.

[5:28:29 PM](#)

REPRESENTATIVE SEATON expressed his concern that decisions were made from a different basis. He reported that the State of Alaska had a different cost basis for its decision than the other parties, as they would assess relative to their other projects. He reiterated that the decision making process was different for the state compared to the other investors, even though the investment was the same. He expressed his agreement with full monetary alignment through the front-end studies, but he questioned the value unless the state money was necessary to subsidize the project and keep it moving forward.

MR. TSAFOS questioned this interpretation for how the state would make its decision, noting that although it was the only LNG project in the state, it was not the only call on the state's money. He pointed out that the state compared this against other needs and priorities for state funds. He opined that this investment today would affect the trajectory of the project and would keep options open. By agreeing to participate in advance, it would show a serious approach to the project and allow for the option to develop.

[5:33:09 PM](#)

MS. PODUVAL questioned the assumption by Representative Seaton that the producers would design a project with key factors important to the state. She referenced the five off-take points and expansion, both requested as a condition by the state, and questioned whether these key provisions would be achieved without early state participation.

REPRESENTATIVE TARR asked if there would be changes in the HOA or the MOU in order to meet the conditions as presented by Representative Seaton.

MR. MAYER offered his belief that it would be necessary to start over and tear up the HOA and the MOU. It would then be necessary to take the next several years to negotiate upfront a full package for determining the project structure and firmer contractual commitments before any of the pre-Feed work. He opined that the administration was taking a more gradual process of steadily increasing commitments as more details were understood. He questioned the ability to achieve this goal without being an equal partner in the whole process.

REPRESENTATIVE TARR asked if was really an option for one party to sell out within this arrangement, as it was prefaced on the idea of alignment and balance.

MR. TSAFOS replied that a company could buy whatever it wanted from another company, and with that they would take ownership of the original agreements to monetize the gas. He offered his belief that this was not any more complicated than others with changes of ownership.

REPRESENTATIVE TARR asked if it would involve buying the leases.

MR. TSAFOS replied that it would depend on the situation and the reason for withdrawal. He relayed that all sorts of ownership changes had occurred in LNG projects.

REPRESENTATIVE TARR asked whether the royalty in-kind could be maintained, but the taxes could be limited in order to guarantee a return of at least 3-5 percent, in order to protect the state in less favorable circumstances for no return or loss. She asked if this option had been considered as a means of state protection.

MS. PODUVAL replied that there had been analysis of scenarios which revealed that the state was better off with an equity participation in the project under low prices than without. She

said the revenues would be lower to the state if it left the production tax regime unchanged and did not take an equity stake. She stated that during a low price environment, a portion of the project as royalty in value would bring the state lower revenues than if it left the royalty in-kind, and took gas as an equity share. From a practical stand point, the concept of each party having equivalent shares of gas and project would eliminate any need of negotiation for deductions and would make the investment more attractive.

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REPRESENTATIVE TARR asked for clarification for the state's requirement to pay transportation fees, even if there was not the capacity to meet this, and thereby not receive any revenue. She asked whether the aforementioned suggestion for return would guarantee some income.

MS. PODUVAL, in response, offered her belief that any unutilized capacity by the state from a lack of sufficient gas to liquefy and sell was a resource risk, and the loss would not necessarily be offset by a small percentage of production tax.

MR. MAYER expressed his agreement and restated the reward relationship for active equity investment, as the risk decreased. He restated the importance of being an equity participant when the prices go down, as everyone would rise and fall together.

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REPRESENTATIVE TARR asked whether the timeline for signing agreements was too aggressive.

MR. TSAFOS replied that these timelines were aspirational, and, with the exception of the equity option, not deadlines. He referenced the financial and marketing agreements, noting that these were either preliminary dates or still to be decided. He allowed that the dates could be aggressive, although each date was doable, and "the devil's in the details." He pointed out that some dates could be adjusted and still meet the overall deadline. He noted that the equity option agreement was the only agreement that hinged on a deadline, and the MOU allowed for this to be extended by both parties if requested. He expressed agreement that some were more complicated and could take longer than planned.

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REPRESENTATIVE TARR expressed specific concern for the equity option agreement, and whether it was reasonable to expect readiness by the end of 2015. She pointed to the amount of work still to be done prior to this. She suggested that a delay to 2016 was more reasonable, and that the proposed bill would allow the opportunity to amend.

MR. TSAFOS suggested a review for extension of the date during the discussion for the equity option agreement with the administration.

MS. PODUVAL expressed her agreement that the dates were what the administration was "shooting for," although they were not hard dates for negotiation. She pointed to the staged approach for many of the agreements, which she declared as reasonable. She agreed that some of the dates could change, although she did not believe the timeline was overly aggressive.

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REPRESENTATIVE SEATON asked what was necessary prior to signing the firm transportation shipping agreements and if it was too aggressive for this to be signed by December 2015.

MS. PODUVAL, in response, said that firm transportation agreements were normally signed after there was project cost information available. She said that this was a bit different as the firm transportation shipping agreement was not effective unless the project reached FID, and it was not the only point in time for the state to make a commitment that it could not take back. She opined that the December 2015 deadline was not overly aggressive.

MR. TSAFOS explained that many agreements were interdependent and contingent on other factors, hence there could not be a pipeline agreement if the LNG project did not move forward. He declared that this was the nature of an LNG project, as it was necessary for many pieces to be determined in parallel, and not in sequence, in order to become active at the same time.

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REPRESENTATIVE SEATON offered an assumption that the project reached FID and was determined not to be economic and it was not sanctioned. Assuming that the investment had been made, the

information collected, and the designs approved, he asked if each party owned the information in its entirety or would it be necessary to buy out the interest of the other investors in order for further use of the materials.

MS. PODUVAL deferred to the Department of Law for clarification.

REPRESENTATIVE SEATON asked if something should be written into the proposed enabling legislation.

MR. MAYER said that equal co-investors should have equal rights, and that it would be in the state's best interest to know that it had the rights to this information. He suggested that it would be up to legal advisors to determine whether more information was necessary in the proposed bill.

MR. TSAFOS offered his belief that the relationships of each party would be defined in the joint venture agreements. He noted that this ownership rights agreement should include the permits. He offered his belief that few LNG projects were cancelled, but instead, more work was devoted to develop a project, which made it necessary to define the ownership rights of the information.

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REPRESENTATIVE SEATON opined that it was necessary for the state to have full access to the information gathered, given its investment of \$600 million. He pointed out that legislative direction for the rights to information should be included in the proposed legislation before moving into the joint venture, so the state would have the option to pursue another LNG project.

MR. TSAFOS, in response, said that, regardless of intent, this would need to be worked out through the joint venture agreement. He pointed out that there was an underlying tension with that agreement, as it was necessary to have all parties participating without the thought that one party would take the information and start another project. He suggested that the translation of the intent was important, and had to include the rights for all the partners.

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REPRESENTATIVE SADDLER asked for a scenario should this proposed large LNG plan fail, and the Alaska Stand Alone Pipeline (ASAP)

takes over. He asked if the ASAP project could expand to the same size capacity market as the currently proposed LNG project, and if so, how far could it grow before it triggered similar provisions, and be subject to the buy-back in from TransCanada.

MS. PODUVAL surmised that it was not clear for substantially similar and that, should the Alaska Gasline Inducement Act (AGIA) go away, the ASAP project would need to expand into an LNG market, as the in-state market was not big enough to absorb a project larger than what was currently discussed. She expressed her agreement that the ASAP project could grow and morph into an LNG export project which would also serve in-state needs.

MR. TSAFOS pointed out that, after spending years to determine that a large scale project was not economic, it was not clear why the ASAP line would be expanded into an export project. He said the reason for the ASAP line was to have a project if the export project was not viable. He reflected that it did not make sense to return to that same path after determining that it did not work.

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[CSSB 138(FIN) am was held over.]

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ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 6:06 p.m.