ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ENERGY
March 19, 2015
10:21 a.m.

MEMBERS PRESENT

Representative Jim Colver, Co-Chair
Representative Liz Vazquez, Co-Chair
Representative Benjamin Nageak
Representative David Talerico
Representative Cathy Tilton
Representative Matt Claman
Representative Adam Wool

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

PRESENTATION: ALASKA GASLINE DEVELOPMENT CORPORATION

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MILES BAKER, Vice President External Affairs and Government Relations
Alaska Gasline Development Corporation
Anchorage, Alaska
POSITION STATEMENT: Provided a PowerPoint presentation entitled, "AGDC Update" and dated 3/19/15.

FRANK RICHARDS, Vice President Engineering and Program Management
Alaska Gasline Development Corporation
Anchorage, Alaska
POSITION STATEMENT: Answered questions during the presentation by the Alaska Gasline Development Corporation.

DARYL KLEPPIN, Commercial Operations Director
Alaska Gasline Development Corporation

Anchorage, Alaska
POSITION STATEMENT: Answered questions during the presentation by the Alaska Gasline Development Corporation.

ACTION NARRATIVE

10:21:28 AM

CO-CHAIR LIZ VAZQUEZ called the House Special Committee on Energy meeting to order at 10:21 a.m. Representatives Colver, Nageak, Talerico, Tilton, Claman, Wool, and Vazquez were present at the call to order.

PRESENTATION: ALASKA GASLINE DEVELOPMENT CORPORATION

10:22:18 AM

CO-CHAIR VAZQUEZ announced that the only order of business would be a presentation by the Alaska Gasline Development Corporation.

10:22:29 AM

MILES BAKER, Vice President External Affairs and Government Relations, Alaska Gasline Development Corporation (AGDC), reviewed the presentation (slide 2). As an aside, he acknowledged that pending legislation may change some facets of the presentation, which covered AGDC's tasks "up till now." Mr. Baker said AGDC is a public corporation of the state, with a legal existence separate from the state. Enabling statutes in AS 31.25.010 were created in 2013 and modified and expanded in Senate Bill 138 [passed in the 28th Alaska State Legislature]. The current purposes of AGDC are: to develop gas pipelines, a liquefied natural gas (LNG) project, and other gas transportation mechanisms; to finance and operate gas transportation systems; to provide economic benefit and revenue; to assist the Department of Natural Resources and the Department of Revenue to maximize the value of the state's gas resource; to hold the state's equity in the liquefaction facility component of the Alaska LNG (AKLNG) project; to advance an in-state pipeline capable of delivering North Slope natural gas to the Railbelt and Fairbanks at the lowest possible cost (slide 3). The primary objectives of AGDC are: commercialize Alaska's North Slope gas resource; secure a long-term supply of affordable energy to Alaskans; generate jobs, revenue, and economic growth; facilitate further oil and gas development; maximize overall benefit to Alaskans understanding that not all Alaskans will have access to the pipeline (slide 4). Mr. Baker noted that AGDC has two principle initiatives: AKLNG, a large scale, large volume LNG export project, and the Alaska Stand Alone Pipeline (ASAP) project. The ASAP project was initiated as a publically financed, state-owned project with a public investment to date of over $400 million. The AKLNG project is a joint venture between the state and BP, ConocoPhillips, Exxon, and TransCanada - 99 percent of the gas resource owners on the North Slope are equity partners. Regarding design, ASAP is to deliver gas to Alaskans at the lowest possible cost, currently by "lean gas" conditioned on the North Slope to utility grade.

10:31:02 AM

REPRESENTATIVE NAGEAK asked for the amount of the funds spent to date.

MR. BAKER said the state has appropriated to date about $419 million; AGDC received $355 million of which $25 million was for state agencies, and the balance was to move the ASAP project through preliminary front-end engineering design (pre-FEED), front-end engineering design (FEED), open season, and to a project-sanctioning decision. In further response to Representative Nageak, he reviewed the funding, adding that the balance of $220 million is held in the Alaska in-state gas pipeline fund which is managed by AGDC. The AKLNG project received a separate appropriation of $70 million, specifically so that AGDC could make equity contributions to 25 percent of the liquefaction plant and for management costs (slide 5).

10:34:47 AM

CO-CHAIR COLVER surmised the funds have been spent on permitting, rights-of-way, and pre-design work.

10:35:19 AM

FRANK RICHARDS, Vice President Engineering and Program Management, AGDC, said the majority of the expenditures to date has been for engineering design and permitting. The Class 3 cost estimate level work on the ASAP project is completed, and $150 million has been spent as of December, 2014.

CO-CHAIR COLVER questioned whether the same contractors are collecting field data for ASAP and AKLNG projects, and are sharing information.

MR. RICHARDS said yes. In many instances, AGDC is using many of the same contractors as are used by the state's partners in AKLNG, such as the pipeline engineering service, the field and environmental work, and the program management services.

REPRESENTATIVE WOOL directed attention to slide 5 and pointed out discrepancies in the completion dates for the projects.

MR. BAKER responded that after the passage of Senate Bill 138, AKLNG became a priority, but ASAP was further along; therefore, the construction schedule was rescheduled to insert the AKLNG FEED decision which is expected mid-2016. The ASAP timeline has been slowed, and timelines for the two projects are now roughly the same except for the LNG and gas conditioning facilities.

REPRESENTATIVE WOOL confirmed that both projects need conditioning plants, and AKLNG needs liquefaction also.

10:40:50 AM

MR. BAKER returned to a comparison of the projects, noting that the projects are very different in size, both with gas treatment facilities on the North Slope; however, ASAP has compression added on the North Slope, and AKLNG would have intermediate compression stations. Terminus of AKLNG is in Nikiski, the terminus of ASAP is near Big Lake at ENSTAR's distribution facility with a lateral line into Fairbanks. Design capacity of ASAP is 500 million cubic feet/day and AKLNG capacity is 3.3 billion cubic feet/day at the gas treatment plant and 2.2 billion cubic feet/day at the LNG plant. The estimated cost for AKLNG is $45-65 billion, and for ASAP is $10 billion. The estimated operations workforce for AKLNG is 1,000 employees and 150 employees for ASAP (slide 5).

MR. RICHARDS advised that all of the work that has been accomplished are assets owned by the state. After the passage of House Bill 4 [passed in the 28th Alaska State Legislature], AGDC requested a lease for rights-of-way that provided a right-of-way to AGDC for pipeline across state lands, other than state parks. An environmental impact statement (EIS) was completed on the concept of the original project, but following the intent of the legislature, the design concept was changed in 2013 to accommodate utility-grade gas, without further conditioning, and an increase in the diameter of the pipeline. Subsequently, a supplemental EIS was required because of the changes, and which should be completed in the fourth quarter of 2015. Mr. Richards described the federal right-of-way process, after which AGDC will hold approximately 85 percent of the right-of-way for a pipeline project. Furthermore, AGDC modified its plan of development (POD) and drafted an environmental evaluation document (EED), which is a precursor to the supplemental EIS and can be utilized by the U.S. Army Corps of Engineers (Corps of Engineers). The public scoping process has been completed, which indicated the project has local support from communities and federal agencies. Along the pipeline route, AGDC has also completed field surveys, 2-dimensional (2-D) terrain unit mapping, a cultural resource survey, and wetlands delineation with jurisdictional determinations from the Corps of Engineers (slide 6).

10:47:44 AM

REPRESENTATIVE NAGEAK inquired as to whether the assets are held by both projects.

MR. RICHARDS answered that each project is advancing and there is a cooperation agreement that allows for an exchange of data and engineering information between the projects; however, the inventory of all of the information has not been "melded." The data exchange involves compensation for data that is transferred between projects.

CO-CHAIR VAZQUEZ returned attention to slide 6 and asked whether the assets are independent assets of the state regardless of the pipelines.

MR. RICHARDS explained that corporate assets listed on slides 6 and 7 are held by AGDC as state assets. The assets have been used for ASAP and some can be transferred to AKLNG. Mr. Richards continued to identify further work that has been accomplished over the last three and one-half years. The work has been focused on the area south of Livengood because the area north of Livengood has been studied by the AKLNG producer parties. Therefore, AGDC drilled geotechnical boreholes, assessed material sites, and purchased strain based design pipe specifically tested to withstand stream accumulation, as required by the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA). This is testing information that can be shared with federal regulators and will transfer to AKLNG. Finally, AGDC has completed its Class 3 cost estimate Project Execution Plan (PEP) which delineates pre-construction and design phase work, and work through construction and into execution of a pipeline, including a detailed project logistics plan (slide 7).

CO-CHAIR COLVER asked how the test sections of pipe are tested for permafrost conditions in various types of soil.

10:54:05 AM

MR. RICHARDS said AGDC uses models to look at the demands placed on pipe by stream accumulation due to frost heave, and that also reveal the capacity and strength of the materials. The pipe segments are welded and then cut into samples that are tested in laboratories. The small scale testing has been completed, and the medium scale testing of three-foot-long pipe segments is underway.

CO-CHAIR COLVER recalled that during a previous gas pipeline project test sections of pipe were buried and monitored in the field. He asked whether testing for permafrost conditions is now done in a laboratory.

MR. RICHARDS stated that AGDC has not initiated field trials, but is using computer models which take less time. He then directed attention to a graph that illustrated land ownership along the ASAP right-of-way. State leases cover approximately 55 percent and, after a decision by the U.S. Department of Interior, Bureau of Land Management, federal ownership will add almost 30 percent. Rights-of-way across private land have not been initiated (slide 8).

MR. BAKER pointed out federal regulations require special pipe for the project; however, pipe to meet the specifications is not made in the U.S. The special pipe is needed for about 10 miles of the pipeline, and the remaining pipe will be sourced from U.S. mills. He restated AGDC's intent to leverage any of the work completed for either project. Turning to AKLNG, he described the participation in the project, beginning with the four resource owners: ConocoPhillips, BP, ExxonMobil, and the state. ConocoPhillips, BP, and ExxonMobil hold 75 percent of the interest in the project and the state holds 25 percent. The state's 25 interest is represented by TransCanada in the gas treatment plant (GTP) and the pipeline, and AGDC represents the state's interest in the LNG facility (slide 10).

11:00:59 AM

CO-CHAIR VAZQUEZ asked for the cost of the LNG facility.

MR. BAKER estimated the LNG facility cost at $25 billion. In further response to Co-Chair Vazquez, he said the current terminus site is Nikiski.

CO-CHAIR VAZQUEZ questioned whether the ASAP pipeline has secured contracts to supply gas.

MR. BAKER explained that in the case of AKLNG, the resource owners that have the gas and the ability to transport and sell gas, are investing the money to develop the transportation mechanism and the liquefaction facility. In the case of ASAP, AGDC is a pipeline company using public money to advance the project to the point of a commercial open season where shippers and buyers of gas would negotiate contracts. Final contracts are then used to acquire financing to complete the project. Therefore, ASAP would not go to project sanctioning and raise the money to complete construction without commercial agreements in place. Mr. Baker further explained that project sanctioning is the term used for ASAP and final investment decision (FID) is the term used for AKLNG. The AKLNG project is currently in pre-FEED phase which will be concluded mid-2016, at which time the five participants would decide to advance to FEED. After approximately two years, FID would lead to preconstruction. For ASAP, commercial open season is an extra step before the project sanctioning decision.

CO-CHAIR VAZQUEZ observed approaching the capital markets for financing is another additional step.

11:05:40 AM

MR. BAKER said yes. For ASAP, AGDC was given the ability to bond and to evaluate ownership models, such as whether the state would be the sole owner, or should solicit equity partners. In fact, AGDC was in contact with owner, builder, operators (OBOs) like TransCanada and Enbridge. A company like Enbridge could bring equity to the project.

CO-CHAIR VAZQUEZ asked for a description of a commercial open season.

11:07:27 AM

MR. BAKER said ASAP would be regulated by the Regulatory Commission of Alaska (RCA); as with most utilities, RCA would review the project's cost structure and return on invested capital and must approve a tariff structure. This would happen prior to an open season. If the project's recourse tariff filing is approved, RCA would set the terms and conditions of ASAP's open season.

CO-CHAIR COLVER asked for the differences between RCA's current regime of pipeline and common carrier review and the new regime directed by House Bill 4 [passed in the 28th Alaska State Legislature].

11:09:36 AM

The committee took an at ease from 11:09 a.m. to 11:20 a.m.

11:20:43 AM

DARYL KLEPPIN, Commercial Operations Director, AGDC, in response to Co-Chair Colver's earlier question, explained that oil pipelines such as the Trans-Alaska Pipeline System (TAPS) are common carriers. Gas pipelines are typically contract carriage, which means a shipper in the pipeline signs a contract to ship a given volume of gas over a long period of time, perhaps 25 years. Long-term contracts are needed in order to obtain financing for a large project. Shippers agree to "take or pay contracts," and the long-term commitment from a company with significant financial resources is used to finance the construction of the pipeline.

CO-CHAIR VAZQUEZ asked whether the contracts are approved by RCA.

MR. KLEPPIN said the aforementioned contracts are for shipping the gas, but RCA approves sales contracts for the sale of gas to a party. For ASAP, House Bill 4 requires that RCA approve the recourse tariff filing prior to open season; the recourse tariff is the price for shipping through the pipeline. After the filing of the recourse tariff, RCA has 90 days to act and, if the tariff is approved, open season can be scheduled.

CO-CHAIR VAZQUEZ asked for a description of the open season process.

MR. KLEPPIN advised that the details of an open season process are part of the recourse tariff filing. Typically, an open season requires advertising of its time period, the details of the tariff, other special conditions, and the financial requirements for purchasers. In further response to Co-Chair Vazquez, he said open season cannot occur prior to the approval of the recourse tariff by RCA, and can be scheduled up to two years afterward.

MR. BAKER restated that ASAP commercial activities, including tariff filing, open season, and post-open season, have been delayed pending the FEED decision on AKLNG; if AKLNG does not advance at FEED, AGDC would return to ASAP and complete its open season by mid-2017. He returned attention to the presentation, noting that since Senate Bill 138 [passed in the 28th Alaska State Legislature] and the signing of the joint venture agreements, AGDC has sought to coordinate the ASAP and AKLNG projects utilizing historic baseline and engineering data from past pipeline projects. The objective remains to minimize duplication and to maximize the value of the historical data such as geotechnical, hydrological, environmental, cultural and routing information. Only one project will advance thus there must be fair compensation for the use of data, and there are efforts towards alignment on routing. In addition, AGDC has field crews conducting borehole work for AKLNG (slide 11).

11:31:03 AM

CO-CHAIR VAZQUEZ asked for examples of datasets.

MR. BAKER advised that datasets would be for geotechnical work such as borehole work and engineering data that can be used by engineers in designing the project. Also, information on materials sites has been collected which could be used for either project.

CO-CHAIR COLVER told of his experience as a professional surveyor mapping for pipelines.

MR. BAKER turned to AKLNG recent activity: 80 percent of 250 person workforce in the 2014 summer field season were Alaskans; actively soliciting Alaska vendors; identifying in-state offtake facilities for both projects. In addition, major engineering contracts for early stages of the project have been awarded. Regulatory documents were filed with the U.S. Department of Energy which has authorized exports to Free Trade Agreement (FTA) countries, and non-FTA are pending. The first drafts of the Resource Reports have been filed with the Federal Energy Regulatory Commission (FERC), notice of intent has been issued by FERC, and public meetings will take place shortly (slide 12). Mr. Baker directed attention to ASAP, noting that the current design for the project completed FEED on time and on budget. The major deliverables were the Class 3 cost estimate and the project execution plan. The cost estimate includes pipeline facilities, engineering cost, construction logistics and owners' costs. The new estimated total capital cost is $9.968 billion, with a contingency of 20 percent (slide 14).

11:40:03 AM

MR. RICHARDS added that Class 3 is a level of effort established by the American Association of Cost Estimators and defines the work product undertaken for the construction of a major facility. A Class 4 cost estimate for ASAP was developed in 2012, and additional engineering and analyses over the past two and one-half years has raised the effort to a Class 3 standard.

11:41:32 AM

MR. BAKER stated that from the Class 3 cost estimate models have been developed to generate tariffs. The tariff rate represents the cost of transportation, and when added to the cost of the gas and local distribution, determines the burner tip cost to the consumer. The cost of gas for Anchorage and Fairbanks is estimated to be $2.00-$3.30 per thousand British thermal units (MMBtu), and the local distribution cost is estimated to add $1.50 in Anchorage and $4.00 in Fairbanks. Therefore, the estimated burner tip cost of gas delivered by ASAP to utilities and residents in Alaska is estimated to be less than the cost of imported LNG. Mr. Baker pointed out that this price is based on selling 500 million standard cubic feet per day (mmscf/d); however, in-state use on an annual average is about 250 mmscf/d. The question remains whether these rates are competitive to a commercial user (slide 15).

11:44:45 AM

CO-CHAIR COLVER cautioned that upcoming proposed legislation would prohibit export, but ASAP requires additional customers to meet its burner tip projections of $11.50-$14.00 per MMBtu in Anchorage. He expressed concern that the estimated cost is a 40 percent increase to Anchorage ratepayers, and questioned whether it is necessary for a state-sponsored project to generate a 12 percent return on equity to investors.

MR. BAKER said demand in winter could peak at 450 mmscf/d; however, he agreed that additional users are needed. An equity partner could change the financing structure and the economics of ASAP. Whether the state has a non-economic imperative to provide gas to Alaskans, and other questions, would be addressed at open season.

11:49:25 AM

REPRESENTATIVE WOOL surmised ASAP would displace all of the natural gas production from Cook Inlet.

MR. KLEPPIN responded, "We assume that is the Cook Inlet demand, assuming all of Cook Inlet production is displaced. It does not assume any offset with production from Cook Inlet."

11:51:13 AM

REPRESENTATIVE WOOL asked what would happen to Cook Inlet production if ASAP provides all of the in-state consumption "times two."

MR. BAKER recalled in 2009 there was concern that Cook Inlet production was declining, thus North Slope gas was sought. Five years later, due to new exploration in Cook Inlet, that is less of a concern; however, Railbelt utilities do not have long-term supply contracts from Cook Inlet resources.

CO-CHAIR VAZQUEZ related that Chugach Electric Association has gas contracts from Cook Inlet through 2019.

REPRESENTATIVE CLAMAN noted the Class 3 burner tip cost estimate is an increase of almost 40 percent from the estimate in 2012.

MR. KLEPPIN answered that the significant driver in the tariff increase was additional construction costs of $2.3 billion; in addition, in 2012, an 11 percent return on equity was assumed instead of 12 percent.

MR. BAKER acknowledged the burner tip costs are attractive for Fairbanks, but not for Anchorage, although there would be long-term price stability.

MR. KLEPPIN said Hilcorp entered into a consent decree to cap gas prices through the first quarter of 2018, and it is unclear what will happen to gas pricing after that date.

MR. BAKER referred to Governor Bill Walker's Administrative Order 271 (AO 271) [the executive order which stopped nondiscretionary spending on ASAP], and noted that in response, AGDC has ensured that it is only working on the most essential aspects of ASAP; in fact, everything possible has been delayed and the spend plan through 2016 has been reduced by 60 percent, from $150 million to $60 million (slide 16). In that regard, schedule changes have been driven by the alignment of ASAP to the AKLNG FEED decision (slide 17). New members to AGDC's board attended their first meeting, and the board passed Resolution 2015-01, which directs that subject to withdrawal of AO 271, AGDC staff will prepare a rough order of magnitude scope, schedule, and budget associated with two potential upsizing scenarios for ASAP on or before 4/9/15 (slide 18).

11:59:09 AM

CO-CHAIR COLVER recalled previous testimony that AGDC permitting by the Corps of Engineers is on hold pending the resolution of potential changes.

MR. BAKER said the supplemental EIS process was initiated for ASAP and went through public scoping, and evaluation documents were filed. On 3/2/15 the Corps of Engineers notified AGDC it has suspended activity on the draft supplemental EIS.

CO-CHAIR COLVER inquired as to whether the state or AGDC has clarified the Corps of Engineers position.

MR. BAKER assured the committee the process with the Corps of Engineers has not been stopped or canceled, although an amended document for the latest right-of-way changes has been held back as well. The concern is that adding compressor stations along the pipeline, or increasing the size of the footprint of the gas conditioning facility may require AGDC to modify the supplemental EIS to the point that it would have to be reinitiated. Mr. Baker returned to the presentation and provided a history of the basis for the design of ASAP (slide 19). The reconfiguration strategy directed by AGDC's board is as follows: increase the state's leverage and options; expand ASAP volume and capacity; extend terminus to tidewater; design for both in-state and export markets; use existing funds; build on existing work products; avoid duplication (slide 20). Initial parameters tasked to AGDC are as follows: maintain 36" diameter pipe; maintain lean gas composition; pursue pipeline and a gas conditioning facility on the North Slope; develop rough order of magnitude cost and timeline to look at the pipe currently in design and at a higher strength pipe (slide 21). Critical success factors for a North Slope gas pipeline project are as follows: maintain alignment between the state and North Slope producers; ensure the state's ability to advance a project that is viable and economic if AKLNG falters; obtain concurrence of AKLNG joint venture partners; ensure a complementary versus competitive orientation; maximize financial resources to accelerate a FEED decision and to leverage public resources (slide 22).

12:05:57 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 12:05 p.m.