

HOUSE FINANCE COMMITTEE
THIRD SPECIAL SESSION
October 27, 2015
1:33 p.m.

1:33:45 PM

CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Frank Richards, Vice President, Engineering and Program Management, Alaska Gasline Development Corporation; Joe Dubler, Vice President and Chief Financial Officer, Alaska Gasline Development Corporation; Representative Louise Stutes; Representative Paul Seaton; Representative Cathy Tilton; Representative Liz Vazquez; Representative Andy Josephson; Representative Gabriel LeDoux; Representative Shelley Hughes; Representative Lora Reinbold; Representative Geran Tarr; Representative Dave Talerico.

PRESENT VIA TELECONFERENCE

Daniel Fauske, President, Alaska Gasline Development Corporation.

SUMMARY

HB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.

HB 3001 was HEARD and HELD in committee for further consideration.

PRESENTATION: TRANSCANADA BUYOUT PROPOSAL: AGDC CURRENT AND POSSIBLE FUTURE ROLE IN THE AKLNG PROJECT

Co-Chair Neuman reviewed the agenda for the day.

#hb3001

House Bill No. 3001

"An Act making supplemental appropriations; making appropriations to capitalize funds; making appropriations to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) in accordance with sec. 12(c), ch. 1, SSSLA 2015; and providing for an effective date."

1:35:17 PM

^PRESENTATION: TRANSCANADA BUYOUT PROPOSAL: AGDC CURRENT AND POSSIBLE FUTURE ROLE IN THE AKLNG PROJECT

1:35:36 PM

FRANK RICHARDS, VICE PRESIDENT, ENGINEERING AND PROGRAM MANAGEMENT, ALASKA GASLINE DEVELOPMENT CORPORATION (AGDC), introduced himself.

DANIEL FAUSKE, PRESIDENT, ALASKA GASLINE DEVELOPMENT CORPORATION (via teleconference), greeted the committee. He apologized for not being able to attend in person. He relayed that additional staff were available online.

JOE DUBLER, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, ALASKA GASLINE DEVELOPMENT CORPORATION, thanked the committee for the opportunity to testify. He introduced a PowerPoint presentation titled "Alaska LNG Project Participation" dated October 27, 2015 (copy on file). He began by addressing the statutory authority granted to AGDC by SB 138 [legislation passed in 2014 related to a gas pipeline, AGDC, and oil and gas production tax] permitting

its participation in the AKLNG project. He read from slide 2 titled "Authority Granted in SB 138":

- AGDC has primary responsibility for developing an Alaska LNG project on the state's behalf [AS 31.25.005 (1)]
- AGDC may acquire a direct ownership interest in any component of an Alaska LNG project [AS 31.25.080 (a)(23)]
- AGDC may enter into contracts related to treating, transporting, liquefying or marketing gas - in consultation with DNR & DOR [AS 31.25.080 (a)(24)]
- AGDC shall assist DNR & DOR to [AS 31.24.005 (2) & (3)]:
 - Maximize the value of the state's gas resources
 - Provide economic benefits in the state
 - Provide revenue to the state

Mr. Dubler noted that the attorney general had issued a letter dated October 26 [2015] that was included in members' packets (copy on file). He relayed that AGDC's ability to enter into contracts related to treating, transporting, liquefying, or marketing gas in consultation with the Department of Natural Resources (DNR) and the Department of Revenue (DOR) applied only to the marketing portion of the project. He turned to slide 3 titled "AGDC's Role in Alaska LNG":

- Signatory to the Joint Venture Agreement governing the Alaska LNG project
- Hold the state's 25 percent equity interest in the LNG facility (downstream component) of the integrated project
- Member of the Sponsor Group, Management Committee (ManCom) and the Project Steering Committee (PSC)
- Participate in integrated project decisions
- Participate in commercial negotiations related to marketing, expansion, third-party access and domestic gas supply
- Plan and develop off-takes for in-state gas deliveries

Mr. Dubler elaborated that the joint venture agreement (JVA) was an agreement between the five parties governing the entire project; it included how the project worked, who

was in charge, how the withdrawal provisions work, and all of the mechanisms supporting the project. He relayed that the midstream component of the project was composed of the pipeline, the gas treatment plant (GTP) on the North Slope, and a transmission line from both Point Thomson and Prudhoe Bay. He communicated that AGDC participated in voting and determining the direction of the project. He addressed that the upstream agreements related to gas supply were negotiated primarily by DNR as the owner of the state's gas (AGDC's participation was in an advisory capacity). He discussed that his group had looked at potential communities that could benefit from off-takes and Mr. Richards' group had done some preliminary work on the cost of off-takes. He remarked that he could provide the committee with a presentation on the subject, which had been recently given to the AGDC board.

[1:41:14 PM](#)

Mr. Dubler turned to slide 4 titled "Alaska LNG Project Participation." He explained that the resource owners were ConocoPhillips, BP, ExxonMobil, and the State of Alaska. He relayed that the state would have a 25 percent interest in the total project throughput if the state elected royalty in kind (RIK) and the producers elected to pay their tax as gas. He explained that the project interest was aligned with the ownership of the gas. The state's 25 percent was currently divided between TransCanada, which held the state's interest in the midstream (pipeline and GTP); and AGDC, which held the state's interest in the downstream (LNG and marine facilities).

Mr. Dubler moved to slide 5 titled "Governance Related Issues":

Equity Alignment: State's share of gas in the project (25 percent) is not equal to its current equity in the integrated project:

- State, through AGDC, holds 25 percent in the downstream (LNG plant)
- TC holds 25 percent in the midstream (pipeline & GTP)
- State's resulting equity in the integrated project is 12.5 percent

Mr. Dubler elaborated that the above alignment issue would be addressed by the current proposal to buy out TransCanada. He continued to address slide 5:

Voting Rights: State doesn't have full voting participation in all project decisions:

- State, through AGDC, votes on downstream issues
- TC votes on mid-stream issues
- If TC exits, AGDC would have full voting rights on each project component and in all integrated project

Mr. Dubler expounded that AGDC had no input on decisions made on midstream issues and it was conceivable that TransCanada could vote in a manner that was inconsistent with the state's best interests. He explained that the state was working to address the issue through the TransCanada buyout.

[1:43:16 PM](#)

Mr. Dubler advanced to slide 6 titled "Project Governance." He explained that the project was governed by many different groups, which were represented by various parties. The sponsors group shown on the left of the slide was the high level group consisting of the presidents of BP-Alaska, ConocoPhillips, ExxonMobil, and the TransCanada subsidiary handling the AKLNG project. The group also included Mr. Fauske, DNR Deputy Commissioner Marty Rutherford, and DOR Deputy Commissioner Dona Keppers. He detailed that when issues could not be resolved at the management committee level they were elevated to the sponsors group. The management committee (ManCom) consisted midlevel managers of the five JVA partners (BP, ConocoPhillips, ExxonMobil, TransCanada, and AGDC). He noted that he participated on the committee on behalf of AGDC. He relayed that the management committee approved the work program and budget annually, in addition to overall oversight and project management. He noted that the project steering committee reported to the management committee on technical issues.

Co-Chair Neuman asked Mr. Dubler to avoid the use of acronyms.

Mr. Dubler agreed. He continued to discuss the project steering committee on slide 6, which consisted of

representatives from the five JVA partners. The group provided guidance and technical oversight of the project management team (PMT). The PMT was the group of professionals running the project and providing oversight of the project contractors. He pointed out that the PMT included different components for the pipeline, GTP, and LNG.

[1:46:56 PM](#)

Mr. Dubler relayed that Mr. Steve Butt was the head of the entire PMT and was responsible for the day to day execution of the pre-FEED plan. Additionally, the team developed the work plan, budget, and schedule for the management committee to review and approve. The team was also responsible for all of the technical aspects of the project.

Mr. Richards advanced to the organizational chart on slide 7 titled "Project Management Team (PMT)." He reiterated that Mr. Butt, an ExxonMobil employee, was the senior project manager of the PMT. Direct reports included functional leads on the major components of the project (i.e. pipeline; GTP; LNG facility; environmental, regulatory, and lands; safety, and business management). He noted that an integration component was key to the project, given the three large and distinct projects moving forward. The slide also showed the representation of the TransCanada PMT leadership team. He detailed that TransCanada was in the pipeline project management position and a facilities engineering manager position. He furthered that TransCanada had nominated staff to the positions and the individuals had subsequently been elected to fill the roles. He relayed his intent to address other functions TransCanada staff played within the overall PMT later in the presentation. He discussed that the PMT was key to overseeing the technical work by the army of contractors working to advance the project (e.g. pipeline engineers, process engineers, and liquefaction expertise).

[1:49:11 PM](#)

Mr. Richards discussed slide 8 titled "Project Management Team (PMT)". He relayed that the co-venture partners (CoVs) represented the project owners (BP, ExxonMobil, ConocoPhillips, TransCanada, and AGDC). He explained that employees of the owners were nominated to fill the roles in

in the organization. He elaborated that a nomination process had been established through the JVA, which identified that the most qualified person would be selected for individual functions and once the person was selected they became a seconded employee. He explained that secondment is the temporary assignment of a person to a project away from their regular organization. He furthered that the project reimbursed the parent company for the expenses of the employees. He discussed that AGDC was active in the governance portion of the project with the sponsors group, management committee, and steering committee. TransCanada had been in the role of fulfilling some of the functional lead responsibilities within the PMT. He explained that at the outset of the venture, AGDC did not have individuals staffed to fulfill the roles because it had been working to continue to advance the Alaska Stand Alone Pipeline (ASAP) project.

[1:51:18 PM](#)

Mr. Dubler reviewed the staffing principles of the project on slide 9: "Project Management Team (PMT)". He detailed that the goal had been to leverage existing company strengths. He explained that secondees were utilized in order to access existing expertise within the companies involved and to avoid expending time and energy on conducting a hiring search. He elaborated that the producer parties and TransCanada had people on staff who moved from project to project, which was much more efficient than hiring for each new project.

Co-Chair Neuman asked if the co-venture partners were members of the joint venture. Mr. Dubler replied that they were one and the same; the five entities were the JVA parties and the co-venture partners. He clarified that different descriptions in different contexts. He furthered that the sponsor group included DOR, DNR; whereas, the co-ventures group did not.

Co-Chair Neuman relayed that examples would help the committee to further understand some of the issues discussed. He asked members to hold questions until after the presentation.

[1:53:15 PM](#)

Mr. Dubler to address slide 9. He remarked that the staffing principals were part of a confidential document that he could not elaborate on. He explained that the PMT had tried to develop a method for ensuring that each of the co-venture parties had enough representation in the project to ensure they had adequate oversight. One of the issues had been about the location of the work to be done. He relayed that the pipeline work was taking place in Calgary, Alberta, Canada; the GTP work was taking place in Denver, Colorado; and the LNG work was taking place in Houston, Texas. Therefore, the project had either relocated employees to the locations or utilized employees already in the locations. He spoke to the appointment process, which was very similar to the state hiring process (an open position was posted, the co-venture parties provided resumes, a recommendation was made, and the most qualified person was hired). A chart on slide 9 showed the number of seconded employees represented by each entity and in which area. He spoke to the leadership team (senior project manager and direct reports) breakdown: 5 ExxonMobil staff, 2 ConocoPhillips staff, 1 TransCanada staff, and 1 BP staff. The key positions category included: 10 ExxonMobil staff, 4 ConocoPhillips staff, 1 TransCanada staff, and 3 BP staff. The other positions category included: 73 ExxonMobil staff, 20 ConocoPhillips staff, 10 TransCanada staff, and 5 BP staff. He summarized that there were a total of 135 positions in the PMT.

Mr. Richards added that as the project progressed there would be AGDC employees represented on the PMT as well.

[1:56:13 PM](#)

Mr. Richards advanced to slide 10 titled "TransCanada's Role Alaska LNG":

- Hold the state's 25% interest in the project's mid-stream: pipeline and gas treatment plant (GTP)
- Fund pre-FEED cash calls associated with the state's midstream interest
- 12 secondees, primarily pipeline Subject Matter Experts (SME), in the Project Management Team
 - o Leadership team, Pipeline Project Manager (1 of 9)
 - o Key role, Pipeline Facilities Engineering Manager (1 of 18)

- o Environmental, Regulatory, & Land (ERL) (1 of 32)
- o Gas Treatment Plant sub-project (1 of 17)
- o Pipeline sub-project (8 of 36)

Mr. Richards explained the GTP and pipeline made up the midstream portion of the project. He added that the project sub-group included pipeline engineers, hydraulics engineers, and project control staff working to advance the project and fill in staff positions.

Mr. Richards turned to slide 11 titled "TransCanada's Role Alaska LNG":

- TransCanada (TC) is not expected to build the pipeline, that will be managed by the PMT
- If TC exits the project, the PMT will seek nominations for the vacated positions
- TC has offered to allow its PMT employees to remain during a transition period
- All CoVs, including AGDC, can nominate employees to fill those positions
- AGDC has individuals qualified to nominate for Pipeline and GTP openings

Mr. Richards detailed that the pipeline would be built by the AKLNG project as led by the PMT. He noted that if TransCanada exited the project, AGDC would have the option to nominate individuals for vacated positions and the PMT would make the decisions. He relayed that TransCanada had offered to allow its PMT employees to stay on the project likely through May 2016, which would be significantly through the pre-FEED [Front End Engineering and Design] stage. He reiterated that AGDC had qualified individuals to nominate for the positions within the midstream effort. He discussed that over the last several years AGDC had worked to develop the ASAP project (developing a GTP and 36-inch pipeline).

[1:59:07 PM](#)

Mr. Richards discussed the senior staff of AGDC in slide 12 titled "AGDC Technical Team - Skills":

AGDC's technical staff:

- Senior credentialed professionals with industry and mega-project backgrounds
- Arctic pipeline and facilities design, construction, and operations experience
- Alaska-specific design and construction experience
- Major capital project management expertise
- Working knowledge of technical and regulatory assets owned by AGDC

Mr. Richards elaborated that AGDC had been extremely fortunate to attract employees who had worked on previous iterations of the producer projects over the years. He noted that a couple of the individuals had been present for the original construction of the Trans-Alaska Pipeline System (TAPS) project. He relayed that AGDC believed the technical team employees had the expertise to help assist the PMT to advance the AKLNG project; AGDC was confident it could match up employees against the industry partners and would be nominating the individuals through the previously outlined hiring process.

Mr. Richards turned to slide 13 titled "AGDC Technical Team - Results." He relayed that the legislature had created AGDC to develop an industry natural gas pipeline in order to meet the energy needs for Alaskans. Subsequently, AGDC had worked over the past several years to develop the ASAP project. The project was a 36-inch pipe, 1,480 psi pipeline that would deliver utility-grade gas to Alaskans. He continued to address slide 13:

AGDC completed development of the Alaska Stand Alone Pipeline (ASAP) Project:

- Completed Pre-FEED and FEED for North Slope gas treatment facility, 733-mile mainline, and 30-mile Fairbanks lateral pipeline
- Completed Class 3 cost estimate and project execution plan
- Delivered on time and under budget
- Core technical team still engaged on an interim basis pending state policy decisions

Mr. Richards elaborated that AGDC had worked to bring the ASAP project to a level where it could go to an open season. He explained that an open season was a solicitation for other parties to ship gas in the pipeline. He

communicated that AGDC had done its due diligence (i.e. it had met the necessary industry practices of defining the risk and cost in order to inform potential shippers what the overall cost would be). The Class 3 cost estimate for ASAP was approximately \$10 billion, which included approximately \$1 billion worth of contingency. He relayed that ASAP was a 25 to 30 percent design project that had been delivered on time and under budget. He explained that the state owned the project and accompanying technical information that could be used as an asset for the state's participation in any project.

2:02:08 PM

Co-Chair Neuman asked Mr. Richards to provide the numbers associated with the different costs as he outlined the plan.

Mr. Richards agreed to do so. He continued to discuss AGDC's core technical team that had extremely skilled, Alaskan-based individuals who were comparable to world-class engineers and had the necessary Arctic experience to help advance a project pipeline. The corporation was confident that it was capable and able to meet the needs of any potential vacancies that may be available to AGDC in the future.

Mr. Richards advanced to slide 14 titled "AGDC Ability to Assume TC's Role." He discussed that SB 138 had directed AGDC to hold the state's interest in the LNG facility. He outlined the three major components of the AKLNG project including the GTP, a 42-inch high pressure pipeline originating on the North Slope, and a LNG facility in Nikiski. He explained that at present AGDC's role was to represent the state's ownership in the LNG facility only. TransCanada was currently holding the state's portion in the midstream (GTP and pipeline). He communicated that with TransCanada's potential departure from the project, AGDC had already begun to assume some of the company's roles including coordinating the Federal Environmental Regulatory Commission (FERC) process under the National Environmental Policy Act (NEPA). He relayed that AGDC was nominating individuals into the PMT as vacancies became available to help advance the AKLNG project through pre-FEED. He read from slide 14:

Technical staff available to fill PMT positions as necessary:

- Subject Matter Experts (SME) based in Alaska
- Key roles in prior Alaska pipeline projects, including TAPS
- Dedicated professionals committed to SOA interests

[2:05:10 PM](#)

Mr. Dubler turned to slide 15 titled "Alaska LNG Appropriations to Date." He noted that they talked significantly about TransCanada's role and the administration's desire to move the role to AGDC. He emphasized that he had worked with TransCanada for over two years believed it was a great firm. He stressed that the proposal to go forward without TransCanada was in no way a condemnation of the company or its work. He noted that Vincent Lee, his counterpart at TransCanada, had been a pleasure to work with over the past couple of years. He pointed to a chart on slide 15 and relayed that SB 138 had appropriated \$69,835,000 to the AKLNG fund, which had been broken down into five pieces: \$2.5 million to DOR for a study; \$70,000 to the Department of Transportation and Public Facilities for a project liaison; \$57,850,000 for project cash calls; \$3,406,000 for the AGDC operating budget; and \$6,008,000 for external contractual services.

Mr. Dubler referred to the external contractual services line included most of the individuals hired for the project were contractors. He relayed that the appropriation for FY 14 and FY 15 had been stretched through FY 16 because cash calls had been lower than anticipated. He noted that the DOR and DOT costs had remained the same in FY 14 to FY 15 and FY 14 to FY 16. He continued that projections for FY 14 to FY 16 were \$51,382,000 for cash calls and \$4,396,000 for operating expenditures. He discussed that AGDC had completed work for the ASAP project that was also needed for the AKLNG project; therefore, AGDC had contracted with the project to perform the work and had been reimbursed a portion of the associated cost (approximately \$3 million). He remarked that the project was working to avoid double spending. He noted that AGDC had spent the budgeted \$3 million and would be reimbursed for the work, but it required receipt authority to access the funds. He addressed the estimated \$5.9 million cost for the remainder of the fiscal year into FY 17 associated with additional

contractual work for picking up TransCanada (i.e. legal, engineering, and commercial work). Total funds for FY 14 through FY 16 were \$66,733,000, which left \$2.8 million remaining in the fund for the beginning of FY 17.

[2:09:07 PM](#)

Mr. Dubler discussed slide 16 titled "AGDC Special Session Appropriations."

Capital Appropriation (\$144,045.0)

- \$68,445.0 - Reimburse TransCanada and "buy-out" their mid-stream interest
- \$75,600.0 - Fund state's full 25 percent share of remaining pre-FEED

Mr. Dubler elaborated that the of the total capital appropriation, approximately \$15 million for LNG and \$61 million would go to midstream, which AGDC would take over if TransCanada was no longer part of the project. He read the remainder of slide 16:

Receipt Authority (\$5,000.0): Statutory Designated Program Receipts (SDPR)

- Allow AGDC to be reimbursed for Alaska LNG related field work conducted on behalf of the project

Mr. Dubler showed breakout and comparison of costs on slide 17 titled "AGDC Special Session Appropriations." He relayed that DNR estimated it would take about \$108 million [\$106.8 million per the chart on slide 17] to pay off TransCanada. The anticipated costs of the TransCanada buyout and the remaining cash calls had not changed. However, there had been an increase in the pre-FEED scope and budget [from \$8.8 million] to \$31 million in the midstream section of the project and to \$15 million in the downstream section of the project for a total appropriation request of \$144 million.

[2:11:01 PM](#)

Mr. Richards turned to slide 18 titled "Pre-FEED Scope & Budget Changes":

Pre-FEED scope and schedule will increase by \$182 million to \$694 million:

- State's total share is \$173 million -- \$66 million liquefaction plant, \$107 million mid-stream (GTP and pipe)
- Advancing work into pre-FEED is important to have the best information available to complete internal review and make FEED decision
- Project is maturing through the stage-gate development process
- Moving some activities from FEED to Pre-FEED to facilitate better design and decision making

Mr. Richards moved to slide 19 titled "Pre-FEED Scope & Budget Changes" and elaborated that the project was looking at lowering costs and improving economics within the various project components (i.e. the GTP, processes, facilities, modules, liquefaction facility, and pipeline). He noted that because the project was challenged with economics, the goal was to ensure that the best economics were obtained to proceed. He reported that there would be some additional geotechnical and geohazard work at the two main facilities: 1) the North Slope and Prudhoe Bay GTP; and 2) at the LNG site in Nikiski. He elaborated that it was important to know the underlying ground conditions because assumptions could be very costly. He explained that he had worked on the Red Dog Mine project and the team had not elected to perform good geotechnical borings at the mill site. Subsequently, when the mill site had been opened it had been "ice rich" which meant that pipe, sand, gravel, and cement had to be flown in for the foundation. He relayed that the additional \$100 million cost would have been unnecessary if the proper geotechnical program had been performed.

Mr. Richards spoke to increasing regulatory work to ensure there was sufficient information to advance into the environmental impact statement (slide 19 continued). He addressed bringing the 48-inch pipe deliverables up to the 42-inch level of development to decide on the best option moving forward.

[2:14:13 PM](#)

Co-Chair Neuman asked on behalf of Representative Reinbold about the best method of evaluating whether the project would be successful. Mr. Richards replied that in order to make the project decision it was important to best define

the cost components of the project, which was the primary emphasis of the current work. The processes would be coming up with the individual platforms to make it the best economic opportunity for the state, making sure the due diligence was done to define what the costs would be, and looking at the project economics and commercial realm.

Mr. Dubler added that the commercial realm developed a best guess based on numbers developed by project engineers. The idea behind a "stage gate" process was to examine the project at each stage to determine whether it continued to be economical. The project was currently in the pre-FEED stage, which would provide better numbers than had been available at the end of the concept selection stage. Once the improved numbers were available, AGDC would use a tariff model (developed for the ASAP project) that had also been used for testing preliminary numbers on the AKLNG project. He believed the tool would be very useful in determining what the cost of service would be. He noted that each of the firms involved would conduct their own calculation. Part of the issue with a "proceed to FEED" decision was that each company had to do its own analysis to determine whether the project met their hurdle rates. He noted that Mr. Radoslav Shipkoff [with Greengate LLC] would do the calculations for the state and AGDC would do them as well. He explained that the improved numbers were used in the analysis along with estimates on the price the state could get for its LNG. He noted that at that point it became simple math. He stated that the producers were all very aggressively pursuing the project, which he believed was a good indication that the producers thought the project had merit. He reiterated that AGDC also ran the numbers and did not rely solely on external information.

[2:18:00 PM](#)

Co-Chair Thompson remarked on testimony that TransCanada had offered to allow project management team employees to remain during a transition period. He asked if there was a transition map or plan that had been agreed to. He observed that the December 4 [2015] deadline was approaching.

Mr. Dubler responded that he was unaware of a specific transition plan. He communicated that TransCanada had been very good to work with and he was certain the company would ensure a smooth transition from its participation in the project over to AGDC's participation.

Co-Chair Thompson asked if the transition of voting rights for the state had been established to switch from TransCanada to AGDC by December 4. Mr. Dubler replied in the affirmative. He detailed that currently the five parties voted on everything. He explained that instead of voting half of the state's 25 percent share, AGDC would begin voting the entire share.

Co-Chair Thompson asked if the state had to provide TransCanada with a buyout payment prior to December 4. Mr. Dubler replied that AGDC was not a party to the state's agreement with TransCanada. He would follow up with an answer.

Co-Chair Thompson remarked that he would ask the question to other representatives of the administration at subsequent finance meetings.

Representative Kawasaki referred to slides 18 and 19 related to the project scope changes. He wondered if the decision to move some activities from FEED to pre-FEED had been made internally by AGDC or by PMT. Mr. Richards responded that the pre-FEED efforts were managed by PMT. He elaborated that PMT looked at the status of the work plan and budget and at the work activities that needed to be accomplished. He relayed that PMT had come forward with the increased cost and how it affected the project schedule.

[2:21:23 PM](#)

Mr. Dubler added that the process described by Mr. Richards had not yet been approved and was still a proposal.

Representative Kawasaki referred to slide 17, which outlined why proposed costs had increased. He believed the state would want money for the allowance for midstream and downstream scope changes even without a TransCanada buyout since the PMT had supported it.

Mr. Dubler replied that if TransCanada remained in the project representing the state's interest, the state would not need to fund the \$31 million; TransCanada would fund the portion and the state would pay the cost off at a later date. He explained that the \$15 million for the downstream portion would still need to be appropriated for AGDC to remain in the project.

Representative Munoz referred to the PMT structure and wondered why TransCanada's participation was not commensurate with the other partners in the agreement and why AGDC was not represented in the structure.

Mr. Dubler responded at the start of the AKLNG project AGDC had been going full speed on the technical work on the ASAP project; therefore, most of its resources had been in use. Therefore, instead of ramping up staff on the technical side for a second project, AGDC had decided to keep on the leaner side and to hire commercial people for work on the commercial documents. He elaborated that AGDC had decided to let the technical work go until it was clear which project would move forward; once the project had been determined, AGDC would move staff to that project. He communicated that AGDC had hired Fritz Krusen as its vice president for AKLNG when it received an appropriation for the AKLNG project. He detailed that Mr. Krusen had retired from ConocoPhillips where he had run the Kenai LNG plant and worldwide LNG group. He furthered that AGDC had left it up to Mr. Krusen to determine the appropriate staffing; however, Mr. Krusen felt that he was capable of managing the process on his own. He noted that by taking on the responsibility, Mr. Krusen had saved AGDC money. He addressed that seconded employees were the equivalent of the military's temporary duty assignment employees. He explained that AGDC would have needed to hire engineers at fairly high rates and propose them to the project; if the project did not accept the employee, AGDC would have an employee on staff who would not be able to perform the functions they were hired for. He relayed that the producers had large, worldwide organizations and could draw employees from all over. He noted that AGDC did not have the same luxury; it had elected to not go out to hire individuals, but would probably do so down the road.

[2:25:46 PM](#)

Representative Munoz asked that if the state would maintain its current level of participation on the management team if the TransCanada buyout was approved.

Mr. Richards replied that AGDC would be nominating individuals to the PMT. He stated that hopefully, the AGDC candidate would be the best fit for the roles, but the other partners would also nominate individuals. He explained that it would be up to the project management

team to make the selection. He reiterated that AGDC believed it had the individuals available and qualified to take on the responsibilities.

Co-Chair Neuman asked Mr. Richards to explain the nomination and hiring process for the PMT.

Mr. Richards provided a hypothetical example about a geotechnical engineer position vacancy. He detailed that the vacancy would be communicated to the co-venture owners and each partner would determine whether they had a qualified candidate to put forward for the specified location. He furthered that AGDC would determine whether it had an appropriate candidate and would then transmit the resume to the project as a nomination. The PMT would then review the applications, conduct due diligence and interview if needed, and make a selection. He noted that if the vacancy was a leadership position the selection would be taken to the management committee (where Mr. Dubler would step in); the management committee could then either agree to or decline the selection.

Representative Munoz asked, in the event of a TransCanada buyout, whether TransCanada's current interest would go to DNR and then AGDC or directly to AGDC. She wondered when the decision to designate AGDC would take place if the interest first went to DNR. Mr. Dubler replied that he had not seen any details of the agreement between TransCanada and DNR and did not know what was included. He noted that there were other relevant confidential documents and believed the interest would go directly to AGDC.

[2:29:53 PM](#)

Co-Chair Neuman hoped DNR would provide answers to questions asked throughout the meeting. He asked Mr. Dubler to elaborate on the work plan budget process including who developed and voted on the budget. He asked about costs associated with the work plan.

Mr. Dubler answered that the work plan and budget was developed by the PMT. He relayed that the document was a very large spreadsheet. He detailed that it included every single task the project would do, the cost estimate for each task by month. He stressed that the PMT reviewed the document many times and worked the numbers hard. He continued that the PMT presented the budget to the project

steering committee (Mr. Krusen was currently on the steering committee). He explained that the engineering was not the expertise of the PMT; whereas, the steering committee consisted of engineers. He furthered that by the time the document reached the management committee for review it had already been through two separate reviews. Typically the management committee would discuss the document with AGDC's president and Mr. Krusen before compiling a presentation for the board to obtain approval. At that point, AGDC would go to the legislature if an additional appropriation was needed. He relayed that the numbers would be taken to AGDC's next board meeting for approval. He communicated that the initial document had gone to the legislature, the governor, the AGDC board, and on to the management committee for a vote.

[2:33:31 PM](#)

Co-Chair Thompson reminded members that other AGDC staff were available via teleconference.

Representative Wilson thanked TransCanada for the advancement of the project up to its current point. She thought it sounded like the state was trading TransCanada for employees within DNR, DOR, and DOL. She opined that it seemed almost like the same partnership. She wondered why the state would hire people at \$800,000 in DNR when there were currently similar employees on staff with expertise. She noted there were already legal employees on staff.

Mr. Dubler replied that the question may be more appropriate for DNR. He added that AGDC had only received the organizational chart the previous day and he had not had the chance to do a thorough review of the document.

Representative Wilson asked if the positions could be hired within AGDC. Mr. Dubler responded that AGDC had prepared an organizational chart for a project moving forward with TransCanada and without TransCanada. He relayed that the positions identified in the chart would address the technical and commercial positions AGDC would need to continue working on the project. He could not speak to the needs of DNR, DOR, or DOL. He explained that there were upstream issues that DNR had to address that AGDC was not involved with. Additionally, there were tax issues DOR had to address that AGDC was not a part of. He added that by statute, the attorney general was AGDC's attorney. He

stated that it was up to DOL to determine if it would cost \$10 million per year for its staff and experts.

2:36:33 PM

Representative Wilson wondered why there was an attorney on retainer for \$100,000 per month if DOL provided legal representation for AGDC. Mr. Dubler asked if Representative Wilson was referring to Rigdon Boykin [South Carolina-based attorney serving as the state's lead negotiator on the AKLNG project]. Representative Wilson replied in the affirmative. Mr. Dubler responded that Mr. Boykin was serving as chief negotiator for AGDC and the state gas team, but he was not acting in his capacity as an attorney.

Representative Wilson wanted to avoid the duplication of positions. She wanted to hear a further explanation about the positions asked if departments could provide the committee with information.

Representative Gattis remarked that one of the things that appealed to her about the project was the consistent involvement of the producers. She referred to the lack of a plan if the state bought out TransCanada. She wondered if the companies, businesses, and people who did pipeline work for a living had a plan if TransCanada was no longer involved in the project.

Mr. Dubler apologized for misinterpreting the question earlier. He clarified that there were provisions of the joint venture agreement and other documents that included provisions for withdrawal by parties. He detailed that a TransCanada buyout would be handled similar to a withdrawal and there were specific provisions that addressed the exact situation. He noted that AGDC did not have a transition plan to transition its staff in place of TransCanada. He relayed that there would be vacancies if TransCanada was no longer part of the project, but the vacancies would be filled just like any other vacancy in the project. He explained that there had been several vacancies since the project had begun and those positions had been filled just like vacant positions in any business. He added that all of those procedures were currently in place.

2:40:02 PM

Vice-Chair Saddler asked if AGDC's team had the same level of experience as TransCanada in building and designing northern pipelines or just specifically on the liquefaction portion of the project.

Mr. Richards explained that when he had referred to the AGDC team, he had been talking about individuals who had been working to develop a natural gas pipeline since 1978 (after completing TAPS). He relayed that AGDC's senior project manager Dave Haugen had been a section manager for Alyeska Pipeline, which constructed TAPS. Subsequently, Mr. Haugen had worked on several iterations of the natural gas pipeline including the Denali project. Additionally, one of AGDC's key technical leads was Dr. Keith Meyer who had worked as a structural engineer on TAPS and was an expert in strain demand due to discontinuous permafrost. He continued that Dr. Meyer had come to specifically work on the ASAP project and was performing work on the AKLNG project given his credentials. He relayed that there were other employees who had previously worked for ConocoPhillips on gasline projects in Alaska and worldwide.

Vice-Chair Saddler queried if AGDC's employees were as qualified as those at TransCanada. Mr. Richards replied that he had not done a side by side comparison.

Vice-Chair Saddler asked to what degree AGDC would need supplemental expertise or additional personnel to meet the same level of qualification currently offered by TransCanada.

Mr. Richards responded that the legislature had tasked AGDC with completing a project as expeditiously as possible, while not creating a huge bureaucracy. He detailed that AGDC had a staff of approximately 21 people and used highly skilled contractors to meet subject matter expert needs. Going forward, he believed AGDC would have the capabilities to fulfill the roles with either AGDC employees or contractors. He believed in certain instances AGDC would likely have individuals who were more experienced [than TransCanada], but he would need to see a side by side comparison.

[2:43:45 PM](#)

Mr. Dubler added that it was a difference in what function AGDC was providing on behalf of the state. He explained

that AGDC and TransCanada were not designing the pipeline, conducting engineering work, or doing the physical construction work. He stressed that AGDC was acting as the owner's representative to ensure the work was done correctly. The PMT was responsible for managing all of the contractors and the owners representatives ensured that everything was done correctly.

Representative Kawasaki referred to recent discussion related to information on slide 2. He discussed the relationship between the DNR and DOR commissioners and AGDC and how the final decision was made. He wondered who was at the table when the decision was made.

Mr. Dubler asked if Representative Kawasaki was referencing the last bullet point on slide 2. Representative Kawasaki replied in the affirmative. He was particularly interested in the words "in consultation" and wondered if the commissioners had veto power or if someone at AGDC made the final decision in the governance agreements.

Mr. Dubler answered that a "decision tree" had not yet been established. He relayed that AGDC had worked very well with DOR and DNR. He referenced language on the slide "AGDC may enter into contracts related to treating, transporting, liquefying or marketing gas" and noted that they had not yet gotten to the stage of entering contracts. He detailed that the negotiations for the contracts were ongoing and DOR, DNR, DOL, AGDC were all at the table with the producer parties.

[2:46:47 PM](#)

Representative Kawasaki mentioned that the House Resources Committee had included language in SB 138 prohibiting the DNR and DOR commissioners from being on the AGDC board. He asked for verification that his statement was accurate. Mr. Dubler did not recall which committee had made the change to SB 138. He believed it had been in the House.

Representative Kawasaki discussed that the AGDC board appointments were confirmed by a legislative body. He expressed concern about the possibility of misalignment between AGDC (where appointees could be from one governor or spread over a long period) and the state. He wondered if it had been considered that AGDC and TransCanada would ever work together under the project in a different capacity.

Mr. Dubler answered that he could not predict what would happen down the road. He stated that TransCanada was a fine pipeline company that could be considered if the state was ever in need. He communicated that there were seven members on the AGDC board, all serving at the pleasure of the governor; therefore, if there was misalignment, the governor would have the ability to fix it.

Representative Kawasaki asked for verification that there was nothing to prevent TransCanada from being involved in building a pipeline in the future. Mr. Dubler replied in the negative.

[2:49:19 PM](#)

Representative Gara referred to the statement at the top of slide 11 "TransCanada is not expected to build the pipeline..." He believed that many legislators had been convinced over the years that TransCanada was a good pipeline building company. He suspected that TransCanada would be more interested in building a pipeline if it was an owner. He wondered why AGDC believed TransCanada was not expected to build the pipeline.

Mr. Richards responded that the statement had been included due to misunderstandings throughout the dialogue that had occurred over the past year or so. He furthered that as an operating company with tens of thousands of pipeline miles, TransCanada had vast experience. However, TransCanada would have to contract with a pipeline construction company to be able to build a pipeline. He elaborated that TransCanada had the expertise in the operation, design, project and construction management, but not construction. He noted that in a Senate Finance Committee the prior session, the ExxonMobil lead project manager had clearly stated that the PMT would make the decision on who would build the pipeline. He added that it had not been defined as TransCanada.

Mr. Dubler clarified that the testimony Mr. Richards had referenced had been technically incorrect because the decision would be made by someone above the PMT.

[2:51:26 PM](#)

Representative Gara opined that the state was probably heading towards a recession and at some point it would become necessary to find a way to build jobs in Alaska. He wondered how many people the project may need to hire once construction began (possibly in 2019).

Mr. Richards responded that there was a conference with the Department of Labor and Workforce Development the following day to discuss pipeline construction and craft jobs. He believed the jobs for construction would be in excess of 10,000 people. He detailed that the jobs would start early on the material site, access road, and pipeline storage yard; the number of jobs would peak as the pipe was delivered and the modules were built and delivered to facility sites. Once facilities were constructed and work wound down to operations, the number of jobs would be closer to 1,000. He offered to follow up with additional information.

Representative Gara was happy with the answer.

Mr. Dubler added that AGDC had been pushing for local-hire since day one of the project planning. He relayed that AGDC had asked for residency when looking at filling positions, which he believed the producers were beginning to recognize. He stressed the importance of jobs for Alaskans. The corporation did not want to see a large number of the jobs go to individuals from out of state. He believed it had been a bad example in TAPS when workers from the Lower 48 had worked, trashed the place, and left.

[2:55:24 PM](#)

Representative Edgmon referred to slide 14 and observed that AGDC was already taking on a role previously performed by TransCanada in preparation for the termination of TransCanada's interest in the project. He assumed the AGDC board had made the decision. He wondered if the decision was made in concert with, or subordinate to, the decision making by the AKLNG integrated state gas team.

Mr. Richards asked for clarification. He wondered if the question was about nominating AGDC employees into the PMT.

Representative Edgmon explained that DNR had told the legislature that the decision to terminate TransCanada's ownership was a decision that should be made with the

consent of the legislature. He pointed out that based on the information on slide 14, the future termination of TransCanada had already been set in motion. He wondered if the decision to take on one of TransCanada's roles had been made at the AGDC board level, by the governor, or the integrated state gas team.

Mr. Richards answered that the purpose of the slide was to demonstrate AGDC's ability to assume roles currently held by TransCanada. He explained that the example used in the presentation was related to assuming a role that TransCanada held in discussions with the co-venture (specifically in terms of the NEPA process). He clarified that the decision to terminate TransCanada had not been made by AGDC; the point was that if the decision was made and executed, AGDC would have the ability to fulfill the roles.

Mr. Dubler added that AGDC had been working to find the right person to put into the project team. He noted that AGDC and the co-venture partners would like AGDC to have some employees on the project team. He explained that the opportunity had arisen and AGDC had a qualified person for the position; the action could have taken place with or without TransCanada's involvement in the project.

[2:58:54 PM](#)

Representative Edgmon wanted to better understand the level of command and how it flowed down from the governor. He pointed to an organizational chart titled "State of Alaska AKLNG Integrated State Gas Team" (copy on file), and observed that the AKLNG integrated state gas management team was represented by the AGDC CEO. He wondered if AGDC was subservient or subordinate to the integrated gas team in terms of decision making. He wondered how AGDC and the integrated team interacted.

Mr. Dubler stated that the AGDC had regular meetings with the state gas team. He explained that a decision to place one of its employees in a role previously held by TransCanada would not go to the state gas team. He elaborated that AGDC was an independent corporation with an independent board, which made decisions impacting the corporation. He did not know whether the decisions were influenced by the governor or other people and he did not believe the governor and others held meetings on the

issues. He explained that the decision to place an AGDC employee in the role [coordinating the FERC NEPA process (slide 14)] did not go to the AGDC board; it had been discussed with the AGDC president and CEO.

Representative Edgmon thought the AGDC CEO may be the appropriate person to address his questions. He did not understand how the state's AKLNG team interacted with AGDC from a strategic, policy, or decision making perspective. He was interested in the bigger picture perspective and did not believe he was getting the response he was seeking.

Mr. Dubler noted that Mr. Fauske was available via teleconference.

[3:01:39 PM](#)

Co-Chair Neuman referred to slide 6. He referenced testimony that it would be beneficial for the state to have a seat at the table to replace TransCanada. He wondered if AGDC, DOR, or DNR would take the sponsors group voting seat.

Mr. Dubler replied that the voting in the venture was currently fairly complicated. He explained that the voting in general was based on the ownership of each of the partners. Currently the state's 25 percent partnership was split in two between TransCanada and AGDC. He furthered that determining how to treat the state's vote had been a problem since the beginning (i.e. did the state get one vote for its 25 percent; did TransCanada and AGDC each get 12.5 percent; or did AGDC and TransCanada each get 25 percent). He reiterated determining how the voting worked had been difficult and had not yet been resolved. He relayed that the issue would be resolved if TransCanada was bought out of the venture.

Co-Chair Neuman asked wondered which party would be responsible for engineering and commercial work behind any future expansion if TransCanada was not involved in the project. He asked who would accommodate the gas not owned by the producers.

Mr. Dubler explained that the future expansions would take place after the project had been sanctioned, built, and reached full capacity and commercial production. At that point there would be a company running the pipeline,

similar to the Alyeska Pipeline Service Company in charge of TAPS. He furthered that the company running the pipeline would do the expansion, which would include soliciting for an engineering contract for the expansion design, a procurement project to purchase the appropriate kit, and a contractor to perform the expansion work. He relayed that it would not be TransCanada, AGDC, or ExxonMobil. He reiterated that it would be the company running the pipeline.

[3:04:19 PM](#)

Co-Chair Neuman asked for verification that the company would have complete autonomy from the state, administration, and politics. Mr. Dubler agreed, but noted the exception of AGDC's 25 percent ownership and any potential involvement it would have as a result of its ownership.

Co-Chair Neuman remarked that AGDC board members were appointed by the governor. Mr. Dubler replied in the affirmative.

Representative Edgmon restated his prior question about how AGDC fit into the overall decision making hierarchy. He observed that it appeared AGDC's role was somewhat subordinate to the state gas team.

Mr. Dubler replied that AGDC had received the organizational chart the prior day and he had not had a chance to review the document in detail.

Representative Edgmon directed his prior question to Mr. Fauske. Mr. Fauske answered that he had also just seen the organizational chart for the first time. He believed the chart may be somewhat misleading. He explained that the AGDC board was an independent organization and the AKLNG team had been good about coordinating with AGDC on issues that were relevant to the board or that required a board decision. He was careful to point out that any usurpation of the board's authority had been questioned. He furthered that how the issue would take place going forward. He reiterated that the board was autonomous. He detailed that the board met on a regular basis and received reports from the state, Mr. Boykin and Mr. Krusen (some of the material was confidential). Additionally, AGDC received updates at an upper management level on how the projects were

proceeding and on how its roles were proceeding. He explained that functions that fell under AGDC's domain and how things were done currently, involved the state's 25 percent share in the liquefaction. He stressed that from a managerial perspective AGDC's involvement in the midstream had been minimal (the role was currently held by TransCanada on the state's behalf). However, AGDC worked with TransCanada constantly. He detailed that there were frequent meetings with the parties including DNR.

Mr. Fauske relayed that he was quick to remind people that he had a board of directors and that any issues involving AGDC were required to go to the board. He informed the board about upcoming activities and discussions on votes for the work plan and budget. He was quick to get the board's vote on matters. He explained that AGDC worked to coordinate with the state as well as possible; DNR had a large function with many employees working primarily on the midstream, upstream, gas balancing, and a variety of issues under its regulatory domain that AGDC was not involved with (the issues affected AGDC because of its desire for a successful outcome). He noted that the decisions involving DNR were outside of AGDC's jurisdiction. Likewise, AGDC was not involved directly with issues pertaining to payments in lieu of taxes (PILT) and other taxes and issues under DOR. He addressed work requested through DOL to associate or assist the project; there was a separate line item for AGDC for legal work on its level. He detailed that information about legal work pertaining to AGDC was supplied to the board. He reiterated that AGDC functioned as an autonomous unit. He agreed that there were difficulties at times related to "who's on first," "who's jurisdiction are we dealing with," and who was the best to take on a particular function. He elaborated that the items were all a part of the process of determining solutions to the best way to move forward. He summarized that AGDC was autonomous, created under state law, and had a board of directors that was heavily engaged and active in the process.

[3:10:34 PM](#)

Representative Edgmon relayed that Mr. Fauske had answered a large part of his question. He surmised that the discussions to terminate TransCanada had taken place at the state gas team level.

Mr. Fauske replied in the affirmative. He remarked that the decision did affect AGDC, but it was the responsibility of the state. He explained that the TransCanada contract was with DNR, not AGDC. The corporation had been tasked with analyzing and determining AGDC's ability to take on the role [currently performed by TransCanada]. He furthered that the intention of the legislation was for the responsibilities to roll into AGDC based on legislative approval and appropriation. He stressed that the final determination would not be made by AGDC or its board. He stated that the board could get active if budget hearings determined that taking on the new role was or was not a good thing for AGDC to take on. There would be careful scrutiny and discussions with the board about how the action would affect the board and the board's role going forward. He reiterated that the final determination on the contract would not be made by AGDC or its board.

Representative Edgmon asked in the absence of TransCanada, which party would prevail in the event of a disagreement between the AGDC board the state gas team. Mr. Fauske replied that part of the problem with the governance is that TransCanada was voting on part of the issues and the state was voting on the other part. He deferred to Mr. Dubler for further information.

Mr. Dubler replied that if the state gas team was in favor of "x" and the AGDC board was in favor of "y," he would vote "y" on the management committee. He elaborated that the board of directors managed AGDC and its assets. He reported to and took direction from the AGDC board. He added that the statutory intent was very clear.

Mr. Fauske pointed out that there had been numerous occasions on the sponsors' group level where he had communicated the need to take the issue to the AGDC board prior to taking action. He noted that many other representatives on the sponsors group also had boards of directors that governed decisions of the sponsors group, steering committee, and the management committee.

[3:15:45 PM](#)

Co-Chair Neuman remarked on Mr. Fauske's testimony that AGDC was supposed to be a completely autonomous organization outside of state government. He asked if the

administration attempted or had any influence on the AGDC board.

Mr. Fauske answered that the governor was responsible for appointing the board members who were then approved by the legislature. He relayed that there had not been any bad influence. He added that sometimes it was necessary to remind people of the board process especially when efforts were being made to expedite something. He believed Governor Walker had been up front and honest in his dealings with the board. He did not believe outside interference had been a problem to date. He shared that AGDC was coordinating with the management to try to have a cohesive unit and team concept going forward.

Co-Chair Neuman believed that many legislators wanted assurances that AGDC's authority and power would be fully autonomous from any administration. He provided examples of other fully autonomous agencies such as the Alaska Permanent Fund Corporation, Alaska Railroad Corporation, and Alaska Industrial Development and Export Authority.

Mr. Fauske responded that the agencies were autonomous, but they were state-owned; therefore, there was naturally some interaction with the state. For example, two of the AGDC board members were current state commissioners. He detailed that by law the corporation was under the Executive Budget Act; the Alaska Railroad Corporation was the only state corporation that was not. He agreed that AGDC needed to act independently, which was the intent of the legislature; however, he did not want to misrepresent how the agency worked by saying that it was fully independent. He explained that there were certainly tie-ins to the administration and to the legislators as the appropriating body. To the best of AGDC's ability, it acted in an independent and fiduciary responsible manner; it was the duty of the board and the AGDC president to ensure that AGDC did not become engaged in decisions that were harmful to the board. He stressed that if AGDC got into issuing debt in the future, the board activity and independence would become particularly important.

[3:19:55 PM](#)

Co-Chair Neuman wanted some clarification on governance. He referred to slide 6 and wondered who would take

TransCanada's seat at the table on the project steering committee, management committee, and sponsors group.

Mr. Dubler answered that AGDC would absorb TransCanada's former percentage, which would bring AGDC up to 25 percent. He detailed that AGDC would not be replacing TransCanada; the corporation already had representatives on each of the committees and its vote would just be a bit larger.

Co-Chair Thompson relayed that he had received a question via email from former Governor Frank Murkowski. The email addressed that there were many Alaskans who were not aware of everything that had been done by TransCanada and the project. The constituents were interested to know what the state got from the considerations for funding TransCanada.

Mr. Dubler responded that TransCanada had represented the state in the project and had done a very good job representing the state's interest and ensuring that the PMT performed up to TransCanada's standards. Additionally, TransCanada had loaned money to the state that the state would repay with interest.

Co-Chair Thompson surmised that the legislation would appropriate funds to repay TransCanada for completed work. Mr. Dubler replied in the affirmative.

[3:22:03 PM](#)

Representative Guttenberg discussed that he was concerned about the pipeline construction jobs, but he believed the legacy jobs were the most important (jobs that would provide 30 years of employment related to maintenance and operations). He stressed that when the existing pipeline had been built in Alaska there had not been people in place for to fill the legacy jobs and the nature of the transition had not been understood. He stated that Alaska would clearly have the ability to train and put its people in place if it stressed the importance. He referred to slide 9 and was disappointed that AGDC had not hired people with the intent of moving them into PMT positions. He stressed that the state's representation based on employees was not anywhere near 25 percent. He reasoned that if the state did not have a significant say in everything that happened, by the time completion or the next transition arrived, it would not be where it should be. He noted that the committee had recently seen a presentation related to

getting AGDC up to speed and hiring people for the project. He stressed that the project would be the largest construction project in the world and he assumed that AGDC would have people who could have been nominated to be on all of the governance committees (i.e. engineers and fiscal staff). He was disappointed that either AGDC had not nominated staff or that the state did not have qualified candidates. He felt the state should have more significant representation on the governance committees than 10 out of 108.

Representative Guttenberg relayed that Alyeska's management team was made up of owners (BP owned 51 percent and Admiral Tom Barrett worked as a BP employee). He reiterated his disappointment that the state's representation on the governance teams was not more substantial.

Mr. Richards explained when SB 138 had been signed into law, AGDC had responsibility for the ASAP project and had been "hard charging" to complete the effort. He detailed that AGDC had been six months out from completing its Class 3 estimate and the nomination process had been undertaken to fulfill the needs of the PMT for AKLNG. At the time, AGDC did not have the LNG expertise internally to identify and fill any vacant roles even for the LNG portion of the project; therefore, AGDC had ramped up its capabilities. Subsequently, AGDC had hired Mr. Krusen who had great LNG expertise and who currently sat in a very key position on the project steering committee, overseeing the work of the PMT and budget decisions. He relayed that AGDC had found itself with available resources to meet the AKLNG vacancy needs given its completion of the work on ASAP. He furthered that there had been no vacancies on the AKLNG PMT and there had not been a tremendous number of vacancies for AGDC to fill. He added that AGDC stood ready to serve if TransCanada vacated the positions. He explained that what the PMT would look like for the FEED stage of the project had yet to be determined, but AGDC would be ready and able to nominate employees to meet the need within the PMT.

Representative Guttenberg was glad to that the state was still transitioning and hoped the argument would be made. He referred to the sponsors group on slide 6. He remarked that AGDC had made a reference to a decision made above the management and steering committee levels. He wondered if there was a sponsor or owner group acting as an overall management of the project.

Mr. Dubler replied that the sponsors group shown on the left of slide 6 was the overall group responsible for overseeing the entire project.

Representative Guttenberg asked for verification that voting was based on percentage of ownership. Mr. Dubler answered in the affirmative.

[3:28:06 PM](#)

Vice-Chair Saddler had been troubled to hear Mr. Dubler's remark that he may not be employed very long if AGDC voted in opposition to the desire of the state's integrated gas team. He thought that the remark spoke to the degree of autonomy between AGDC and the administration and he had noted that there had been changes in the AGDC board for far less reasons. Additionally, he had been troubled that Mr. Dubler had responded that he did not know who was really in charge of AGDC because he had not yet seen the organizational chart. He reasoned that he may have misunderstood the response and asked for further explanation. Separately, he had heard discussion about the complexity of voting rights to the extent that it had been impossible to have votes taken. He listed his understanding of the current ownership percentages and opined that it did not seem that complicated. He wondered if votes had been taken under the current voting structure.

Mr. Dubler stressed that the comment he had made about his job had been a joke. He asked for clarification on Vice-Chair Saddler's question about the organizational chart.

Vice-Chair Saddler replied that in response to a question by Representative Edgmon about AGDC leadership, Mr. Dubler had made a comment that he did not know and had not seen the organizational chart.

Mr. Dubler answered that AGDC was governed by its seven-member board of directors. He detailed that the members were appointed by the governor (two were department commissioners and five were members at large). He relayed that Mr. Fauske was currently the AGDC president and all of the corporation's vice presidents reported to Mr. Fauske. He stressed that AGDC's organizational chart was very clear. He noted that his reference to an organizational chart had been one that he had received the previous day,

which he had not had an opportunity to review in detail. He addressed the voting process and explained that the project was basically split into two parts. He elaborated that TransCanada had the midstream portion (GTP and pipeline) and AGDC had the downstream portion (LNG, marine, and terminal). He stated that issues would arise that affect one or the other of the two project components. He detailed that if a vote was strictly related to the pipeline, AGDC would not have a right to vote as it had no ownership in the pipeline. However, there were other issues that may affect the entire project, which brought up the question about who voted the state's 25 percent interest.

[3:31:37 PM](#)

Vice-Chair Saddler replied that he did not quite understand because he believed the proportional voting power was outlined fairly clearly. He believed the responsibility for each of the parties was fairly clearly delineated. He asked if Mr. Dubler had stated that no votes had been taken under the current structure.

Mr. Dubler clarified that he had stated he did not believe there had been any segment reports that only affect one part. He explained that he may not see a vote that impacted the midstream because AGDC was not involved with the midstream. He relayed that the conversation was treading on thin ice about how the joint venture agreement worked. He noted that he had to be careful about what he said. He stated that there had been votes that were along the entire project. The only time a problem arose was if AGDC's position was different than TransCanada's position on a vote that impacted the entire project. He explained that the project did not want to deal with the state fighting amongst itself; the project viewed TransCanada and AGDC as the state party. He agreed that it was the state's problem, which the administration was working to fix with the TransCanada buyout.

Co-Chair Neuman noted that the committee had to move on from the conversation.

Vice-Chair Saddler clarified that he needed further understanding of the voting structure, given it had been specified as one of the important reasons why TransCanada should be out of the project.

Mr. Dubler offered to discuss the questions further at a later time.

3:33:28 PM

Representative Gattis asked about the LNG experience of Mr. Boykin, Mr. Dubler, and Mr. Fauske. She wondered where the state's attorney general fell within the organizational chart. She asked if all members of the sponsors group were up to speed or if some were lagging behind schedule.

Mr. Dubler responded that the sponsors group was comprised of very high-level executives from large, successful corporations. Based on his experience, none of the individuals had been lagging whatsoever. He detailed that the individuals were always on top of matters and understood the project; the individuals had projects going worldwide and the AKLNG project was not "their first rodeo." He pointed to the attorney general's position as the head of DOL shown on the top left portion of the organizational chart. Lastly, he had not seen Mr. Boykin's resume and could not speak to his LNG experience. He had heard Mr. Boykin testify the previous day that he did not have LNG experience, but Mr. Dubler specified that he did not know that for a fact. He relayed that he personally had no LNG experience. He elaborated that he had started with AGDC when the organization had been formed in 2010 and had worked on the ASAP project for five years and the AKLNG project for two years. He communicated that Mr. Fauske had worked for AGDC for the same time period.

3:36:18 PM

Co-Chair Neuman addressed the organizational chart that had been provided by the administration. He observed that under Governor Walker's position at the top of the chart there was a solid line leading to the left [towards DNR, DOR, and DOL] and a dotted line leading to the right [towards AGDC]. He wondered if the dotted line was meant to indicate a separation of authorities. He asked for clarification.

Mr. Dubler replied that he would follow up with the information.

Representative Pruitt noted that one argument for keeping TransCanada in the project was due to its experience. He asked about the breadth of experience of AGDC's employees.

He wondered if there were people within the corporation who had experience with LNG.

Mr. Dubler replied in the affirmative. He detailed that AGDC had hired Mr. Krusen, a 36-year veteran at ConocoPhillips who had run its Kenai LNG plant and worldwide LNG engineering effort.

Mr. Richards added that AGDC employed subject matter experts with LNG experience. He detailed that industry individuals had elected to work under contract with the corporation and were available at any time.

Representative Pruitt asked if AGDC's experience was on par with or greater than that of the current TransCanada team. Mr. Richards stated that between the employees working for AGDC the corporation had centuries of experience to draw from related to Arctic-based large projects, pipeline-based projects, gas treatment processing, and LNG.

Representative Pruitt asked for verification that AGDC felt confident that the state had individuals who would potentially make it through the nomination process to fill vacancies in the current PMT and into FEED if TransCanada left the project.

Mr. Dubler explained that the project team had approached AGDC about Mr. Richards taking a position that had been open because the team had been interested in getting AGDC secondees into the project. He stated that the project team was keen on having all of the parties represented (not necessarily based on the exact percentage of ownership). To the extent that AGDC had available and qualified employees, he did not believe it would be a problem getting them seconded into the project. He stressed that AGDC would not nominate a sub-par person for a vacant position. He emphasized that AGDC wanted the best people to build the project.

[3:40:22 PM](#)

Representative Pruitt asked if the state would still be in a good place to ensure that it would have a positive outcome on the overall project if it only had a few representatives on the PMT. Mr. Dubler answered that the governance structure outlined on slide 6 would provide the assurance. He explained that the state had decision makers

on every one of the governance committees overseeing the entire project.

Co-Chair Neuman noted that the committee had received a DOL memorandum stating that AGDC had the legal authority to acquire TransCanada's interest [DOL memorandum dated October 26, 2015 (copy on file)]. He asked if the testifiers believed differently.

Mr. Dubler replied that neither he nor Mr. Richards were attorneys and he recommended relying on the letter from the attorney general that was very clear AGDC had the authority to acquire TransCanada's interest.

HB 3001 was HEARD and HELD in committee for further consideration.

Co-Chair Neuman discussed the agenda for the following day.

#

ADJOURNMENT

[3:42:16 PM](#)

The meeting was adjourned at 3:42 p.m.