

HOUSE FINANCE COMMITTEE
THIRD SPECIAL SESSION
October 28, 2015
1:34 p.m.

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CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:34 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

Vincent Lee, Director, Major Projects Development, TC;
Representative Benjamin Nageak, Representative Dave Talerico, Representative Andy Josephson, Representative Bob Herron, Representative Shelley Hughes, Representative Sam Kito III, Representative Liz Vazquez, Representative Adam Wool, Representative Neil Foster, Representative Geran Tarr, Representative Jim Colver, Representative Kurt Olson, Representative Dan Ortiz, Speaker Mike Chenault, Representative Gabriel LeDoux, Representative Matt Claman, Representative Lora Reinbold, Representative Louise Stutes, Senator Peter Micciche, Senator Pete Kelly.

SUMMARY

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

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

PRESENTATION: TRANSCANADA

Co-Chair Neuman reviewed the agenda for the day. He relayed that the Director of the major projects of TC

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#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.

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^PRESENTATION: TRANSCANADA

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VINCENT LEE, DIRECTOR, MAJOR PROJECTS DEVELOPMENT, TRANSCANADA (TC), explained that the Memorandum of Understanding (MOU) was established in 2013, and the materials were formalized in June 2014. He shared that TC agreed with the recommendation of termination of the agreement between the state and TC. He announced that TC no longer felt the project was feasible for the company. He stated that TC wanted to work with the state to transition smoothly as possible. He believed the buyout of TC was in the best interest of all participants.

Vice-Chair Saddler queried further detail of TC's involvement in the project.

Mr. Lee explained that the relationship between TC and the state began in the late 1970s to develop a transportation system to monetize Alaska gas. He stated that there were a number of North American pipeline companies who had partnered with the state and TC at that time to develop a gas transportation system. That effort ended in the mid-

1980s, because of the fundamental market changes in North America. He shared that there had been evaluations of different configurations, such as liquid natural gas (LNG). As recent as 2004, TC actively reengaged in the project. He stated that TC had negotiated a term sheet with the state administration, and had evolved over time under the Alaska Gasline Inducement Act (AGIA). He shared that TC was granted the license in late 2008, and were the AGIA licensee. He shared that TC had worked jointly on the project until 2003 [at 1:41:48, he clarified that he meant 2013], as a result of the significant derailment in the Lower 48. He stated that TC had partnered with ConocoPhillips and BP on the current LNG effort.

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Vice-Chair Saddler wonder if he meant 2013. Mr. Lee replied in the affirmative.

Vice-Chair Saddler asked when the administration had indicated that TC be released.

Mr. Lee responded that TC had heard of late May or early June. It was expressed that the administration's desire was to buyout TC.

Vice-Chair Saddler wondered if the reference was the "amended plan."

Mr. Lee indicated that he referred to the amended plan, the idea was that it incorporated an exit plan with the smoothest transition and exit plan.

Co-Chair Neuman asked why December 4, 2015 was the date of departure.

Mr. Lee indicated that the date had to do with budgeting for the following year.

Vice-Chair Saddler wondered whether the state was operating on the amended plan.

Mr. Lee responded that the amended plan had not been executed. He stated that TC was operating under the existing plan. He stressed that there was a plan to continue to work with the administration to develop a purchase and sales agreement, which would provide the

framework for TC to convey its interest the project to the administration; in return, the state would pay the TC incurred costs to date.

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Co-Chair Neuman wondered if TC would opt out of the project, should the state decide to no buy out the portion.

Mr. Lee suggested that the TC had that right to opt out of the project, and would consider it an option.

Co-Chair Thompson asked if state had the right to vote on December 4, should the legislature adopt the legislation.

Mr. Lee replied that the state must pay TC in full, then TC would waive its full interest to the state.

Co-Chair Thompson announced that TC must be paid in full, in order for the state to receive its voting right.

Mr. Lee replied in the affirmative.

Representative Pruitt asked Mr. Lee to remind the committee of TC's experience and investments.

Mr. Lee indicated that the majority of TC's investments were within North America. He stated that TC had three major businesses: natural gas pipeline business; liquids pipeline business; and an energy business specifically related to primary power generation facilities in the United States, Canada, and Mexico. He stated that TC had some investments in South America, as a result of the involvement in international investment. A significant portion of those investments had been divested in the early 2000s. He announced that TC had approximately 68,000 kilometers of pipe across North America. He shared that TC had approximately 11,000 megawatts in power generation facilities. He stressed that TC had substantial expertise in developing pipeline and energy projects. The market capitalization was in the range of roughly \$35 billion.

Representative Pruitt wondered if the AKLNG was a viable project.

Mr. Lee replied that TC's involvement in AKLNG was in the midstream portion, which was the gas treatment plant and

the pipeline. He stated that TC had significant expertise in the pipeline and gas treatment plant.

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Representative Pruitt wondered if the project was considered viable.

Mr. Lee answered in the affirmative, and stated that TC believed the project had a significant amount of potential. He shared that TC was removing itself in order not to impede the project.

Representative Pruitt wondered whether TC could profit from the project. He expressed concern about the state's ability to create an environment to push TC aside. He queried Alaska's expertise to fill the void left by TC.

Mr. Lee replied that the project was fundamentally good. He stated that the current administration had a different take on the state's role in the project. He opined that the administration thought the state would have more influence on the project without TC. He claimed he was not as knowledgeable about some of the people involved in the project and state's ability to manage the project.

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Representative Pruitt relayed that Mr. Lee had explained that TC had a layer of expertise in building a gas line. He wanted to know if TC believed the state had the expertise to step into the role TC had played thus far.

Mr. Lee informed the committee that TC was not a pipeline builder. The state of Alaska will gain experience over time. Meanwhile, there were some voids that must be filled, and encouraged the state to fill those positions accordingly.

Co-Chair Neuman relayed there would be future testimony and presentations that would outline the state's qualifications further. He wondered how the project development team would work together to ensure that the lowest prices for the cost of development would result in the best decisions.

Mr. Lee responded that the project management team was a collection of experts from the various participants in the

project. He shared that the technical team provided key participants. He remarked that the key to profit maximization included ensuring that the costs were as low as possible. He stressed that the stopgap between the three producers would likely relate to ensuring that the cost of the project was as low and reasonable as possible. He shared that the project team was adequate ensuring proper cost management. The project team had evaluated different risks for various elements of the project, but remarked that there would be continued refinements as the project moved forward into the FEED and construction phases.

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Representative Kawasaki wondered if the "break up" with TC was a mutual decision.

Mr. Lee suggested it was closer to a mutual resolution. He noted the importance of having an alignment. He indicated that the two entities were less aligned than before.

Representative Kawasaki wondered if commissioner would not sign off on the buyout should the conditions not be favorable to the state.

Mr. Lee was trying to better understand Representative Kawasaki's question. He relayed that TC would consider seriously terminating if the state did not.

Representative Kawasaki remarked that TC had supported the governor's decision to buyout TC's portion of the project. He asked for further information about that position.

Mr. Lee replied that it was not commercially reasonable for TC to remain in the project.

Co-Chair Neuman wondered if TC would rejoin the project, should the producers decide to not participate in the project while allowing their gas to be sold at commercially reasonable rates.

Mr. Lee responded that TC must be given all the facts at that time, before any decision could be made. He felt that it was premature to offer a response to that inquiry.

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Representative Gara understood that TC's main objective was to make a profit. He believed TC's people were always "straight shooters." He spoke of many legislators to buy out TC's interest. He asked that if the state opted to buyout TC it would have to pay an additional interest of 7 percent.

Representative Gara clarified that TC was not a builder but an owner and developer.

Mr. Lee indicated that he was correct.

Representative Gara asked if TC would choose to stay with the project under different circumstances.

Mr. Lee felt that more information and research would be required before he could respond to that question.

Representative Gara wondered if the project was feasible.

Mr. Lee agreed that if TC owned 100 percent interest in the project the project would be viable.

Representative Gara noted that 95 percent of the project costs would be in the construction phase. He noted that the cost would not be spent until there was a seller of gas, a committed buyer of the gas, and a facts that ensured that the price of gas makes the project feasible.

Mr. Lee replied that a pipeline service provider required, first, a firm transportation service agreement from a credit worthy party. He stressed that the pipeline did not own nor sell the gas.

Representative Gara wondered if TC would invest in the construction without the three listed requirements.

Mr. Lee replied in the affirmative.

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Representative Munoz asked about the FTSA, and whether DNR had indicated a firm transportation agreement was about two weeks out. She wondered if Mr. Lee agreed with that schedule.

Mr. Lee thought that two weeks was an aggressive timeframe. He stressed that the FTSA was significant, and required completed areas. He stressed that it would probably take longer than two weeks to complete.

Representative Munoz asked if TC's ability and goals were encroached upon and at what point TC was aware of the buyout.

Mr. Lee indicated TC became aware of a potential buyout in May or June of 2015. He did feel that communication began to inhibit TC's ability to operate fully on future agreement negotiations.

Representative Munoz wondered where TC's interest would lie, specifically in AGDC or DNR.

Mr. Lee relayed that his impression would most likely go to AGDC, however DNR would have to designate that authority.

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Representative Munoz queried the next steps and TC's exit strategy.

Mr. Lee mentioned putting in to place a purchase and sales agreement. He believed that the termination agreement could be executed within a short period of time.

Representative Munoz queried any advice to the state with the full 25 percent interest.

Mr. Lee He discussed that all such projects took time and focusing on the long-term goal was very important, and stressed that TC believed the project was a good project.

Co-Chair Neuman wondered how the world would see Alaska as a player in resource development, should the project not move forward.

Mr. Lee responded that the project was very important to the state, because it would monetize the available gas. The project would also signal a positive business environment in Alaska. He opined that more people would look for resources in the state.

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Representative Edgmon wondered whether the decision had been made that TC would exit the project.

Mr. Lee responded in the affirmative.

Representative Edgmon asked if there was a chance that the line did not get built based on commodity prices of oil.

Mr. Lee stated that he thought it was a typical cycle. He recommended staying focused on the long term due to price equilibrium.

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Representative Edgmon asked how the rest of the world would treat the exit of TC in the project versus TC voluntarily exiting down the road.

Mr. Lee responded that he could not offer an opinion as to how the other companies would respond to the exit. He stressed that TC's exit from the project was a mutual decision with the state. He remarked that TC understood the concern and the position of the administration.

Representative Edgmon asked about his thoughts about the state of Alaska being a general partner rather than a limited partner. He queried the value of the voting rights.

Mr. Lee believed voting rights should be commiserate with one's investment. The arrangement of the previous administration was viable. He felt the necessary to have the voting rights to be able to invest. The current administration wanted a direct say in the vote. He stressed that if TC was the party with the money it should have the vote.

Representative Edgmon felt that the committee was operating in the context of the aftermath.

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Representative Gattis mentioned exit strategies and plans. She stated that the purchase and sales agreement that would define the exit.

Co-Chair Thompson interjected, "amended plan."

Representative Gattis wondered how the state should move forward to protect itself, and ensure that the proper employees were in place in the process.

Mr. Lee reported that the amended precedent agreement was "shelved." He reported that TC had worked with the administration on the agreement for the previous few months. The draft agreement did not work out between the state and TC, assuming that the legislation would get passed. The amended precedent agreement was an outline of how the exit would happen. A sales and purchase agreement would still have to be executed.

Representative Gattis summarized that the amended agreement was no longer necessary because it would be replaced with a purchase and sales agreement.

Mr. Lee agreed.

Co-Chair Thompson wondered if TC would allow its project secondees to stay with the project during the transition process.

Mr. Lee replied in the affirmative, and explained that the seconded employees would stay with the project until the end of May 2016

Co-Chair Thompson asked how many employees would be seconded.

Mr. Lee replied that there would be 15 seconded employees.

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Representative Guttenberg noted that TC had assumed that they would be terminated from the project since around May 2015. He noted that the FTSA would take longer than two weeks, so he wondered what the meeting in December would be like if the voting was not clear.

Mr. Lee stated that it would be a very difficult meeting. He felt that it would put the project at risk, and would have a significant impact of the project. There would be no authorization for work, and a significant set-back to the project. He stressed that there would be no authorization for spending beyond December 31, 2015. He

announced that TC had been trying to emphasize the importance of finalizing a buyout prior to December 4th so that the state could have its full vote.

Co-Chair Thompson asked if TC to approve the budget without the buyout taking place.

Mr. Lee replied that TC would likely not approve a budget in that circumstance.

Representative Guttenberg expressed frustration that the state may not be able to defend itself.

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Representative Wilson wondered if TC would have been responsible for any of Alaska's share of gas in the pipeline.

Mr. Lee responded that it was the state's responsibility to locate a buyer for the gas.

Representative Wilson wondered why TC did not exit the project on its own.

Mr. Lee stated that in May or June of 2015 the state had indicated its desire to buyout TC, so TC wanted to work cooperatively in transitioning with a buyout.

Representative Wilson asked if he felt the project was slowed down due to the recent events.

Mr. Lee relayed that he did not believe the project was slowed down in Pre-FEED.

Representative Wilson commented about the significance of TC moving the project forward even though TC knew about its probable exit.

Co-Chair Neuman noted that there would be secondees from TC that would assist in the transition. He queried the process for the transition with the seconded employees.

Mr. Lee replied that 15 secondees would remain on the project, in order to ensure a smoother transition project.

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Vice-Chair Saddler wondered who had made the decision to "shelf" the amended precedent agreement, and whether there a related policy decision that affected the agreement.

Mr. Lee replied that the amended precedent agreement was an attempt to map out the process for TC's exit from the project. He stated that it was not the same as a purchase and sales agreement, which would still be required for the transaction. The amended precedent agreement evolved with the communication from the state to terminate the relationship with TC, followed by an appropriation request to the legislature. He shared that, toward the end of those discussions the administration had determined that the proper process would be to "shelf" the draft agreement.

Vice-Chair Saddler did not see the difference between a pursued process and an abandoned process.

Mr. Lee explained that the difference between the APS was that the administration would issue the termination.

Vice-Chair Saddler commented that he had become aware of the formation of two subsidiaries within AGDC, and queried the effect of them on TC.

Mr. Lee had no idea of the subsidiaries and had nothing to do with them.

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Vice-Chair Saddler wondered why TC wanted to keep the precedent agreement confidential.

Mr. Lee replied that the precedent agreement was traditionally confidential in the commercial world. He remarked that TC did not want to overly expose what was included in the precedent agreement before the negotiations were complete on the firm transportations services agreement. He understood that there would not be a firm transportation agreement in the near future.

Vice-Chair Saddler surmised that TC was removed from the terms of operation, therefore the precedent agreement had less effect.

Mr. Lee agreed.

Vice-Chair Saddler queried the lines of authority on the state's side of the project.

Mr. Lee replied that TC was currently working with the commissioner of DNR in the termination project. The commissioner had the authority to terminate the relationship with TC.

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Co-Chair Neuman queried the lead negotiator between the state and TC. Mr. Lee clarified that the point of contact had changed. He expressed that they had worked with the deputy commissioner of DOR on a variety of issues, and furthered that it was dependent upon the topic that was being discussed.

Vice-Chair Saddler asked if there had been votes taken to date in which the state and TC had aligned interests. Mr. Lee replied that there were votes at the management committee, and asserted that TC and the state always voted with the interest of the state.

Vice-Chair Saddler referred to governance agreements, and inquired about the status of the development of the agreements. Mr. Lee relayed that the development was going well but was not yet finalized. He stated that TC had some significant issues with the current model.

Vice-Chair Saddler queried the parties negotiating the governing agreements. Mr. Lee replied that all three producers, TC, AGDC, and the state administration were negotiating the governing agreements.

Vice-Chair Saddler asked who had taken the state's negotiating position. Mr. Lee replied that Mr. Boykin was the chief negotiator.

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Representative Gara expressed concern regarding Alaska assuming a great level of risk by selling the gas.

Co-Chair Neuman shared that there was an updated version of SB 138, and the expectation of some changes to that former legislation.

Representative Gara discussed known quantities of gas on the North Slope and wondered if Mr. Lee could comment on how to factor known and unknown reserves into the goal of selling the greatest amount of gas.

Mr. Lee referred to the discussed the additional risk involved in moving forward with a 48-inch pipe. He considered that there was much information yet to discover in order to formulate a decision.

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Co-Chair Neuman asked if the state was at the point at which it could make an informed decision as to the pipe size, and whether there enough information to make the decision. Mr. Lee did not believe that there was not enough current information to make that decision.

Representative Munoz queried the practicality of the withdrawal agreements, and whether those agreements helped or hindered the progress on a project. Mr. Lee reminded the committee that TC was not an oil and gas company. He suggested that the experts may be better equipped to respond to the query.

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Vice-Chair Saddler queried who would replace TC's role as a financier for the midstream.

Mr. Lee replied that he did not know who would replace the financier. He suggested that there was person to stand as the financier.

Vice-Chair Saddler wondered if there were changes in the market that the state should keep in mind in the future market place.

Mr. Lee relayed felt supply and demand was most important.

Co-Chair Neuman asked if Alaska's gas was different that globally.

Mr. Lee suggested that as a commodity gas it was the same. He explained that Alaska gas had an advantage, because it was closer to the Asian market. He furthered that that the

AKLNG project had strong sponsors in the three major oil and gas producers.

Co-Chair Neuman discussed committee business.

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

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

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ADJOURNMENT

3:15:36 PM

The meeting was adjourned at 3:15 p.m.