

HOUSE FINANCE COMMITTEE
February 18, 2016
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

David Teal, Director, Legislative Finance Division; Lacey Sanders, Analyst, Legislative Finance Division; Bruce Tangeman, Vice President of Administration and Finance, Alaska Gasline Development Corporation; Miles Baker, Vice President of Government Relations and External Affairs, Alaska Gasline Development Corporation; Speaker Mike Chenault.

PRESENT VIA TELECONFERENCE

Frank Richards, Vice President, Engineering and Program Management, Alaska Gasline Development Corporation.

SUMMARY

AKLNG UPDATE: "FUNDS EXPENDED & FY17 FUNDING REQUESTS"

Co-Chair Neuman reviewed the agenda for the meeting.

^AKLNG UPDATE: "FUNDS EXPENDED & FY17 FUNDING REQUESTS"

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LACEY SANDERS, ANALYST, LEGISLATIVE FINANCE DIVISION, explained that she had been asked to present a summary of the AKLNG fund codes. She turned to her handout entitled: "Summary of AKLNG Fund Codes" (copy on file). The page one fund codes were listed as follows:

- 1229 AGDC-ISP: In-State Natural Gas Pipeline Fund -
The fund code was established with the passage of HB 4 (Alaska Gasline Development Corp; RCA) (2013 Chapter 11 SLA 13) which created the In-State Natural Gas Pipeline Fund. The code was utilized for Alaska Gasline Development Corporation (AGDC) direct expenditures from the fund.

- 1232 ISPF-I/A: In-State Natural Gas Pipeline Fund - Interagency - The fund code was established in conjunction with 1229. The fund code was used when AGDC worked with other agencies; monies would be passed through from the fund via Reimbursable Services Agreements (RSA) and the code tracked funds that were spent in other agencies for in-state natural gas pipeline related work.
 - 1229 AGDC-ISP only tracked direct operating costs and did not include expenditures for large contracts.
 - The In-State Natural Gas Pipeline Fund was capitalized via an appropriation of \$355 million with passage of HB 4.

- 1235 AGDC-LNG: Alaska Liquefied Natural Gas Project Fund - The fund code was established with the passage of SB 138 (Gas Pipeline; AGDC; Oil & Gas Prod. Tax) (2014 Chapter 14 SLA 14). The code was utilized for Alaska Gasline Development Corporation (AGDC) direct expenditures from the fund.

- 1236 AKLNG I/A: Alaska Liquefied Natural Gas Project Fund I/A - The fund code was established with the passage of SB 138. The fund code was used when AGDC worked with other agencies; monies would be passed

through from the fund via Reimbursable Services Agreements (RSA) and the code tracked funds that were spent in other agencies for Alaska Liquefied Natural Gas Project Fund (AKLNG) related work.

- 1241 GF/LNG: General Fund/LNG - The fund code was established during the current special session. The fund tracked direct UGF (Undesignated General Funds) appropriations related to the AKLNG project within each individual department.

Ms. Sanders addressed the first fund codes on page one.

Co-Chair Neuman asked for clarification regarding the first two codes related to AGDC expenditures for the in-state gas pipeline fund. He wondered whether the codes tracked the project description but not the expenditures for the project. Ms. Sanders replied that AGDC direct operating expenditures included lease space, personal services, commodities, etc. She continued to explain that other payments for large contracts were not included in the code.

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Ms. Sanders turned to the spreadsheet on page 2. She pointed out that the document included a summarized history of each of the fund codes and where it was being used. She cited the first chart titled "FY 17 Governor's Amended Request" was a summary of all of the funding requested by the governor for the AKLNG project and the associated agencies. She noted that the Department of Law's (DOL) AKLNG expenditures were incorrectly appropriated as UGF in FY15, FY 16, and FY17, which would be corrected.

Co-Chair Neuman asked her for clarification. Ms. Sanders explained that each of the fund codes identified in the summary were listed across the top of the chart and each agency was listed on the side with the associated funding request by agency under the appropriate code.

Representative Gara asked how the DOL expenditures were reported. Ms. Sanders responded that the expenditures were being changed from pure UGF and the corresponding fund code 1004 to the appropriate code 1241 GF/LNG.

Representative Gara wanted to know how the request showed up in the department. He surmised that in the department's

budget the funding showed up as a receipt and then department expenditure. Ms. Sanders responded in the affirmative.

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, (LFD) interjected that the 1004 UGF code should have never been used for any of the natural gas work. He relayed that specific expenditure tracking was not possible using the straight UGF codes. The division was changing DOL's budget requests for all three fiscal years to the 1241 code. The correction allowed for precise tracking of expenditures. In addition, in FY 16 the FY 1229 AGDC-ISP code which tracked direct expenditures for the internal operations of AGDC and for contracts with vendors was inappropriately used for a Department of Natural Resources (DNR) appropriation. He stated the code was used in error and that DNR did not possess the authority to sign contracts under the code and the funding should not have been appropriated. He directed the committee to correct the codes in the Supplemental budget bill.

Co-Chair Neuman interjected that HB 3001 (APPROP: LNG PROJECT & FUND/AGDC/SUPP.) directed the use of proper fund codes to properly track the appropriations and expenditures. Mr. Teal agreed. He remarked that codes needed to be used properly to ensure accurate fund tracking. He stated that AGDC could inform the committee of the funds balances and the purpose of LFD's testimony was to explain the fund codes. The division was aware of funding sources and monies appropriated did not track contracts signed by AGDC which precluded LFD from tracking the account balances. He commented that the division had difficulty obtaining information regarding the balances of the funds due to confusion over cash balances versus unobligated balances. He elucidated that cash balances contain some appropriated money that might be obligated and cautioned against using cash balances.

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Representative Gattis wondered why the legislature had not imposed accounting of AGDC monies from its inception.

Ms. Sanders explained that LFD provided tracking of appropriations that were made. Since AGDC was in charge of

the fund the corporation accounted for the balances in the fund.

Co-Chair Neuman suggested that the legislature would have to go to the department for an accounting of AGDC funds.

Mr. Teal pointed to DOL's fund code error in FY 17, using a general fund code. He detailed that in FY 15 and FY 16 the tracking code was not established because all pipeline funds were supposed to pass through AGDC as the coordinating agency. The departments did not want to coordinate spending with AGDC. He pointed out that the 1241 GF/LNG code made up the bulk of the money; in FY 17 the amount was \$30.5 million. In FY 16 most of the appropriation should be coded under 1241 but the approximately \$9 million appropriated to DNR was coded improperly. He alerted the committee that AGDC could code the expenditures with more specificity in their system to account for the GF spending. He said that "the legislature was relying on the agencies and its proper coding of expenditures in order to track" them. He reiterated that LFD can only track the appropriations and not the expenditures.

Vice-Chair Saddler wanted to know what 1235 AGDC/LNG fund code was for. Ms. Sanders explained that the fund code was for AGDC's operating costs related to the AKLNG project. Both projects accounts were separated because of statutory requirements that required independent accounting for AKLNG and the in-state natural gasline project.

Mr. Teal added that the codes were set up for the same purpose; code 1229 and code 1235 were used for AGDC's internal operating budgets for each project.

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Representative Wilson asked whether the legislature made a mistake. She wanted to know if the legislature should have appropriated the funds "to one group so somebody was accountable" instead of "four or five." Mr. Teal answered that the legislature was able to track "where the money went" but lost AGDC's coordinating role.

Co-Chair Neuman interjected that the money was trackable through the departments.

Representative Wilson stated that AGDC would have to request spending information from each agency in order to track and coordinate the various funds expenditures. Mr. Teal thought that was a "good question" for AGDC. He repeated that LFD could report what funds the agencies received but not how the agency spent the money or whether the funds were spent according to AGDC's direction. He declared that AGDC could not coordinate money that was directly appropriated to a department. Representative Wilson confirmed that that was her point; to have one agency coordinate the projects spending. She thought that could be accomplished through "much more bookkeeping" on AGDC's part assuming that the departments would provide spending information on a regular basis. She hoped the accounting would be fixed.

Representative Wilson wanted the ability to determine whether the department was spending on items to help move the projects forward at the necessary time.

Representative Edgmon thought that the whole point of the presentation was to demonstrate that LFD had a system that enabled tracking of the funds going forward. Mr. Teal relayed that the Co-Chair's request was to present the fund codes in order to better understand the departments' presentation on the balance of the funds. He shared that LFD's purpose was to inform the committee about the codes, how the codes were set up, and how LFD tracked the appropriations. He thought that the presentation raised more questions than answers about specific expenditures.

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MILES BAKER, VICE PRESIDENT OF GOVERNMENT RELATIONS AND EXTERNAL AFFAIRS, ALASKA GASLINE DEVELOPMENT CORPORATION, introduced the PowerPoint Presentation: "Natural Gas Project Funding & Expenditures" dated February 18, 2016 (copy on file). Mr. Baker began with slide 2:

"Natural Gas Pipeline Development."

2009: Legislature begins taking deliberate steps to develop an in-state pipeline, independent of other producer led North Slope commercialization efforts.

2011: Alaska Stand Alone Pipeline (ASAP) plan developed and delivered to the Legislature. Plan further optimized during 2012.

2013: Alaska Gasline Development Corporation (AGDC) established as an independent, public corporation - \$355+ million investment towards ASAP (HB 4).

2014: State participation in Alaska LNG project authorized (SB 138), Joint Venture Agreement executed and Pre-Front End Engineering and Design (Pre-FEED) begins.

2015-2016: AGDC progressing two North Slope natural gas pipeline project options: Alaska LNG primary and ASAP backup.

Mr. Baker delineated that the \$355 million appropriation in 2013 was deposited into the newly created In-State Natural Gas Pipeline Fund, which was managed by Alaska Gasline Development Corporation (AGDC). In 2014, with passage of SB 138 (Gas Pipeline; AGDC; Oil & Gas Prod. Tax) [2014 - Chapter 14 SLA 14] the Liquefied Natural Gas Pipeline Fund was established for the Alaska LNG (AKLNG) project. Currently AGDC administered two projects: The first was the AKLNG project which was the highest priority for the corporation. Secondly, the ASAP project was being maintained as a back-up project if ASAP was halted.

Co-Chair Neuman requested that Mr. Baker identify any funds that were initially appropriated for the ASAP project and were used for the AKLNG project.

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In response to a question by, Vice-Chair Saddler, Mr. Baker clarified that the In-State Natural Gas Pipeline Fund was used to advance the ASAP project and the off-take work to develop in-state delivery from a natural gas project.

Co-Chair Neuman wondered what the origin of the authorization for use of the in-state fund was. Mr. Baker responded that HB 4 (Alaska Gasline Development Corp; RCA) [2013 - Chapter 11 SLA 13] granted broad authorization for a project plan and additional language that covered AGDC to deal with in-state gas issues "in general."

BRUCE TANGEMAN, VICE PRESIDENT OF ADMINISTRATION AND FINANCE, ALASKA GASLINE DEVELOPMENT CORPORATION, offered further clarification. He delineated that originally the in-state fund was appropriated for the ASAP project. Subsequently, the AKLNG project was "layered in." The corporation worked with its external auditors to develop a cost allocation method. The method established what the corporate requirements were for operations expenditures when drawing funds from both fund sources to fund corporate operations.

Co-Chair Neuman asked whether AGDC had the ability to explain expenditures from either of the funds. Mr. Tangeman answered in the affirmative.

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Representative Wilson asked whether all of the funds were allocated to AGDC or were some funds provided to various agencies. Mr. Baker answered that both funds were used by AGDC to develop the projects or pay for its operations and were in the corporation's control. He elaborated that the legislature appropriated additional funds for agency use and were handled through Reimbursable Service Agreements (RSA). The "determination" whether to use the money for the intended purpose was based on a contractual arrangement between AGDC and the department in support of work to move the project forward.

Mr. Tangeman pointed to the \$25 million [Additional Capitalization for HB4 Fiscal Note Agency Work (FY14)] appropriation on Slide 3 to be used for RSA work performed by other agencies. He revealed that AGDC ascertained the stage each project was in to determine whether the projected spending in a fiscal note's out years was necessary at the time. He exemplified a Department of Environmental Conservation (DEC) fiscal note that projected the need for two positions in the second year. When DEC requested the funding for the positions AGDC determined that the services were not necessary at the time and did not authorize the funding. He indicated that the fiscal note contained the projected need but it was AGDC's job to determine whether the services or employees were warranted at the time.

Representative Munoz asked when the work for the in-state line merged with the work for the AKLNG project. She noted

various funding for both projects that existed in "silos" and wondered "at what point" the expenditures "came together." Mr. Baker responded that AGDC was following the policy, statute direction, and appropriations given by the legislature to move both projects forward. One project currently has a higher priority than the other. The corporation perceived that at some point a policy decision to stop the ASAP project would be issued. He voiced that as long as ASAP was maintained as a fall back plan some expenditures were necessary to keep the project viable. He offered that AGDC's role was to manage the projects. The agencies had other roles outside of AGDC. He indicated that "where it made more sense" for certain departments to perform project work like permitting and design specifically for a project, the funding was funneled through AGDC in its role as manager.

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Representative Munoz asked whether any of the AGDC employees worked on both projects. Mr. Tangeman indicated that all 18 of the employees at AGDC were overseeing the corporate functions and assisting the work on both projects.

Representative Munoz remarked that AGDC's budget on slide 5 had two separate expenditures for travel totaling \$464 thousand. The in-state gas travel budget was \$200 thousand and \$264 thousand for AKLNG. Mr. Baker explained that the page depicted a summary of AGDC's expenditures. He agreed with the figures and reminded Representative Munoz that the corporation was working from two separate funds, one for each project and the corporation's total expenses were derived from a portion of the in-state fund and a portion of the AKLNG fund.

Mr. Tangeman interjected that the travel actuals for FY 14 was \$85 thousand and for FY 15 was \$73 million. He related that AGDC was a fairly young entity that was given funding and built a budget over the last few years and there was not a lot of history to base budgets on. The travel budget items were significantly less than projected. He commented that the "bottom-line" to the corporations budget was that the money was being appropriated from a "lump sum" and whatever monies was not spent on travel remained in the fund and available for the project for any other need.

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Co-Chair Thompson wondered whether at any point in time AGDC was asked to forward fund for work that the corporation thought was unnecessary. Mr. Baker replied in the negative.

FRANK RICHARDS, VICE PRESIDENT, ENGINEERING AND PROGRAM MANAGEMENT, ALASKA GASLINE DEVELOPMENT CORPORATION (via teleconference), explained that the corporation entered into the RSA contracts with the agencies on a fiscal year basis. Each year AGDC reviewed the scope of work necessary for a department to complete the contractual work and the department's budget and appropriated only for work that was necessary and was completed in the fiscal year.

Co-Chair Thompson repeated his question. Mr. Richards responded in the negative. He indicated that the corporation was very "stingy" with their funds. He shared that Department of Transportation and Public Facilities (DOT) was appropriated \$700 thousand in a fiscal note and AGDC cut the work activity to \$200 thousand. He emphasized that AGDC only authorized agency funds for work that was "absolutely necessary at the time."

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Mr. Baker pointed to slide 3: "In-State Pipeline Fund: Cash Flows." He explained that the in-state fund existed since 2014. The \$17.184 million balance shown as the starting balance on July 1, 2013 was the unobligated balance reappropriated from the Alaska Housing Finance Corporation (AHFC) funding used for the early development of the ASAP concept. He communicated that the original appropriation of \$330 million was the amount projected to bring the ASAP to a project sanctioning decision. Beginning in FY 14 through FY 19, \$25 million was appropriated for agency support work. He offered to supply more information regarding how much RSA work was completed and which departments received RSA funding. The money was funded on the assumption that ASAP was going into construction by FY 17.

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Co-Chair Neuman asked Mr. Baker to provide the detailed funding information from the departments.

Representative Munoz asked whether the state was close to a sanctioning decision on the ASAP project. Mr. Baker responded that the FEED (Front End Engineering and Design) stage of the ASAP project was completed on December, 2014. Mr. Baker elaborated that the Regulatory Commission of Alaska (RCA) recourse tariff filing, open season, and project sanctioning would have taken place last year but was put on hold based on the decision to advance the AKLNG project.

Representative Munoz asked how long the completed commercial work was usable if the project was reactivated in the future. Mr. Richards replied that the FEED work was still available to the corporation and characterized the work as a "very detailed and definitive plan to construct the project."

Representative Munoz was trying to understand whether the information was usable in the future. Mr. Richards responded affirmatively.

Representative Gara asked if everything in red was an expenditure on slide 3 and if all expenditures were solely for the ASAP project. Mr. Baker answered in the affirmative and explained that the exception was in the FY 16 and FY 17 projections that included in-state gas work. He expounded that regardless of which project moved forward AGDC was responsible for developing in-state offtakes. Last year AGDC began the offtake work in "earnest." In FY 16, \$16 million out of the \$19 million appropriation was "ASAP specific." The corporation also began engineering and commercial work for the in-state gas portion.

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Representative Gara believed that the in-state gasline or ASAP project would never be built and that two pipelines were a "waste of money." He wondered how much money the state was spending on two separate pipelines. He cited the FY 16 \$19 million [\$19.231 million] expenditure for ASAP and asked how much was applicable to AKLNG. Mr. Richards answered that the \$16 million ASAP figure mentioned by Mr. Baker was utilized for the completion of the major engineering studies for waterways crossings, civil works, materials site selection, and environmental reviews for cultural resource and wetlands. He detailed that the work was specifically done for ASAP but was also relevant to

AKLNG. In 2015, AGDC worked collaboratively with the AKLNG project and developed a common alignment for two pipeline segments. He defined that the segments stretch from Prudhoe Bay to the Susitna River crossing in Southcentral Alaska where both projects share a common right-of-way and a common center line. The engineering work benefitted both the ASAP project and the ALNG project. He noted the \$1.3 million appropriation [Appropriation 2015 Gasline Special Session SB 3001 In-State Receipt Authority] for in-state receipt authority for work AGDC conducted for AKLNG. The corporation continued to work "extensively" with AKLNG to utilize the knowledge and information that was obtained for ASAP in the development of AKLNG. He emphasized that AGDC took "quite seriously" the legislature's directive not to duplicate work and to maximize the value of the work for both projects.

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Representative Gara asked about the expenditures listed for ASAP in FY 16 and FY 17; \$5 million for in-state gas work and \$4.3 million for ASAP. He wondered whether any of the money was needed for the "large" line. Mr. Richards explained that the funds represented the funding for ASAP in FY 17 and was necessary to complete the Supplemental Environmental Impact Statement (SEIS). He explained that the work included the regulatory process lead by the Army Corp of Engineers studying the impacts of the new routing alignment (common alignment) for ASAP, which resulted in regulatory development for both projects. If approved, the completed SEIS in 2017 would grant AGDC a Section 404 Wetlands permit and a federal right-of-way permit across federal lands along the routing alignment. The completed SEIS would grant AGDC all of the state and federal right-of-ways lands on the common alignment from Prudhoe Bay to Southcentral Alaska and would be available for any gasline. He continued that the in-state gas work was also common for any gasline project because of the legislative mandate to provide gas to Alaskan communities at commercially reasonable rates, which included determining the best methods for gas delivery to communities.

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Representative Gara understood the directive but wanted to know if any portion of the expenditures for ASAP or in-state gasline was not necessary for the large line. Mr.

Richards responded that both projects were at two different stages of development. He reiterated that the SEIS work was following the Army Corps of Engineers process and following the National Environmental Policy Act. The AKLNG project was being led by the federal Energy Regulatory Commission under Section 3 as an integrated LNG project, which was in the pre-FEED stage. He restated that the AGDC work effort for the SEIS benefitted the AKLNG environmental work.

Representative Gara maintained that he did not want any money spent on in-state gasline or ASAP work that was not relevant to moving AKLNG forward. He queried what the definitive amount of money was that had been spent on in-state or ASAP, which was unnecessary for the AKLNG gasline. He wanted to make a policy decision regarding whether to expend any funds for any in-state gasline work.

Mr. Richards responded that he did not have the specific dollar amount.

Co-Chair Neuman requested an estimated response.

Mr. Richards stated that he was not able to provide an appropriate estimate and would follow-up.

Representative Gara reiterated his request for FY 16 and the cost proposals for FY 17 amounts of funding for ASAP and the in-state gasline that was not necessary for the larger AKLNG gasline. He stressed that he asked the same question four times. He was concerned about the budget deficits.

Mr. Tangeman interjected that the question related to Representative Munoz's inquiry regarding the shelf life of completed work on the ASAP project that could be used for any gasline project and that AGDC would determine what work was near completion and was applicable to any gasline project going forward.

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Co-Chair Neuman surmised that the amount of money for the completion of the SEIS was \$4.310 million. He wondered whether anymore ASAP funds were required for AKLNG.

Mr. Baker shared that 85 percent of AGDC's corporate overhead was charged to the in-state fund due to its

inception under HB 4 and the accompanying appropriation. He related that the AKLNG money was set up to fund the project's cash calls and only a relatively small operating component that was associated with 6 new positions was the projected overhead. The majority of the corporation's overhead was covered under the in-state fund.

Co-Chair Neuman stressed that the misperception was "exactly why" the legislature developed new fund codes in order to specify expenditures. He referenced the remarks that AKLNG was the priority project. He cited the \$10.1 million request in FY 17 under fund code 1229 AGDC/In-state pipeline on slide 3 and the \$2.8 million request in FY 17 under fund code 1235 AGDC/Alaska Liquefied Natural Gas Project fund both for corporate operating costs. He questioned why the operating costs were utilized from in-state funds when the project was not the corporation's priority and stated that was crux of the committee's concern. He felt that the operational costs should have been requested from the AKLNG account and stressed that AKLNG should be the priority. He felt that \$10.1 million was a substantial amount of money. He asked for reports in order to understand the "whole picture." Mr. Tangeman agreed to provide that information.

Representative Pruitt asked who determined or approved the AGDC budget. Mr. Tangeman stated that the board of directors was responsible for budgeting. Representative Pruitt asked whether the board was able to approve the use of more money if necessary. Mr. Tangeman answered in the affirmative. He indicated that the projects do not align with the budget cycle but AGDC assumed that the pre-Feed work would be completed and would enter the FEED stage in the next fiscal year. If FEED was not achieved the monies could be reappropriated.

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Representative Pruitt clarified that by the end of FY 17 the requests should accomplish the pre-Feed stage and lead into FEED. Mr. Tangeman affirmed. Representative Pruitt wondered whether the board could use the funding "for things outside of AGDC" or non-operating costs such as contracting. Mr. Baker suggested that there were two things to remember. The first was that both funds were created by statute and its use was defined by very specific language. The corporation through its board of directors had broad

authority on how to spend the capital within the statutory framework of the fund. He revealed that AGDC had the statutory authority to expend money from both funds without further appropriation. However, the corporation was obligated under the Executive Budget Act to request its operating money as part of the state's operating budget. The board authorized its capital expenditures, which were driven by the narrow framework of the ASAP and AKLNG projects.

Representative Pruitt asked whether the legislature had to approve the "\$13 million." Mr. Baker answered that legislative approval was necessary to authorize the operating funding requests that were essentially for personal services and the associated corporate overhead. The corporation initially was granted the authority for 38 public employees but per legislative directive AGDC had to request the authority to spend out of that fund. He remarked that "hypothetically" AGDC could replace its employees with contractors and spend capital dollars in the event of a lack of operating appropriation but felt the approach was not prudent. Representative Pruitt asked whether the "\$14 million" was not expendable without legislative approval. Mr. Tangeman replied that AGDC viewed any balance as "seed money for the next stage." Representative Pruitt asked whether the approved funding could be used for "anything outside of AKLNG or AGDC" or any other project or "opportunity to commercialize North Slope gas." Mr. Baker responded in the negative.

Co-Chair Neuman indicated that he was postponing the DNR overview to a later date.

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Vice-Chair Saddler asked whether the \$14 million remaining in the in-state gas fund could be utilized for AKLNG. Mr. Baker responded in the negative. Vice-Chair Saddler questioned why the in-state line operating costs were \$10 million and AKLNG operating costs were only \$2.8 million. He alluded to Mr. Baker's testimony regarding corporate structure and wondered "what was the corporate structure that demanded the disparity" in spending. Mr. Baker explained that when the in-state gasline project fund and AGDC was established the only mission for the corporation was to develop and sanction an in-state gas pipeline. When AKLNG was adopted the funding AGDC received was

specifically for project work and not operating expenses. The corporation had initially only anticipated the need for 6 new employees for the AKLNG project and planned to leverage the existing structure and organization and watch how the project unfolded. He elaborated that over the past two years the corporation spent the majority of its time on AKLNG. The corporation engaged in discussions regarding currently operating under the same corporate structure as under HB 4. The corporation discerned that the most relevant time to make decisions regarding a new structure was at the time the AKLNG project entered the FEED stage and a special legislative session was called. The corporation assumed that questions concerning ASAP's endurance would be answered at that point. He agreed that on "the surface it looked odd" that so much of the corporation's overhead was charged to a "fund" that was originated to "advance a project." He noted that when AKLNG was brought on AGDC did not transfer money from the in-state fund to 50 percent of AKLNG operating costs and instead developed the cost allocation methodology.

Co-Chair Neuman asked why the legislature could not pull the money away from ASAP fund and reallocate it to AKLNG. Mr. Tangeman responded that AGDC funded "very large" cash calls for the project each month. He voiced that it was AGDC's responsibility to perform the oversight and due diligence when participating as an equal partner in the project. The corporation wanted to get to the point to where a decision was made and the fund sources were combined and the state was moving into the AKLNG FEED stage. He reported that AGDC was showing the legislature what the fund sources were and giving a picture of what the corporation needed exiting pre-FEED and entering FEED stages.

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Vice-Chair Saddler thought that tracking the progress and the movement of large amounts of monies that were appropriated for specific purposes was fitting. He thought that there had been a number of surprises and "frustrating developments in the whole gas line saga." The legislature wanted to ensure the money was being appropriately spent. Mr. Tangeman understood the legislatures concern and related that AGDC's job was to move the project from pre-FEED into FEED.

Representative Wilson wanted to understand where the money was being spent. She referred to slide 5 and asked if out of the \$10.448 million [in-state fund] in operating costs \$7.2 million was for personal services. Mr. Tangeman noted that \$5.998 million was applicable to the \$10 million but the \$1.509 million was applicable to the AKLNG fund.

Representative Wilson asked how many actual people were employed for AGDC. Mr. Baker restated that the \$5.998 million was for in-state gasoline expenditures.

Representative Wilson asked how many people the number represented. Mr. Tangeman answered that represented 32 PCN's. Representative Wilson asked how many people AGDC had actually hired. Mr. Tangeman replied that the corporation hired 16 employees. Representative Wilson asked whether that represented an average salary of \$374,875 thousand per employee. Mr. Tangeman clarified that the \$5.998 million represented the budgeted amount of 32 PCN's which were never fully filled. The actual salary was quite a bit less. Representative Wilson wondered how many years AGDC could have employed 32 people. Mr. Baker replied that when the corporation was created the legislature authorized 32 employees. Representative Wilson assumed that the personal services money not expended was part of the remaining balance of \$14 million. Mr. Baker responded in the affirmative.

Co-Chair Neuman asserted that the committee was cutting the budget for necessary services for seniors, health and human services, and public safety and was "squeezing dimes" for necessary services. He felt that AGDC was acting like state funding was limitless. He demanded some actual statements of the actual costs with factual justifications for the expenses. He thought that the "mood of the committee" was to scrutinize AGDC's budget requests. He wondered why AGDC was requesting funding for commercialization when uncertainty existed about whether a pipeline would ultimately be built. He expressed his frustration over the governor hiring gasoline consultants at a cost of \$1 million per year. He reminded the corporation that its budget requests would be measured against every other budgetary need in the state. He restated his request for documentation justifying every budget item.

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Representative Gara referenced slide 3. He cited the FY 17 funding request of \$5 million for the in-state gas line work and the appropriation in FY 16 of over \$19 million. He declared that if a large gas pipeline project was approved in-state delivery was guaranteed, so why spend on in-state work now until a purchaser for the large gas pipeline was found and the pipeline was a certainty. He maintained that a large pipeline project would inevitably deliver gas in-state. Mr. Richards responded that the work could be deferred. He noted that the corporation was following the direction of the legislature and its board. Representative Gara was glad to hear the work could be delayed. He voiced that performing work to develop offtakes for a pipeline that might not be built was senseless and he desired delaying in-state work. He wanted a discussion regarding whether AKLNG was going to move ahead before budgeting additional funding.

Co-Chair Neuman reported that the EIS work was most likely necessary. He was trying to figure out how a buyer could be found without determining the price of gas, which was predicated on the cost to deliver the gas to market. He understood why AGDC was performing the work.

Representative Gara suggested that the "main pipe" for export gas was the most expensive portion of work. He clarified that he was talking about the \$5 million and some portion of the \$19 million for offtakes and not the EIS work. However, he also wondered whether continuing the EIS work was necessary. He reported that his main concern was delaying in-state offtake work. Mr. Richards explained that AGDC was responsible for examining the in-state needs in terms of the environmental and social impacts under the resource report development and was performing the work in 2016.

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Representative Guttenberg asked what part of the budget matched the work that the producers and the partners were performing and could be reduced. Mr. Baker referred to page 4 that showed the AKLNG fund project cash calls. He indicated that the funding represented the contractual commitment to the AKLNG project as a 25 percent owner. He commented that AGDC "had a very good idea" of the costs associated with the FEED process due to managing the FEED work for ASAP. He maintained that AGDC had the

responsibility to properly manage the "substantial oversight component" during the AKLNG FEED stage.

Representative Guttenberg did not want in-state work placed on the "back burner." He believed that rural Alaska and the Interior paid high costs for power relative to the rest of the state and wanted the in-state work prioritized.

Co-Chair Neuman asked whether AGDC was presenting its bottom-line budget request. Mr. Baker pointed to page 5 and noted that the blue column on the right represented AGDC's FY 17 requests which were seeking spending authority for funds already appropriated. Co-Chair Neuman requested better accounting for the funding requests. He believed that AGDC should have provided more specific detail.

Mr. Tangeman voiced that the budget was prepared prior to the fall 2015 special session and was a "place holder" budget. Co-Chair Neuman relayed that the last special session ended last October and felt the corporation had adequate time to produce an updated budget.

Representative Gara certainly wanted all of the offtakes possible to serve the state. He clarified that he was uncertain the in-state work was currently necessary or warranted until the decision to build a large pipeline was determined. He cited the \$10.1 million in-state request on slide 5 shaded in blue and the \$9.3 million request on page 3 and requested clarification. Mr. Baker explained that the blue shaded figures on page 5 represented the operating budget for the corporation and the other expenditures were capital project expenditures. In essence, when the legislature initially capitalized the fund for \$69.835 million (shown on slide 4) AGDC justified how it would spend the capital funding and was not mandated to request future capital expenditures.

[3:30:02 PM](#)

Representative Pruitt discussed his understanding of the AGDC budget. He noted the Inter Agency funding listed in the LFD document and asked what the checks and balances were for departmental spending and wondered why it was not depicted in AGDC's budget slides. Mr. Baker scrolled to slide 3 and reported that the \$25 million figure represented the combined departmental fiscal note for HB 4. He conveyed that as the departmental money was requested

via RSA's and authorized the funding was shown as part of the project expenditure figure of \$65.925 million in the following line. He reminded Representative Pruitt that AGDC would provide the detailed RSA information to the committee. Representative Pruitt wondered whether the inter-agency receipt money could be spent without AGDC approval. Mr. Baker reiterated that AGDC had to approve the RSA work that was necessary and adjusted the work accordingly. He noted the only exception was the \$9 million reappropriated to the Department of Natural Resources (DNR) in FY 15 for gas commercialization work which was directly appropriated and did not require an RSA. He reiterated that pure RSA work was accomplished via a contract between the department and AGDC and that the corporation determined the work. Representative Pruitt asked whether the same statutory guidelines applied to the RSA money. Mr. Baker responded in the affirmative.

Co-Chair Neuman asked Ms. Pitney to provide a breakdown of \$9 million appropriation to DNR for gas commercialization.

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

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ADJOURNMENT

3:37:31 PM

The meeting was adjourned at 3:37 p.m.