

**ALASKA STATE LEGISLATURE  
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

March 16, 2015

3:16 p.m.

**MEMBERS PRESENT**

Representative Kurt Olson, Chair  
Representative Shelley Hughes, Vice Chair  
Representative Jim Colver  
Representative Gabrielle LeDoux  
Representative Cathy Tilton  
Representative Andy Josephson  
Representative Sam Kito  
Representative Mike Chenault (alternate)

**MEMBERS ABSENT**

**OTHER LEGISLATORS PRESENT**

Representative Craig Johnson

**COMMITTEE CALENDAR**

HOUSE BILL NO. 123

"An Act establishing the Marijuana Control Board; relating to the powers and duties of the Marijuana Control Board; relating to the appointment, removal, and duties of the director of the Marijuana Control Board; relating to the Alcoholic Beverage Control Board; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 132

"An Act relating to the support of the Alaska liquefied natural gas project by the Alaska Gasline Development Corporation."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 123

SHORT TITLE: ESTABLISH MARIJUANA CONTROL BOARD

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/23/15	(H)	READ THE FIRST TIME - REFERRALS
02/23/15	(H)	L&C, JUD, FIN

03/04/15 (H) L&C AT 3:15 PM BARNES 124  
 03/04/15 (H) Heard & Held  
 03/04/15 (H) MINUTE(L&C)  
 03/11/15 (H) L&C AT 3:15 PM BARNES 124  
 03/11/15 (H) Heard & Held  
 03/11/15 (H) MINUTE(L&C)  
 03/16/15 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 132

SHORT TITLE: AGDC SUPPORT OF NATURAL GAS PROJECTS  
 SPONSOR(S): CHENAULT

03/02/15 (H) READ THE FIRST TIME - REFERRALS  
 03/02/15 (H) RES, L&C  
 03/06/15 (H) RES AT 1:00 PM BARNES 124  
 03/06/15 (H) Heard & Held  
 03/06/15 (H) MINUTE(RES)  
 03/11/15 (H) RES AT 1:00 PM BARNES 124  
 03/11/15 (H) Heard & Held  
 03/11/15 (H) MINUTE(RES)  
 03/11/15 (H) RES AT 6:00 PM BARNES 124  
 03/11/15 (H) Heard & Held  
 03/11/15 (H) MINUTE(RES)  
 03/13/15 (H) RES AT 1:00 PM BARNES 124  
 03/13/15 (H) Scheduled but Not Heard  
 03/14/15 (H) RES AT 1:00 PM BARNES 124  
 03/14/15 (H) -- Continued from 3/13/15 Meeting --  
 03/16/15 (H) L&C AT 3:15 PM BARNES 124

**WITNESS REGISTER**

MICAELA FOWLER, Legislative Liaison  
 Department of Commerce, Community & Economic Development (DCCED)  
 Juneau, Alaska

**POSITION STATEMENT:** Testified and answered questions on HB 123 on behalf of the administration.

WES SCHACHT, Member  
 Kachemak Cannabis Coalition  
 Fritz Creek, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 123.

MIKE TONGA  
 Homer, Alaska

**POSITION STATEMENT:** Testified during the discussion of on HB 123.

RENA DELBRIDGE, Staff  
Representative Mike Hawker  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented a sectional analysis and answered questions on HB 132 on behalf of the prime sponsor, Representative Chenault, and co-sponsor, Representative Hawker.

FRANK RICHARDS, P.E.; Vice President  
Engineering & Program Management  
Alaska Gas Development Corporation (AGDC)  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the discussion of HB 132.

RICK KOCH, City Manager  
City of Kenai  
Kenai, Alaska

**POSITION STATEMENT:** Testified in support of HB 132.

#### **ACTION NARRATIVE**

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**CHAIR KURT OLSON** called the House Labor and Commerce Standing Committee meeting to order at 3:16 p.m. Representatives Chenault, Tilton, Hughes, Kito, Colver, Josephson, and Olson were present at the call to order. Representative LeDoux arrived as the meeting was in progress.

#### **HB 123-ESTABLISH MARIJUANA CONTROL BOARD**

[3:17:17 PM](#)

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 123, "An Act establishing the Marijuana Control Board; relating to the powers and duties of the Marijuana Control Board; relating to the appointment, removal, and duties of the director of the Marijuana Control Board; relating to the Alcoholic Beverage Control Board; and providing for an effective date."

[3:18:30 PM](#)

MICAELA FOWLER, Legislative Liaison, Department of Commerce, Community & Economic Development (DCCED), on behalf of the

administration, stated that HB 123 would establish a Marijuana Control Board (MCB) that would be parallel to the Alcoholic Beverage Control Board (ABC Board) served by the same agency staff and executive director. She said that Section 1 covers the appointment and removal of the director, ensuring that both the ABC Board and MCB have authority over the director. There has been some discussion on what would happen if one board voted to remove a director, since the appointee is appointed by the Governor, but cannot be removed by the governor except under extenuating circumstances.

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CHAIR OLSON suggested that the Alaska Public Office Commission (APOC) was an example of another board with similar provisions.

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MS. FOWLER offered that the proposed director for the Marijuana Control Board (MCB) might be addressed in a committee substitute since the issue of the director has not yet been determined. She provided a section-by-section analysis of the bill. Section 2 would establish the Marijuana Control Board (MCB) with designated seats not in the Alcoholic Beverage Control Board (ABC Board), but the Title 4 [AS 04, Alcoholic Beverages] rewrite has the same reflections of seats, including adding seats for public safety and public health representatives. She pointed out that currently the ABC Board has a rural seat, but not a public health or public safety representative, which is important especially in relation to marijuana since it is not a substance the state currently regulates, nor does the state have the same federal guidelines as it does with regulation of alcohol since marijuana is still considered illegal under federal law. Section 3 would establish the terms of office, including powers, duties of the board, and enforcement powers. She said the Alcoholic Beverage Control Board (ABC Board) is a quasi-judicial agency, and while that language is not included in this version of the bill, it is the department's intent that the Marijuana Control Board (MCB) would also be a quasi-judicial agency and the enforcement staff in the Alcoholic Beverage Control Board (ABC Board) will have enforcement and peace officer responsibilities.

MS. FOWLER related that Section 4 would amend the initiative language to refer to the Marijuana Control Board (MCB). Section 6 would add the Marijuana Control Board (MCB) to the list of

boards served by the DCCED. Section 8 would provide transition language.

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REPRESENTATIVE COLVER referred to page 3 of HB 123 to board member representation and asked for further clarification on the number of designated seats.

MS. FOWLER answered that the board would be comprised of six members, including representatives of the general public, public safety, public health, rural, and up to two members with industry experience, and the executive director, who is also included even though the executive director would not be a voting member of the board. Thus it would be a five-member board with the sixth member being the executive director.

CHAIR OLSON offered that to qualify for the last two seats the industry member would either be subject to felonies or not living in Alaska, so finding the appropriate language for industry membership is something the committee is working through.

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REPRESENTATIVE COLVER related his understanding that the Marijuana Control Board (MCB) would be a six-member board with an ex-officio member.

MS. FOWLER replied that it would be five members and the executive director, who is not considered an ex-officio member. She explained that the board composition was a hard fought compromise that came from the Title 4 revisions, since it was felt that the executive director has a fair amount of power in the ABC Board structure. The ABC Board meets five times a year, but the work is carried out by the executive director the remaining time, so for that reason, the Title 4 group believed that the background of the executive director should be taken into consideration when determining the other seats on the board.

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REPRESENTATIVE COLVER asked whether the positions could be designated as rural and public health and also tighten up the remaining interests. He suggested that besides the designated seat, only one seat is designated for a public member.

CHAIR OLSON anticipated that a proposed committee substitute will be forthcoming and it will address board composition more fully.

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REPRESENTATIVE LEDOUX asked to discuss the fiscal note. She wondered if the Marijuana Control Board (MCB) wasn't created, but it was left to the Alcoholic Beverage Control Board (ABC Board), whether the ABC Board incur most of the expenses. She assumed that the ABC Board would likely need additional staff.

MS. FOWLER stated that the bill initially had a zero fiscal note and the Department of Commerce, Community & Economic Development asked for funding in its base budget request. Whether the function falls to the Alcoholic Beverage Control Board (ABC Board) or to the Marijuana Control Board (MCB), the department will need additional staff to implement the program. She agreed the department will need the additional staff members and the same costs will be incurred, regardless of the board structure.

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REPRESENTATIVE LEDOUX asked whether the costs would be identical or if additional costs will be incurred.

MS. FOWLER answered that it would be a "wash."

[3:27:10 PM](#)

REPRESENTATIVE COLVER asked how the fee structure will offset the costs and whether it would be by regulation or statute.

MS. FOWLER answered that it would be done by regulation.

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REPRESENTATIVE KITO related his understanding that the Title 4 rewrite will be introduced as a bill. He asked whether changes to the board composition for the Marijuana Control Board (MCB) will be necessary to conform to any changes the legislature may make to the Alcoholic Beverage Control Board (ABC Board) composition.

MS. FOWLER answered that nothing requires the two boards to match, although the Department of Commerce, Community & Economic

Development (DCCED) does see some benefit to the boards matching, but it would not necessarily mean revisiting the Marijuana Control Board (MCB) composition. She agreed that the department anticipates that a Title 4 rewrite will come before the legislature.

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CHAIR OLSON asked to reopen public testimony on HB 123.

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WES SCHACHT, Member, Kachemak Cannabis Coalition, offered his support for a separate board. Even though the substances are somewhat related, they are different in numerous ways, he said.

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The committee took an at-ease from 3:30 p.m. to 3:32 p.m.

[3:32:04 PM](#)

MIKE TONGA wondered why the legislature was putting together a [board]. He said he recently watched the [Senate] Finance Committee take up several amendments that related to "recreational stores." His community would be required to "opt in" to have a recreational store. He expressed concern that the first stores would not come on line until July 2016, but it would come up at the earliest in the August primary election. Given the 90 days it would take to certify an election, a store could not open until mid-November.

CHAIR OLSON pointed out that he is testifying on a different bill and the bill before the committee today will set up a framework for the Marijuana Control Board (MCB), which does not have anything to do with the bill that was taken up by the Senate Finance Committee. He suggested that Mr. Tonga submit his comments in writing.

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CHAIR OLSON, after first determining no one wished to testify, closed public testimony on HB 123.

[HB 123 was held over.]

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The committee took an at-ease from 3:34 p.m. to 3:35 p.m.

**HB 132-AGDC SUPPORT OF NATURAL GAS PROJECTS**

[3:35:13 PM](#)

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 132, "An Act relating to the support of the Alaska liquefied natural gas project by the Alaska Gasline Development Corporation." [Before the committee was CSHB 123 (RES)].

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REPRESENTATIVE CHENAULT, speaking as prime sponsor, stated that HB 132 affirms the policy direction for the Alaska Gasline Development Corporation (AGDC). The legislature set this policy direction in 2013 when creating AGDC, and in 2014 when approving AGDC's involvement in the Alaska Liquefied Natural Gas Project, (AK LNG) in conjunction with Senate Bill 138.

REPRESENTATIVE CHENAULT said that HB 132 recognizes that the AGDC [Alaska Gasline Development Corporation] is already engaged as a partner on behalf of the State of Alaska in the AK LNG Project, which is the project most likely to deliver the greatest benefit to Alaskans. Because the AK LNG Project is most likely to deliver the greatest benefits to Alaskans, HB 132 ensures that the AGDC maintains its commitment to this project.

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REPRESENTATIVE CHENAULT stated his belief that this bill does not allow the state to embark on a duplicative, competing project, until the future of the AK LNG Project is more certain.

REPRESENTATIVE CHENAULT said that under HB 132, the AGDC would be free to pursue other projects at the earliest of three dates; first, if a party to the AK LNG Project withdraws; second, if the AK LNG Project proceeds into the front-end engineering and design (FEED) phase, and third, on July 1, 2017. The legislation further recognizes that the state is prudent to maintain its back-up plan, the ASAP [Alaska Stand Alone Pipeline] project, in case the state's partners in the AK LNG Project fail to commit to the next development - front-end engineering and design (FEED) phase. Should that occur, the AGDC will be poised to re-solicit gas buyers and gas sellers and

to upgrade the ASAP proposal as supported by the market. To avoid a duplicative or competing project, the legislation prohibits use of the In-state Natural Gas Pipeline Fund to pay for work on a project that would export more gas than it would deliver instate. This bill would also require the AGDC to have the written consent of a gas owner or controller before attempting to market that entity's gas to a third party. Keys to megaproject success include the elimination of competing objectives and the alignment of stakeholders along a single project. With the unprecedented momentum to date of the aligned Alaska Liquefied Natural Gas [AK LNG] Project, having competing projects will increase risk and uncertainty that threatens its success. This legislation ensures that the AGDC will retain the course set by the legislature in creating the AGDC and providing a framework for the AGDC to advance the state's interests as a full participant in the AK LNG Project.

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RENA DELBRIDGE, Staff, Representative Mike Hawker, Alaska State Legislature, on behalf of the prime sponsor, Representative Chenault, and co-sponsor, Representative Hawker, stated that HB 132 would temporarily confine Alaska Gas Development Corporation (AGDC) to work on the two projects that the legislature has approved. This would maximize the chances of success for the AK LNG Project while maintaining a viable state backup option to deliver gas to Alaskans and be the most responsible steward of the state's money. She offered her belief that approximately \$180 million remains in the In-state Natural Gas Pipeline Fund, appropriated by the legislature to get the AGDC through an open season process for an in-state gasline. She said that the sponsors were concerned that if the funds are rerouted to study other options, it could take away money to implement an in-state gas option for Alaskans.

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MS. DELBRIDGE directed attention to Section 1, which would establish the Alaska Gas Development Corporation (AGDC)'s purpose. She turned to page 3 to Section 2, which would place temporary restrictions on what the AGDC can do, including prohibiting the AGDC from developing a natural gas pipeline project in which more than half the gas going through the pipeline would be destined for export. It would further prohibit AGDC's involvement in an LNG Project that competes with the AK LNG Project to which AGDC and the state are already contractually committed. These prohibitions would end at the

earliest of three dates: first, if the state or other parties withdrew from AK LNG partnership, the AGDC's restriction would no longer be in place; second, if the state and the other parties moved forward to into a FEED [front-end engineering & design] decision, which will involve a new level of commitment and new level of financial commitment; and third, the July 1, 2017 date would essentially represent the final date to enter into a FEED decision on the AK LNG Project.

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MS. DELBRIDGE directed attention to Section 3, which would prohibit the AGDC from marketing gas if it does not have title to the gas or written consent from the party that does own and control the gas.

MS. DELBRIDGE directed attention to Section 4, which would amend the In-state Natural Gas Pipeline Fund to prohibit the AGDC from using funds for a project that competes with the AK LNG project or for a natural gas pipeline if the majority of the gas goes to export. She clarified that the aforementioned restriction would expire at the end of the previously mentioned dates, at which point the AGDC would potentially be able to use the In-state Gasline Fund for which over 50 percent of gas is intended for export project if the AK LNG has not gone through.

MS. DELBRIDGE directed attention to Section 5, which provided definitions. It conforms the statutory reference in the definition of "Alaska liquefied natural gas project" to reflect the new subsection in AGDC's purpose to restrict the project.

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MS. DELBRIDGE related that Section 6 would add a new term "front-end engineering and design" to definitions under AGDC, commonly called FEED. She described it as the next development phase that the Alaska LNG Project is bound for, she said, stating that the language used in the definition replicates the language in the heads of agreement (HOA) - document for the AK LNG Project dated 1/14/2014, between Alaska Gas Development Corporation (AGDC), TransCanada, the State of Alaska, ExxonMobil Corporation, ConocoPhillips Alaska, Inc., and BP Exploration (Alaska) Inc. She stated that Section 7 would establish an effective date.

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CHAIR OLSON asked whether she could briefly discuss the AK LNG gas issue. She suggested that they had a commitment on the full amount of the gas.

MS. DELBRIDGE replied that the North Slope producers are the entities that have the contractual right to develop and produce the gas on the leases that they have leased. She said that when the state produces the gas, the state receive a royalty percentage that it can take royalty-in-kind (RIK) as gas or royalty-in-value (RIV) as money. She state that under AK LNG and the terms of Senate Bill 138 that the legislature approved last year, the state and the producers have an opportunity to agree to have the producers pay production taxes on the gas as gas. For AK LNG the state would have a physical gas share of up to 25 percent of the gas coming through the AK LNG Project. She said that where the state's 25 percent ownership in the AK LNG project is derived, that it is a share commensurate with the amount of gas that the state would then have to ship and fill its share of the pipeline, gas treatment plant (GTP) liquefaction plant and be able to market. Essentially by moving forward with AK LNG, which is the project the producers would like to see materialize - and have essentially committed their gas to that project - pending the Alaska Oil and Gas Conservation Commission deciding how much gas it will allow the producers to take off of certain fields at what point in time in order to maximize ultimate recovery of all the oil and gas.

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CHAIR OLSON related his understanding that the aforementioned oil and gas molecules can't be counted for a competing project.

MS. DELBRIDGE answered that it would be difficult to understand how someone with gas could commit gas and negotiate contracts for the sale of that gas under two different projects at once.

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REPRESENTATIVE HUGHES asked for the balance of the In-state Natural Gas Pipeline Fund and when did she anticipate it would be needed by the AK LNG Project.

MS. DELBRIDGE offered her belief that the balance in the fund is approximately \$180 million. She offered to double check the figures and provide them in writing tomorrow. She clarified that the balance in the fund was intended to take the AGDC's in-state Alaska Stand Alone Pipeline (ASAP) through the final

engineering and class 3 estimates that are currently wrapping up, which prepares the package of transportation services it would take to people who want to ship gas on the pipeline in an open season. Further, once the open season is held and firm shipping contracts are negotiated, those will be sufficient to provide financing for that pipeline construction going down the road, so it is not a state subsidized pipeline, but something that stands on those long-term promises that have gas to ship on it.

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REPRESENTATIVE HUGHES wondered if she misunderstood. She asked for further clarification on whether those funds might be needed for AK LNG, noting of course the state wouldn't do the ASAP [Alaska Stand Alone Pipeline]. She asked for the earliest date that the AK LNG project may need the funds.

MS. DELBRIDGE answered that the AK LNG Project has its own special fund created under the Alaska Gas Development Corporation (AGDC). She suggested that it would be a policy call for the legislature at what point in time, working in concert with the AGDC that one might want to declare the state so "certainly" moving forward on AK LNG that the legislature would be willing to take money dedicated to a backup plan and put it towards that project. She suggested this might be something the [legislature] may wish to deliberate on.

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REPRESENTATIVE HUGHES related her understanding that in moving from Pre-FEED to FEED that the state's portion was about \$500 million. She said the state might need the \$180 million in the In-state Natural Gas Pipeline Fund balance.

MS. DELBRIDGE answered that the In-state Natural Gas Pipeline Fund balance would be a potential source to support its 25 percent share of this project as it moves into FEED. She agreed that while the AGDC has been fully representing the state's 25 percent on the liquefaction, the state has contracted with TransCanada to manage its 25 percent on the GTP and pipeline. She highlighted that the state has opportunities to buy back about 40 percent of that, which would change the dollar value the state will need going into FEED. Further, if the state's relationship with TransCanada were terminated, that would also change the amount going in, she stated.

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REPRESENTATIVE KITO asked for further clarification on the two projects and how or when the projects would be considered mutually exclusive, in terms of moving volumes of gas from the North Slope to Southcentral. He asked whether the information gathered during the FEED process and would be useful information for both projects, for example, if one moved forward a little ahead of the other.

MS. DELBRIDGE offered her belief that the information is useful and can go into the Environmental Impact Statement (EIS) body of work and can be valuable. That being said, she suggested that many people would agree that it would be unlikely that two projects ever go forward for very long past the FEED decision. She said that it is a very strong commitment by the project sponsors, including the state at that point, in which the parties are signing up tentative customers to buy gas. At that point, the parties would be moving forward, provided that there are no unexpected major events, and would be expecting to make a final investment decision and start building. Some of the potential things that could happen include commercial risk, market risk, and an inability to negotiate the final purchase agreement. In addition there is also regulatory risk, which is part of what that front-end engineering and design (FEED) period is designed to iron out. She pointed out that the sponsors have understood that it was unlikely that the state would support a different project once it has made a FEED decision on any project, she said.

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REPRESENTATIVE KITO, in terms of marketing, related his understanding that as an owner of gas through the AK LNG Project the state will market its gas with or without producers. He was unsure how that would work under a fully owned state pipeline, but it seemed to him if the state owned the line and was acting as the conduit for gas, that the state would not trying to market gas, but will be transporting the gas and it would be up to the producers to market their sale of gas. The state would be in the situation of providing the pipeline or the conduit. He asked whether that was correct.

MS. DELBRIDGE replied that Representative Kito just described one of the key differences between the in-state AK LNG Project and ASAP yes; state would market its 25 percent gas, with a variety of mechanisms set up to do so. She said that under

Senate Bill 138 the legislature required that if DNR was going to modify a lease in a certain way with one of the producers to keep from shifting between royalty-in-kind (RIK) and royalty-in-value (RIV), the companies would have the obligation to go out and market the state's gas on terms no less than what they are getting for their gas, which represents one option. She said there are several memorandums of understanding that the past administration and the current administration have signed with potential overseas entities to open the doors on a relationship to talk about potential buyers and markets. The administration through the Department of Natural Resources (DNR), she believed, has hired a contractor to help build up the state's marketing capacity to assist them in finding the contracts, markets, and the buyers through AK LNG. She said that AGDC, under AK LNG would never take actual possession of the state's gas, which would be a DNR function with the Department of Revenue (DOR).

MS. DELBRIDGE acknowledged that he was correct in terms of the ASAP in-state line, that it was a transportation service or infrastructure, similar to having a trucking company, but the company never owns the product being trucked. She explained that it might be the producers that would pay to have gas transported in another line, or more likely, that the producers might sell their gas before it goes into a pipeline and a third party, such as a utility or mine who wants to move the gas would pay to have it shipped on that pipeline. The third option would be what type of unknown competition might be out there and what the terms would be, which she said she did not know in enough detail to address.

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REPRESENTATIVE KITO asked whether the state has competing interests to try to collect information in the Pre-FEED side, but also in terms of the state performing the Front End Engineering and Design (FEED), how different will an AK LNG Project versus an ASAP Project be in terms of most components of design. He said it seemed that the big difference would be the ultimate volume of gas, since other items would be similar, that gas would be moving from the North Slope to Southcentral. Thus it seems as though the state could benefit from having some of that work being done in the FEED phase, as well.

MS. DELBRIDGE answered that the legislature provided for some information sharing between the big line and AGDC's work on a different state option, when the legislature passed Senate Bill 138 and in passing House Bill 4, creating Alaska Gas Development

Corporation (AGDC). It was contemplated that the two projects should work together so that the AGDC would not be wasteful or redundant in its use of state resources. She acknowledged that information sharing agreements are in place between the state and the AK LNG, but also between and AK LNG. In fact, she offered her belief that several agreements exist and cover how this information is shared and what it can be used for going into the future. She recalled that some concern was raised during last week's AGDC board meeting that the AGDC was limited to using that for a non-competing type project. She agreed that the big difference between the two projects would be the volume of gas shipped. In terms of the information and engineering that happens in FEED, it may not be as useful as [the state] wants it to be, in conjunction with an in-state alternative, if the in-state alternative was geared toward shipping smaller volumes in-state. She explained that a bigger line that carries more volume might have a bigger diameter, but it would require a different set up of compression stations around the route. Currently, there is one that would be required for the ASAP line to get gas off the North Slope to Southcentral. If that was increased for export volumes, one might add as many as eight or more compressor stations around the route, which are more costly, and the engineering would need to match up. She concluded that some can be valuable, which depends on what the state's final project looks like.

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REPRESENTATIVE HUGHES asked whether the information sharing agreements that was currently in place will allow for information to move back and forth. She further asked if ASAP becoming competitive would prevent that and whether it was based on the diameter, volume, or both.

MS. DELBRIDGE answered that the agreements are confidential agreements so she was not privy to the terms. She suggested that may be a good question for Alaska Gas Development Corporation (AGDC).

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FRANK RICHARDS, P.E.; Vice President, Engineering & Program Management, Alaska Gas Development Corporation (AGDC), Department of Commerce, Community & Economic Development (DCCED), related his understanding that the question related to the information flow between the Alaska Stand Alone Pipeline (ASAP) and the AK LNG. He stated that the cooperation agreement

between AGDC and the AK LNG partners was to allow information flow on engineering, field efforts, environmental, regulatory, and lands information that both projects would be able to use to advance either project. He said that the AGDC was prohibited by the agreement from using information received from its partners on AK LNG to advance a project that has a volume of greater than 500 million standard cubic feet per day. However, the AK LNG project can receive information from Alaska Gas Development Corporation (AGDC) and use it for advancement of the AK LNG project without any prohibition.

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REPRESENTATIVE COLVER asked who would control the right-of-way if two entities were pursuing the same alignment.

MR. RICHARDS answered that the Alaska Gas Development Corporation (AGDC) has received a right-of-way lease from the Department of Natural Resources as prescribed by the legislature. Thus the AGDC holds that right-of-way. He said that the AGDC has been working on the supplemental Environmental Impact Statement (EIS) with the US Army Corps of Engineers (USACE). The outcome would likely be a record of decision (ROD) from the Bureau of Land Management (BLM), which would grant the AGDC the federal right-of-way. He commented that the AGDC has been working with its partners at AK LNG to come to a common alignment from the gas conditioning facility at Prudhoe Bay south through the Brooks Range, across Minto Flats, down to a point just north of the Susitna River crossing. The alignment for the ASAP Project and the AK LNG Project are one and the same. He characterized the AGDC's internal decision to revise its alignment as revision 6.1. The partners at AK LNG have been reviewing the alignment changes internally and will hopefully land on that as well. He recapped that the ASAP project and the AK LNG Project both moved separate alignments to one alignment. He said that the AGDC has advanced with right-of-way leases through the state. He hoped that the AGDC would receive it from the federal government; however, the AGDC has not moved towards any right-of-way on private lands at this point. He said that the two differences in the project is that the ASAP Project has just completed Front End Engineering and Design (FEED) so that project is farther advanced in terms of its engineering efforts whereas the AK LNG Project is still in the pre-FEED effort, he said.

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REPRESENTATIVE COLVER asked whether temperature or soil monitors are in place to delineate permafrost areas in the current environmental phase or whether it will be done in the next phase.

MR. RICHARDS answered that the AGDC has done extensive geotechnical boreholes specifically in areas with discontinuous permafrost since the issue the pipelines will face are areas in which it anticipates frost heave or settlement due to the buried pipeline. He suggested that warm permafrost areas would likely receive those challenges. He indicated that the work was primarily focused south of Livengood since the producers in previous pipeline iterations had conducted a tremendous amount of work from Prudhoe Bay, down the Trans-Alaska Pipeline corridor to Livengood. He reported that they held significant geotechnical information, including ground temperatures. He did not wish to duplicate work, which is where with the initiation of the cooperation agreement with AK LNG, the AGDC has been able to receive that information north of Livengood. He offered his belief that the AGDC currently has a very good repository of geotechnical information.

[4:04:54 PM](#)

REPRESENTATIVE JOSEPHSON recalled earlier testimony that the AGDC can't use information it has received from its partners to advance the project beyond 500 Mcf. He asked whether the AGDC could advance the project by proving it had received that knowledge independent of those partners or whether it would just get too complicated.

MR. RICHARDS answered that the confidentiality agreement has provisos that allow for openings if the Alaska Gasline Inducement Act (AGIA) contracts be terminated. He said the cooperation agreement was put in place prior to passage of Senate Bill 138 and the AGIA contract was still in place. He stated that the AGDC has the ability to talk to its partners in terms of using information for another iteration of an ASAP [Alaska Stand Alone Pipeline Project].

[4:06:21 PM](#)

REPRESENTATIVE JOSEPHSON stated that subsection (a) says the date the state or another party withdraws. He asked whether TransCanada would be considered another party under this definition of party.

MS. DELBRIDGE answered that she would need to check, and offered to provide the information later.

4:06:53 PM

REPRESENTATIVE JOSEPHSON, relative to subsection (b), stated that this bill reflects that any anxiety about competition from a second export project would not be felt as long as Front End Engineering and Design (FEED) was being studied. He recalled the use of "decision" on Front End Engineering and Design (FEED) and asked whether that was the same thing as a study on FEED.

MS. DELBRIDGE answered that a FEED study was how the Front End Engineering and Design (FEED) period was referenced in the Heads of Agreement (HOA), which was a period in which the data is collected that enables the front-end engineering and design (FEED) decision to be made, at which point, the project moves forward with a contractual agreement or agreements as per the language in the HOA. She stated this was duplicated in the bill on page 5, Section 6, when it states that "front-end engineering and design" means a study that includes ....." She suggested that in going back to the three dates in subparagraph (A),(B), and (C), that in subparagraph (B) that the parties need to enter into contractual agreements to undertake that(FEED).

4:08:09 PM

REPRESENTATIVE JOSEPHSON referred to subsection (b) that talks about FEED, even if FID would not be accomplished, but FEED would be, whether the sponsors will be comfortable with an expansion of ASAP as originally outlined in HB 4, notwithstanding that FID had not been entered.

MS. DELBRIDGE acknowledged that she understood his question. She indicated that the sponsor has considered this question and brought it up several times to figure out whether it was a comfort zone. She said it really defies logic that the state would try for a competing project in which the state was investing the type of money it would need to be in the front-end engineering and design (FEED) process under the AK LNG Project. She said it would be very difficult to figure out where the gas would come from since as the state would move into front-end engineering and design (FEED) would have committed its gas. This the sponsor felt comfortable removing the restriction.

4:09:27 PM

REPRESENTATIVE HUGHES briefly reviewed the recent happenings with an Alaska gasline, recalling that the administration announced it would consider expanding the Alaska Stand Alone Pipeline (ASAP), followed by this bill being introduced. She asked for a sense of the reaction of investors and the market worldwide outside Alaska.

MS. DELBRIDGE answered that she has not seen a lot of independent news coverage outside Alaska, but she has reviewed trade publications that perhaps ran the Associated Press article. She suggested that regulators have picked up on the sudden uncertainty. For example, Mr. Richards referenced the SEIS [Supplemental Environmental Impact Statement] that Alaska Gas Development Corporation (AGDC) has pending before the US Army Corps of Engineers (USACE). The USACE provided the AGDC notice that it was suspending work through the end of the legislative session. She said the USACE was unsure whether the SEIS it has been working relates to the project the state will ultimately support. The AGDC's SEIS relates to a pipeline and a gas treatment plant [GTP] that ends at Beluga and ties into the ENSTAR system. The announcement for the potential new project was clearly one designed to go to tidewater and involved liquefaction component that the state would not participate in; however, this is a pipeline that feeds an LNG facility so it is unlikely that the USACE and the Bureau of Land Management (BLM) will regulate that route in preparing an Environmental Impact Statement (EIS) in Alaska. Instead, it would likely fall under the Federal Energy Regulatory Commission's (FERC) jurisdiction. Thus she could see why the US Army Corps of Engineers (USACE) might pull back while the state figures out what it will be doing, but that is the type of regulatory uncertainty that worries the sponsors of HB 132 in terms of going forward with multiple projects.

[4:12:15 PM](#)

REPRESENTATIVE HUGHES asked whether she has heard any feedback from potential buyers.

MS. DELBRIDGE answered that she did not know. She said she could imagine what a buyer might think if was approached twice by two fully supported State of Alaska pipeline projects, which is one reason the sponsor included in the bill that the AGDC can't market gas without written consent to market.

[4:12:54 PM](#)

REPRESENTATIVE KITO directed attention to the front-end engineering and design (FEED). He asked where the state was at in terms of making a final investment decision (FID) on the Alaska Stand Alone Pipeline (ASAP) project. He further asked for the timing for the AGDC doing additional work on a larger independent line. He asked whether it would be a couple of years before an FID would occur.

MR. RICHARDS answered that with passage of Senate Bill 138, the policy decision was that the AK LNG Project was the priority project for the state. The AGDC has been on schedule with the Alaska Stand Alone Pipeline (ASAP) project to essentially be in an open season for ASAP. With the passage of Senate Bill 138, the AGDC considered slowing the process down to align the project to the front-end engineering and design (FEED) decision with the AK LNG Project. The AGDC has revised its work scope and work plans for 2015 and early 2016 to continue with work that is necessary for the field efforts, including defining the right-of-way, considering off-site material sites, considering access roads, considering work on the North Slope for the gas conditioning site, but the AGDC is not doing the heavy engineering that the AGDC has just now completed with its FEED effort. The AGDC has delayed its schedule and with that the FID decision, or project sanction, to a point after the FEED decision with the AK LNG Project, he said. With respect to a larger independent line, the AGDC's board gave staff a resolution that asked them to come up with work plans to define scope, schedule, and budget on two concepts: an upsized American National Standards Institute (ANSI) class 600 size pipe and an ANSI class 900 size pipe, which are essentially two different pressure classes for the pipe - one at 1480 pounds per square inch (ppsi) and the other at 2,200 ppsi. Thus with more pressure the same strength and diameter of pipe can flow more volumes. The AGDC has been developing these work plans and cost estimates to report back to the board in a few weeks.

[4:15:48 PM](#)

CHAIR OLSON asked for the estimated cost of the study.

MR. RICHARDS answered that the AGDC is "scratching those numbers" right now.

CHAIR OLSON asked for the source of the funding.

MR. RICHARDS answered that the money would come from the In-state Natural Gas Pipeline Fund since it represents the sole source of funding the AGDC has to advance the project.

CHAIR OLSON asked for further clarification that the fund balance was approximately \$180 million.

MR. RICHARDS answered yes.

[4:16:27 PM](#)

REPRESENTATIVE HUGHES, referring to the work on increased pressure, asked whether it would increase from 1.4 to 2.4 Bcf [billion cubic feet]. She asked for a reminder of the forecast of the in-state need for gas.

MS. DELBRIDGE answered that the existing in-state need will be between 200-250 million cubic feet (MMcf), or substantially less, but represents the cumulative need.

[4:17:31 PM](#)

CHAIR OLSON suggested it would depend on the time of year.

MS. DELBRIDGE agreed the volume fluctuates significantly for in-state use depending on the season.

[4:17:45 PM](#)

REPRESENTATIVE HUGHES asked whether the 1.4 and 2.4 Bcf would mean more than half for be for export.

MS. DELBRIDGE answered that she does not know. She stated that when the AGDC was originally looking at the Alaska Stand Alone Pipeline (ASAP), there was the potential for other large quantity end users in the Cook Inlet, such as the Agrium, Inc. facility or mining projects could cushion the gap between the 250 MMcf in-state and the 500 MMcf per day; however, to get to the volumes for the in-state option, the AGDC went out to the markets and held something called "an expression of interest," saying the AGDC's studies indicated that the state needs gas, the utilities were considering imports, and the AGDC suggested it could do the .5 Bcf Alaska Gasline Inducement Act capped project. The AGDC asked if any commercial interest existed and it did, which provided the basis for to move forward under House Bill 4. In order to do the in-state project requires long-term shipping commitments from the market to financially support the

construction of that project. She offered her belief that there has not been an additional "expression of interest," and if so, it was not noticed. Instead, she suggested that it was direction from the AGDC's board. She said it was not clear in the board meeting why these two classes were selected and what other options have been vetted and discussed. She was not aware if some new indicators from the market that indicated bigger or more; however, the bill sponsors remain concerned that for an in-state line will need the same gas a larger line will need. She stated at this point the gas is generally committed and industry, with the state as a partner, has been advancing that larger project. She clarified that it concerns the sponsors to add other concepts into the mix, without analysis, grounding, or open rationale for doing so give the potential impacts, for example, as seen by the US Army Corps of Engineers' (USACE) decision to wait out the legislative session prior to moving forward with the SEIS, as well as the potential use of the In-state Natural Gas Pipeline Fund dedicated for an in-state energy project being used to evaluate other options.

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CHAIR OLSON asked whether the AGDC's gas is of export quality.

MS. DELBRIDGE answered that the AGDC's Alaska Stand Alone Pipeline (ASAP) line was for utility grade gas. Part of what was designed with ASAP, was a gas treatment plant (GTP) on the North Slope that pulls in the gas, removes impurities, and flows it down the pipeline. She said this was for a utility grade, which requires a different standard of processing than an LNG grade. She related her understanding that significant re-engineering of a GTP could occur to handle the LNG grade gas if that is in fact the direction that the AGDC's Board directs the AGDC to take. She was unsure whether that has been made clear by the board yet, and deferred to Mr. Richards.

[4:21:43 PM](#)

MS. DELBRIDGE clarified that the question revolved around the difference between the utility grade natural gas contemplated by AGDC on the ASAP and the potential for an upgraded project that would seem to be carrying export volumes and whether any GTP redesign would be necessary to carry gas destined for an LNG facility.

MR. RICHARDS recalled earlier testimony that the ASAP project was designed using a physically solvent process to essentially

treat gas on the North Slope to the utility grade as opposed to aiming process most used in the industry to produce LNG quality gas specifications. The difference essentially is in removal of the carbon dioxide. He explained that the physical solvent process brings the gas to an approximate 3 percent while the aiming process brings it to approximately 50 parts per million. He said that in the physical solvent process some of the higher hydrocarbons are kept in the physical process so some of the value of hydrocarbon chain is lost to the market. He said the LNG market would like to receive higher value Btu [British thermal units] content than a utility-grade gas. The Alaska Stand Alone Pipeline (ASAP) was originally designed to meet Alaska's in-state energy needs to be able to put it into existing utility systems, such as ENSTAR Natural Gas Company, and the ASAP Project gas stream was designed to meet the ENSTAR specifications, which would allow it flow into the ENSTAR system without any further gas conditioning downstream.

[4:23:44 PM](#)

CHAIR OLSON asked whether it would be logical to assume that when the AGDC provides an estimate on the different diameter pipes it will include estimated costs for treating the gas for export grade.

MR. RICHARDS stated that the AGDC's board asked staff to look at the 36 inch diameter pipe for two different pressure classes to provide for utility grade gas. He said that staff will consider whether the physical solvent process can be up-scaled to those volumes, which relates to the train size and what is available to meet those requirements. He explained that getting to an LNG quality specification will require considering a different processing technology. He acknowledged that the AGDC can provide that information, but the AGDC is not currently tasked to do so.

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CHAIR OLSON said he was unsure how the legislature can make any comparisons, for example, if 2 or 2.5 Bcf of gas is flowing, but the local consumption is .25 Bcf, substantial excess gas will be available. He said if the costs to export are not known, that the legislature is missing part of the equation.

MR. RICHARDS answered that if the gas stream has a higher carbon dioxide content would be a downstream processing unit. Thus, the state would have that prior to entering into an export

facility. He indicated the AGDC has not looked at the cost component of that to see if will be more costly than having that treatment on the North Slope, but that could be another alternative. Last week he heard Representative Seaton suggested that some of the richer CO2 content could be used on another potential export customer.

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CHAIR OLSON suggested that this might be considered by the Alaska Gas Development Corporation's (AGDC) Board.

MR. RICHARDS stated that the next AGDC Board meeting is scheduled for April 9. He anticipated providing a scope, schedule, and budget to do this additional analysis and will likely seek an earlier meeting.

4:26:27 PM

REPRESENTATIVE JOSEPHSON referred to the outer date of July 1, 2017. He acknowledged that the governor expressed some pretty sharp dislike of this bill, he wondered if the governor signed the bill, what assurance people who are anxious about the success of the AK LNG Project have that someone might ask for another year. He acknowledged that deadlines have been met in the recent past, but he asked what confidence he has that between now and July 2017 that the AK LNG would follow the schedule.

MS. DELBRIDGE answered that the July 2017 date provides "an absolute backstop." Every indication by AK LNG, including the state's representative, is that things are on track for a FEED decision early to mid-2016. She realized that the sponsor group hasn't come before this committee, but they have come before the House and Senate Resources Committees this year, clearly indicating that the project was on track to reach the FEED decision by the March or April 2016. She reiterated that it was an absolute backstop. She stated that there isn't any intent to let negotiations string on forever; however, the state is a full partner in the AK LNG Project, so the sponsors will look to the state and Deputy Commissioner at Department of Natural Resources (DNR), who serves as the lead staff, to give the legislature those indications as to whether or not things are stalled out or if another month will be needed, or what is happening and what confidence the legislature can have in that working out in the way everyone is saying they intend for it to.

[4:28:59 PM](#)

CHAIR OLSON opened public testimony on HB 132.

[4:29:16 PM](#)

RICK KOCH, City Manager, City of Kenai, offered his support for HB 132 as a prudent to move forward the long awaited project to bring Alaska's bounty of gas to Alaskans and to the world markets. He said he has spent his career managing the interests of state and municipal governments and large scale construction projects in Alaska. In doing so, he has gained an understanding of just how difficult it is to develop public-private partnerships (P3). As a former member of the Alaska Gasline Development Authority (AGDA, he commended the legislature for recognizing and addressing the inherent difficulties in the enabling legislation, which created the Alaska Gas Development Corporation (AGDC). He said that HB 132 would provide safeguards in which the state can move forward in a mutually supportive relationship with the major North Slope producers while still protecting the state's interest in an alternative project in the event Alaska LNG Project does not come to fruition. Years of effort have been expended to create a framework of trust and cooperation, not unduly influenced by the political whims of the next election. This framework must be protected by not introducing opposing interest and distrust to the project. In the event that the state and its partners in the Alaska LNG Project decide not to pursue construction of a large diameter gasline, the state will have every opportunity to modify the scope of the Alaska Stand Alone Pipeline (ASAP) Project with the benefit of the feasibility, engineering, and permitting data developed by the Alaska LNG Project and the ASAP Project. These projects as presently developed and further defined by HB 132 are Alaska's best opportunities to realize the long time goal of developing the treasure trove of natural gas in Alaska's North Slope.

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MR. KOCH, in closing, stated that if three individuals decide to get together and build a 150,000 square-foot grocery store in Kenai, but during that process one of the partners tells the other two he'd like to continue along this path, but that he will also consider the same project on the same lot or an adjacent lot to see how that will work out. He said that just the inherent fairness that is required in a business relationship would damage the possibility of success since the

goals may be diametrically opposed or run in different directions. He encouraged the committee to move this bill forward since it has taken decades to reach this point. He said that this project was being managed by an outstanding corporation, staffed with skilled people. He said that he and the City of Kenai are fully in support of HB 132.

[4:32:59 PM](#)

CHAIR OLSON stated that public testimony will remain open on HB 132.

[HB 132 was held over.]

[4:33:22 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:33 p.m.