

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

January 23, 2015

1:00 p.m.

MEMBERS PRESENT

Representative Benjamin Nageak, Co-Chair
Representative David Talerico, Co-Chair
Representative Bob Herron
Representative Craig Johnson
Representative Kurt Olson
Representative Paul Seaton
Representative Andy Josephson
Representative Geran Tarr

MEMBERS ABSENT

Representative Mike Hawker, Vice Chair

COMMITTEE CALENDAR

UPDATE: OFFICE OF THE FEDERAL PIPELINE COORDINATOR FOR ALASKA
NATURAL GAS TRANSPORTATION PROJECTS, LARRY PERSILY

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LARRY PERSILY, Federal Coordinator
Office of the Federal Coordinator for
Alaska Natural Gas Transportation Projects
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint update regarding
Alaska natural gas transportation projects.

ACTION NARRATIVE

[1:00:30 PM](#)

CO-CHAIR BENJAMIN NAGEAK called the House Resources Standing
Committee meeting to order at 1:00 p.m. Representatives Herron,

Johnson, Olson, Josephson, Tarr, Seaton, Talerico, and Nageak were present at the call to order.

**UPDATE: Office of the Federal Pipeline Coordinator for Alaska
Natural Gas Transportation Projects, Larry Persily**

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CO-CHAIR NAGEAK announced that the only order of business is an update from Larry Persily of the Office of the Federal Coordinator for Alaska [Natural Gas Transportation] Projects.

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LARRY PERSILY, Federal Coordinator, Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects, began with some history, noting that Alaska became a state in 1959, the same year LNG was first moved by tanker on the seas. The first tanker left the port in Lake Charles, LA, for the United Kingdom. It was an experiment by the Union Stockyard and Transit Company of Chicago, IL, and Continental Oil, now known as Conoco, in which 32,000 gallons of LNG were transported. Fifty-six years later it is a multi-billion dollar industry with 300-400 LNG tankers that carry much larger loads.

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MR. PERSILY displayed slide 2 to address what federal agencies are doing. He explained that approval by the Federal Energy Regulatory Commission (FERC) must be obtained to build and operate an LNG plant in the U.S. The sponsors of the Alaska LNP Project - BP, ExxonMobil, ConocoPhillips, and TransCanada - have initiated pre-filing with FERC and FERC has named an environmental project director to oversee this. Also, FERC has named two deputy directors, one who will be working on the above ground and one who will be working on the below ground of the pipeline. He said FERC requires applicants to turn in resource reports - environmental baseline data - on what the project will do to soils, water quality, air quality, wetlands, and socio-economic issues. The first round of draft resource reports from the project sponsors is expected to come into FERC next month. After that FERC will issue its Notice of Intent in the Federal Register, beginning the process of scoping and an environmental impact statement (EIS); a third party contract is onboard at FERC to help with that. Later this year FERC will go statewide in Alaska to hold scoping sessions where federal officials ask communities what they want addressed in the EIS. Once comments

come back on those drafts, FERC will move on to the second set of drafts as work moves towards the EIS.

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MR. PERSILY turned to slide 3, pointing out that federal authorization must also be obtained to export natural gas from the U.S. It is a two-step process: one is export approval to free-trade nations, nations that have free-trade agreements with the U.S.; and the other is export approval to non-free-trade nations, such as Japan, China, India, Thailand, Taiwan, and Vietnam. The project received free-trade export approval on December 21, 2014, and the non-free-trade approval is still pending. The U.S. Department of Energy went out for public comment, which closed November [2014]. Of the less than 30 comments received, only one was an objection, which was from the Sierra Club. The Sierra Club has pretty much filed objections to all LNG export projects in the U.S. Under the law, he continued, the presumption is that natural gas exports to non-free-trade nations are in the public interest and they will be approved unless there is a finding/proof that it is not in the public interest. He offered his guess that this one statement of opposition will be unable to overcome the presumption and the non-free-trade export approval will be granted for this project sometime in 2015. It would be a conditional approval pending completion of the EIS and FERC.

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REPRESENTATIVE HERRON inquired as to the Sierra Club's reason for filing opposition.

MR. PERSILY replied the opposition is two-part. One is that, generally, fossil fuels are bad where ever they come from and where ever they are burned. But mostly the Sierra Club's opposition to Lower 48 export projects is hydraulic fracturing and shale gas production. The rationale is that if a market is denied, if shale gas produced by hydraulic fracturing cannot be exported, then there will be no fracturing. However, he noted, this is not an issue in Alaska because this is conventional gas.

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MR. PERSILY returned to his presentation, reporting that there are more than two dozen LNG export applications pending at the Department of Energy and those are in one list. However, the Department of Energy is treating Alaska separately, so Alaska is

alone on its own list and therefore at the top of its own list. Under a new procedure adopted by FERC, each of the others must spend money to get their EIS and FERC approval before the Department of Energy will act on their application. However, those procedures do not apply in Alaska's case - the department will decide on the conditional approval for Alaska before the EIS is done. This is good because the EIS will not be done before 2018 and the project sponsors would like that export authority before then because it is an indication to the market that Alaska has a serious project.

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MR. PERSILY moved to slide 4, informing members that the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects did not receive funding in the 2015 spending bill that was approved by Congress in December. Therefore the office will be closing down around March 1, 2015. The office was created 10 years ago in anticipation of a natural gas shortage in the U.S. Congress said it was a matter of national interest to get Alaska gas down to the Lower 48. Since then, however, shale gas has flooded the market. For example, Marcellus Shale, mostly in Pennsylvania, is alone producing about 16 billion cubic feet (BCF) of gas per day, which is five times the size of the Alaska LNG Project. So, the Lower 48 does not need Alaska's gas. If the Alaska project works, the gas will go to Asia, but that is not in the statutory authority of the Office of the Federal Coordinator for Alaska Natural Gas Transportation Projects and Congress did not expand the authority of the office to work on an export project. The reports and research done by the office will be preserved at the Alaska Resources Library Information Service (ARLIS) at the University of Alaska Anchorage (UAA). The office has established a searchable digital library of documents on the gasline going back 40 years and has contracted with [the library] to maintain that. It is available at the office's website as well as the library's web site. He opined that just because the office was not funded does not mean that the need to share information with the public goes away. The office is therefore hoping to find another agency within the federal government to take on the responsibility of ensuring that the public and other stakeholders are informed about what is going on.

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MR. PERSILY turned to slide 5, specifying that in terms of make-or-break factors for Alaska, it does not matter that Alaskans

want this project; rather, it is economics. Making or breaking this project comes down to market demand, which comes down to global economic growth, energy consumption, converting from coal to natural gas as the preferred fuel, and having a cost-competitive project. Right now Japan is the world's largest LNG consumer, but expectations are that China will surpass Japan by the end of this decade. China wants to double its natural gas share of its energy mix, reducing its reliance on coal. China was self-sufficient in natural gas until about seven or eight years ago, but now imports about 30 percent of its natural gas and splits that about 50/50 between pipelines and LNG. However, while China would prefer to use cleaner burning natural gas, it depends upon how much more it costs than coal or oil and the terms of the contracts. Japan will be restarting some of its nuclear plants which will affect its LNG demand. Besides Japan and China, many Middle East nations are looking at burning gas to generate power and to sell their oil rather than burn it.

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REPRESENTATIVE TARR noted President Obama's recent agreement with China for reducing greenhouse gases and queried whether it is a new opportunity. She further asked whether Governor Walker could have this same conversation with Japanese buyers.

MR. PERSILY responded that China is aware that the volumes of coal it is burning is killing people, so it wants to reduce its reliance on coal and turn more to gas. However, China's economy is slowing so gas prices must be competitive to facilitate a switch. While there is growing opportunity in China, everyone else in the world is trying to sell into that same market.

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MR. PERSILY returned to his presentation [slide 5], noting that Thailand will be importing more LNG. Vietnam also wants to import LNG and burn gas. Indonesia, one of the world's longest producing LNG exporters, will export about 25 percent fewer LNG cargos than it did last year because of rising demand at home due to economic growth and declining production. Egypt is also unable to send out as many LNG tanker loads. The market is shifting and new buyers are coming on. There definitely is market growth and that is what will make or break the Alaska LNG Project.

MR. PERSILY emphasized that Alaskans must accept that natural gas is not as profitable as oil. For example, for oil priced at

\$50 per barrel, about 20 percent of that value is what it costs to move the oil by pipeline from Prudhoe Bay to Valdez and then by tanker to the West Coast. It will cost a lot more than 20 percent to move natural gas product to market. Depending upon the price for Alaska's LNG, he estimated that about 65-80 percent of the value will be eaten up by the pipeline, liquefaction, and tankering. Alaskans will make money from the project, but it will not replicate or replace oil. Too much of an expectation on profits from this project, too much of a burden, and it will not be competitive in the market.

MR. PERSILY addressed slide 6, stressing that it is all about risk and prices. There is no shortage of natural gas in the U.S. and around the world, he said; therefore price and project cost will determine what goes ahead and what does not. Buyers like certainty and dependability, but can only afford to pay so much of a premium for that. No one builds an LNG project without binding long-term contracts lined up in advance to cover the mortgage. The long-term contracts are the collateral, the guaranteed revenue stream to pay the debt and recover the equity. He said he is unaware of any LNG project that has ever lost money long term, although with cost overruns and other problems some projects are producing a much smaller return than was expected at their start.

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MR. PERSILY, responding to Co-Chair Nageak, confirmed that the stability and dependability of the government, as well as proven and dependable reserves, play into the market buying. Because utilities at the other end must provide gas to customers at peak season in December, they need to know the ship is going to arrive on schedule. Alaska's advantage is that its gas reserves are well known, but while that has value the gas must still be competitively priced. These are risky ventures. He related that the president of Sempra LNG, the company developing the Cameron LNG export project at Hackberry LA, recently stated that if an LNG project developer cannot handle the financial risk and the financial guarantee on billions of dollars of debt, then it should not be in the business.

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MR. PERSILY moved to slide 7, stating he was asked to address the odds that this will work for Alaska. He said he won't guess at the odds, but he does think it is better odds than it has been in the past 40 years for many reasons. The companies have

a lot of experience with the Prudhoe Bay reservoir. Prudhoe was originally predicted to produce 9 billion barrels [of oil], but is now at 12 billion with the hope of getting to 14 billion. Much of that is due to re-injecting the gas. After decades of re-injection, along with water flood and other enhancements, gas could be pulled off by the 2020s and beyond and not appreciably damage the oil recovery. The producers will have to prove this to the Alaska Oil and Gas Conservation Commission (AOGCC) before they can begin gas off-take. Alaska is at the point where it makes sense to start turning some of that gas into revenue for both the producers and the state. Mr. Persily offered his belief that starting to turn some of the gas into profits would extend the life of North Slope oil operations. If the gas aspect becomes profitable, he said, it is another reason to continue the oil operations since they go hand-in-hand because gas comes up with the oil. A producer making a \$50-billion commitment to a 40-year-long natural gas project is making a commensurate commitment to keep that oil field going that long.

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MR. PERSILY commenced to slide 8 to address staying on schedule. Noting he is not speaking for the new administration, he reviewed the schedule for the Alaska LNG Project that was laid out last year by Governor Parnell's gasline team and the producers when Senate Bill 138 was considered. He reported that since then the companies have publically stated that they plan to start turning in their draft environmental reports to FERC perhaps next month. The companies will do more field work in summer 2015 and the decision on whether to go to front-end engineering and design (FEED) will be made in 2016. The commitment for full engineering design is about \$1-\$1.5 billion. In the pre-file with FERC, the companies laid out a schedule where they would like to see the draft EIS in summer 2017, which assumes they submit their full application and final resource reports summer 2016. A final EIS would be in 2018 and, if everything stays on schedule, a final investment decision (FID) would be made in early 2019. During discussions of Senate Bill 138, the project sponsors - the partners and the state - said that to stay on schedule for going into engineering design in 2016, property tax legislation would be needed in the regular 2015 legislative session. This would be enabling legislation to set up a payment in lieu of tax rather than fighting over the assessed value of the pipeline and LNG plant. Then, sometime in special session, second half of 2015, legislators would be presented with a negotiated deal on commercial and fiscal terms of project operations, per the Heads of Agreement between the

partners and the state. Also during discussions of Senate Bill 138, TransCanada, the state's partner in the pipeline and gas treatment plant, said it would need signed shipping agreements with the state before the end of 2015 in order to stay on schedule to go to full engineering design in 2016.

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REPRESENTATIVE HERRON inquired as to what would be an indicator of any sort of slippage in the schedule.

MR. PERSILY answered it would be a public pronouncement, such as the project partners saying they had planned to go to full FEED in 2016 but now they are hesitant to commit a billion dollars because there are some unresolved issues. The companies would like to stay on schedule and are working with federal agencies to stay on schedule, and federal agencies are gearing up to handle the work. He surmised the current administration is aware of the schedule laid out last year and is working on it.

REPRESENTATIVE HERRON, noting that Mr. Persily had earlier stated that the draft resource reports would be forthcoming in about a month, asked whether it would indicate slippage if the reports were to come in five weeks.

MR. PERSILY replied that he would assume a week would not make a difference. But it would be bad if the project sponsors were to notify FERC that it would be Halloween instead of February.

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REPRESENTATIVE TARR recalled that the requirements in Senate Bill 138 were such that FEED would potentially necessitate a special session as well as documents 90 days in advance.

MR. PERSILY responded that his recollection from last year is that to stay on schedule the project partners said a special session would be necessary during the second half of 2015 to approve commercial fiscal terms so there was comfort in going to the billion dollar FEED. He also recalled there was an attempt in committee regarding a deadline for documents.

REPRESENTATIVE TARR offered to investigate the details.

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MR. PERSILY addressed slide 9, stating that in regard to competition the world will be buying more LNG and many export projects will be built over the next 20 years. Geographically, Alaska's closest competitor is Canada with 18 proposed Canadian projects. He opined, however, that most of those projects will never be built.

REPRESENTATIVE OLSON understood there are First Nation issues on virtually all of the projects in British Columbia.

MR. PERSILY replied that Canada has problems and none of the 18 projects have gone to final investment decision. He explained that the First Nation wants its voices to be heard in the coastal areas where the plants are to be built, near Kitimat and Prince Rupert, and along the route of the pipeline in the area where gas will be produced. He pointed out that under Canadian law, projects have a duty to consult and work with First Nation. Even though it is not an 800-mile pipeline, between 300 and 500 miles of pipe is needed because the pipeline goes over two mountain ranges. There are environmental issues for some of the projects that include salmon habitat near Prince Rupert. A portion of the 18 projects are serious contenders. Recently an Asian investor announced plans to build an LNG plant at Stewart, British Columbia, but has not applied for an environmental assessment or export license, and has said it will be ready in 2025. He noted that other projects are led by Shell, ExxonMobil Corporation as a Canadian subsidiary, Imperial Oil, Petronas, and Kitimat LNG which had been a 50-50 partnership of Chevron and Apache, but Apache is selling out half of its ownership to an Australian firm called Woodside Petroleum. He remarked that Canada's issues include pipelines, First Nation, environmental issues, and taxes. Industry succeeded in working with the province to reduce a new LNG income tax that will be imposed in British Columbia, but after speaking with federal officials would like to see faster depreciation on its assets in looking for ways to get a competitive edge in the market place.

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MR. PERSILY moved to slide 10, to address competition from shale gas from the Gulf Coast, Pennsylvania, Texas, and throughout the U.S. He said this gas must go somewhere and some will start going overseas. Four projects under construction have received approvals and are moving ahead: Freeport, Texas; Sabine Pass, Louisiana; the Sempra Energy Project in Hackberry, Louisiana, called Cameron LNG; and a small project at Chesapeake Bay called Cove Point. The commonality is that all four were import

terminals not often used. These locations have storage tanks, berths, and facilities and piping that make it less expensive, but still a multi-billion-dollar project to add liquefaction. Sabine Pass says it is on schedule to start first shipments the end of 2015. Another commonality is that the four projects are not producer-led projects but are tolling models wherein the plant operator charges a fee for liquefaction and loading the ship. It is not their gas, they are not taking market risk, and it does not matter to them whether the gas owner is making money because they get paid for the capacity and liquefaction plant that the shipper is reserving. Cheniere Energy is trying to build another plant at Corpus Christy, Texas, and wants a fee of \$3.50 per million British Thermal Units (MMBtu) to use its plant; the tanker and the market is up to the shipper. The fee includes the gas plus 15 percent more for the gas that will be burned up in the process; it will be run like a toll booth. He predicted that if the price after transportation costs is close to the price in Europe, much of that gas will go to the Atlantic Basin, and some will go to Asia through the Panama Canal which is being widened and deepened. If, after transportation costs, the figure is close to the same price as in Europe, some of the gas will probably stay in the Atlantic Basin. He explained that separate from LNG, the U.S. has a lot of natural gas but is short on pipelines. This becomes clear in pricing. For example, in January at the Marcellus Hub, Pennsylvania, the price of natural gas was \$2.08 per thousand cubic feet (MCF), which is a good price compared to what is paid in Cook Inlet or elsewhere. At Henry Hub, the main trading point in Louisiana, the price is about \$3.00. In New York gas is almost \$9 and Boston Hub is \$10. There is not enough pipeline capacity to move the surplus of gas to customers.

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CO-CHAIR NAGEAK asked why, if right for the Atlantic Coast, it would not be just as right for the European market from the North Slope instead of the Panama Canal.

MR. PERSILY answered that it is a long distance from Nikiski to Europe and an advantage of Alaska LNG is the short distance from Nikiski to the Asian market than from British Columbia. It is one-third the travel time from Alaska to Nikiski than from the U.S. Gulf Coast through the Panama Canal to Japan. An LNG tanker from Nikiski can deliver gas faster and at one-third the cost to Japan rather than sending the same molecules from Louisiana to Japan. This is a serious advantage that Alaska has rather than sending it to Europe.

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REPRESENTATIVE OLSON pointed out that the Nikiski plant has a 42-year track record as far as no missed deliveries, no lost loads, and no accidents. He recalled that Nikiski was the first supplier of "Tokyo Electric" with natural gas. At first Nikiski supplied 100 percent the Tokyo Electric's gas, but when [the Nikiski plant] ended it was down to about 5 or 3 percent.

MR. PERSILY confirmed that it gets back to the dependability issue. Asia is aware Alaska has been a reliable supplier since the plant in Nikiski began operations in 1969. Due to the volume that the Alaska LNG Project would be producing, there must be more customers than just Japan. Dependability, short travel distance, and proven reserves are all advantages for Alaska. The question is whether the Alaska LNG Project can overcome the economics that it is just more expensive to build in Alaska than anywhere else.

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REPRESENTATIVE JOSEPHSON referred to a period of time when shipments from the Nikiski plant stopped and asked whether any contracts were breached.

MR. PERSILY replied that the contracts were tied not only to supply but also to the U.S. Department of Energy export license which has expired, so there was no breach of contract. "ConocoPhillips" applied and received a two-year license for last year and this year, so shipments have resumed and there has been no loss of face or faith.

REPRESENTATIVE OLSON maintained that what killed it was the Regulatory Commission of Alaska (RCA) when it cut out the long-term contracts and the plant could no longer supply LNG under 10- or 15-year contracts. He believed RCA possibly dropped the maximum contract length down to 5 years and the appeal was lost when the plant could not contract on a long-term basis.

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MR. PERSILY moved to slide 11 to discuss Alaska's other competitors. Russia's Yamal LNG is under development but under duress. It takes borrowed money to build and the project is under duress due to Western sanctions over the problems created in Ukraine by Russia. He explained that with Western financing

unavailable, the Russian government is helping with \$2.5 billion from the "Wellbeing Fund" and is building the port, airport, and ice breakers. Having to pay its own way tells him it is probably not an economical project, he remarked, but in Russia things are sometimes built that are political and not necessarily economic. China has offered financing at a high rate of cost. Sponsors, led by a Russian company, have talked about a 2018 startup, but industry speculation is that the date will slip. He reported that gas fields with more than a hundred trillion cubic feet have been discovered offshore of Mozambique and Tanzania in East Africa. This is three times the amount believed to be at Prudhoe Bay and Point Thomson, but this goes to the issues of stability, credibility, and certainty. He emphasized that both the Rule of Law and the infrastructures are lacking in undeveloped nations so timelines could slip because they are not ready to undertake these projects. While there would be low cost production, he advised, the fiscal certainty, tax laws, and infrastructure are not there yet.

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MR. PERSILY commenced to slide 12 and explained that in the last few years, suppliers and producers around the world have been attracted to LNG due to the much higher prices for the same molecules when they can be liquefied, loaded in a tanker, and sold in Asia. A lot of that is because LNG in Asia has traditionally been sold linked to oil prices; LNG is the alternative fuel when running a generating plant. Oil prices used to be high, so LNG linked to \$120 oil was expensive therefore profitable and attractive to producers. This was at the same time that Japan shut down all of its nuclear plants after the 2011 Fukushima Daiichi nuclear disaster and last winter prices spiked to \$17, \$18, and \$20 per MMBtu. Currently, spot market in Asia is less than half that amount: \$9.50-\$10 per MMBtu. He reported that new projects came on line in 2014. Papua New Guinea opened its first LNG export plant, Algeria added more production, and more projects are coming on line in Australia including a new project that shipped its first cargo in December. There was demand and high prices as happens in commodities. The world responded with too much new supply all at once and prices dipped. The LNG market has changed so much in the last few years that buyers are signing shorter term contracts until the market settles. Recently a South Korean LNG buyer signed a five-year contract with Chevron to buy output from the Gorgon LNG project in Australia.

MR. PERSILY, moving to slide 13, remarked that the price of oil dictates how much money Alaskans have available and for decades Alaskans have followed the daily oil price. He said LNG is different in that today's price for LNG doesn't really matter and it is not up to Alaskans to determine what it is going to be in 2020 and beyond. If the pricing and contract terms will be sufficient to cover the cost of the [Alaska LNG Project] and the risk to investors, then that will determine the project, not today's price. He maintained that while spot prices are low today, that has not killed this project. If low prices continue for 50 years and the companies design a project that can't be cost competitive, then that would hurt. Most analysts expect that the demand will continue to increase and they see opportunities for new supply to come in in the 2020s. But, they do not see enough commitments to new projects for the 2020s and beyond to meet the projected demand. "This decade taken care of," he said, "no problem about it."

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CO-CHAIR NAGEAK asked whether the extreme cold along the East Coast for the past few years has had any effect on the market.

MR. PERSILY responded that one reason natural gas is so cheap in the U.S., other than over-production, is that the last two winters have been mild. Generally, natural gas producers fill up storage during the summer and fall and use it during the winter when prices go up due to more demand. It has been a mild winter with a lot of natural gas in storage in the U.S., and prices are low.

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MR. PERSILY referred to slide 14 and addressed the issue of confidentiality on the Alaska LNG Project. He recalled that last session legislators discussed the issue of state investment in a gasline raising a conflict, as the state is both regulator and owner. The state is in a business partnership, a multi-national, multi-billion dollar partnership, a business venture, and confidentiality is going to be an inherent conflict and inherent debate point; it cannot be avoided. Because the state is in a business partnership, the issue of confidentiality/disclosure must be resolved to the satisfaction of all of the partners. Any business venture is only as good as all the partners agree to it. While he understands the politics - Alaskans want to know what risk they are taking, chances of success, what will be gotten out of this and what might be given

up. However, Alaskans need to understand that no LNG project anywhere is going to allow disclosure of the design, technology, contract terms, rates of return, or financing. That is not going to be told to the competitors. So, he said, he sees the confidentiality as more of a political issue in Alaska. Alaskans want to know how the state will finance the project and what sort of risk the public is taking, which, is political as opposed to the commercial aspect. Mr. Persily stated he has looked and cannot find anything comparable in a democracy where government invests in a project like this; it is new territory. He pointed out that this is different from Norway as the government of Norway owns 67 percent of the stock in Statoil, a private company, but there are no government officials on the Statoil board of directors. The government of Norway puts leases out to bid and advises bidders that the government will hold 20 percent and will pay 20 percent of exploration, development, and operations and maintenance, and it will receive 20 percent of the profits. He further pointed out that the government-owned company that manages the project has no government officials on its board of directors.

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MR. PERSILY, responding to Representative Herron, explained there is no federal loan guarantee on the Alaska LNG Project. The tax credits for enhanced oil recovery at the gas treatment plant on the North Slope, and the federal tax savings from accelerated depreciation were all in the 2004 legislation and only apply to a domestic project.

REPRESENTATIVE HERRON asked whether there are "true" efforts in Washington to streamline this permitting process.

MR. PERSILY responded that there is an Alaska inter-agency working group for energy projects in Alaska created by a presidential executive order in 2011, led by the secretary's office at the Department of Interior. Its [intention] is that federal agencies have the same set of facts and the same calendar moving forward. Whether the Alaska LNG Project goes forward will depend on project economics and politics, not stream crossings, a Yukon River bridge, or directional drilling; the companies are very adept at that. There will be contentious points when federal regulators say "do it this way even if it costs more as it is not in the nature of companies to say 'yes' the first time."

REPRESENTATIVE HERRON stated that in Artic politics he has found that it creates a bureaucracy to manage the bureaucracy.

MR. PERSILY expressed his frustration that it takes a presidential executive order to tell agencies to work together.

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REPRESENTATIVE SEATON remarked that this case is dealing with trade secrets and commercial agreements. He asked Mr. Persily to separate into categories the political decisions, including what could be the expected returns versus business design criteria elements. He further asked which are confidential and which are in the purview of decisions being made and people knowing what the project means.

MR. PERSILY cautiously answered that anything dealing with the commercial operations of private ventures has to be held confidential, whether it is an LNG investment or a new grocery store being built in a very competitive environment. He noted that there are political issues that Alaskans want to understand so they can give their legislators and governor the permission slip that Alaskans are in agreement. Alaskans, Governor Bill Walker, and the legislature want the LNG line built, he surmised. The conundrum that legislators and Governor Walker face in separating the political debate from the commercial and business debate is providing Alaskans confidence in the decision without disclosing information that will hurt its competitive position in the world.

REPRESENTATIVE SEATON questioned how Alaska's competitive position in the world changes in knowing what is the voting structure of that partnership for going forward.

MR. PERSILY replied that the private partners in this project have not put out a list of what should or should not be disclosed, they need to trust that their partners will not disclose proprietary information or damaging information. He said he does not know that the companies particularly care about Alaskans discussing that issue, so he does not know that that is a problem. He agreed it is more of a political issue to the extent that it doesn't infringe upon confidential business operations. He said he is not privy to what is confidential and what is not, what is a problem and what isn't and opined it is something toward the common goal of getting this built that the legislature and the governor must work out.

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REPRESENTATIVE TARR noted that Alaska's credit rating was changed from "positive to negative" by one group and another group put Alaska on the "watch list". She inquired how this will affect financing for this project.

MR. PERSILY presented a scenario in which the project goes ahead and the state retains a 25 percent investment stake in the LNG plant, which is the way it is put together now; TransCanada would be the stand-in for the state on its 25 percent ownership of the pipeline and the treatment plant on the North Slope. So, he continued, if the state is a 25 percent investor in the LNG plant/marine terminal at, say, \$5-6 billion, the state is going to have to put in some down payment because no one loans 100 percent on a project. Other than raising money on the debt market, the state would have to come up with \$1-2 billion of cash for its equity, its down payment. As construction starts in 2019 and the bills come in, a question would be where the state is going to get the cash separate from borrowing the money. As far as borrowing the money, if the state has long-term contracts with credit-worthy buyers at the other end, that would be the collateral to take to the bank, and not necessarily the full faith and credit of the state which gets to the state's bond rating.

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REPRESENTATIVE JOSEPHSON asked when the purchase option on the TransCanada equity share is due and its cost.

MR. PERSILY responded that his recollection is the state has an option in the 2014 agreement with TransCanada to buy up to 40 percent of TransCanada's share of the pipeline and treatment plant, and that the deadline for that is December 31, 2015. Using round hypothetical numbers, he said if 25 percent of that portion of the project is \$6 billion and the state wants to buy 40 percent, then \$2.4 billion would become the state's responsibility for equity and financing.

REPRESENTATIVE JOSEPHSON commented that relative to the consent agreements, his constituents want something narrowly tailored so it covers the proprietary economic material and not the more political material. He opined that the murky part of this is the deliberative process work product question. He said that time is a factor in that he would not be allowed to review the executive branch's emails written today, yet in five years he

may be allowed. The public thinks, he surmised, that there is a source of candor somewhere in those documents that Alaskans are not always privy to.

MR. PERSILY responded that the state is a partner in a private business adventure, which is very unusual and unique, and will cause heartburn for people. He said that balance must be found wherein the public is comfortable with the credibility of elected officials in making good decisions and not jeopardizing the project, yet private partners are involved. He described it as just a "business venture" wherein balance must be found.

[2:09:21 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:09 p.m.