

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

February 18, 2015

1:15 p.m.

**MEMBERS PRESENT**

Representative David Talerico, Co-Chair  
Representative Mike Hawker, Vice Chair  
Representative Bob Herron  
Representative Craig Johnson  
Representative Kurt Olson  
Representative Paul Seaton  
Representative Andy Josephson  
Representative Geran Tarr

**MEMBERS ABSENT**

Representative Benjamin Nageak, Co-Chair

**COMMITTEE CALENDAR**

ALASKA LNG UPDATE: BP, CONOCOPHILLIPS, EXXONMOBIL, ALASKA  
GASLINE DEVELOPMENT CORPORATION, TRANSCANADA, DEPARTMENT OF  
NATURAL RESOURCES, DEPARTMENT OF REVENUE

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

DAVID VAN TUYL, Regional Manager  
BP Exploration (Alaska) Inc.  
Anchorage, Alaska

**POSITION STATEMENT:** Provided an update on the Alaska LNG  
Project from his corporation's perspective.

DARREN MEZNARICH, Project Integration Manager  
Alaska LNG Project  
ConocoPhillips Alaska, Inc.  
Anchorage, Alaska

**POSITION STATEMENT:** Provided an update on the Alaska LNG  
Project from his corporation's perspective.

BILL MCMAHON, Senior Commercial Advisor  
ExxonMobil Corporation

**POSITION STATEMENT:** Provided a PowerPoint presentation, "Alaska LNG Project Update," on behalf of the project team.

VINCENT LEE, Director  
Major Projects Development  
TransCanada  
Calgary, Alberta, Canada

**POSITION STATEMENT:** Provided an update on the Alaska LNG Project from his corporation's perspective.

DAN FAUSKE, President  
Alaska Gasline Development Corporation (AGDC)  
Anchorage, Alaska

**POSITION STATEMENT:** Provided an update on the Alaska LNG Project from his corporation's perspective.

MARTY RUTHERFORD, Deputy Commissioner  
Office of the Commissioner  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information from her department's perspective in regard to the Alaska LNG Project update.

DONA KEPPERS, Deputy Commissioner  
Office of the Commissioner  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information from her department's perspective in regard to the Alaska LNG Project update.

RANDALL HOFFBECK, Commissioner Designee  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** Provided an update on the Municipal Advisory Gas Project Review Board for the Alaska LNG Project.

## **ACTION NARRATIVE**

[1:15:31 PM](#)

**CO-CHAIR DAVID TALERICO** called the House Resources Standing Committee meeting to order at 1:15 p.m. Representatives Hawker, Olson, Seaton, Josephson, and Talerico were present at the call

to order. Representatives Johnson, Tarr, and Herron arrived as the meeting was in progress.

**ALASKA LNG UPDATE: BP, ConocoPhillips, ExxonMobil, Alaska Gasline Development Corporation, TransCanada, Department of Natural Resources, Department of Revenue**

[1:16:29 PM](#)

CO-CHAIR TALERICO announced that the only order of business is a briefing on the Alaska Liquefied Natural Gas (LNG) Project (AK LNG) in accordance with Section 77 of Senate Bill 138, Chapter 14 [passed by the 28th Alaska State Legislature and signed into law in 2014].

[1:17:41 PM](#)

DAVID VAN TUYL, Regional Manager, BP Exploration (Alaska) Inc., spoke as follows:

I've worked for BP in Alaska for over 30 years now, and the last half of which has been dedicated to working to get Alaska's gas to market. Now, I have the privilege of working in my current roles on the joint fiscal team and on the management committee of the Alaska LNG Project effort. Today we have the right parties aligned on a way to collectively advance this project. That was true last February and it remains true today. Make no mistake, we have a lot of work to do, both on the project team and with all the supporting efforts that you'll hear more about today. But we remain on track for a 2016 decision to move into the next phase of the project - front-end engineering and design, or what we call FEED. The companies before you have all dedicated their resources to meet this challenge. So has the new administration. And we're now actively engaged on a variety of fronts to continue to progress the project and the associated commercial work that is required to meet that goal. Any one of us, even with our best efforts working in isolation, can't make this project a success. But, all of us working together cooperatively, can. Last year we started on this journey together and we've taken some very important and very successful steps together. This body passed [Senate Bill] 138 by an overwhelming majority, we entered into an agreement to begin the current Pre-

FEED phase, we filed for a [U.S. Department of Energy (DOE)] export license application, and we initiated the [Federal Energy Regulatory Commission (FERC)] pre-filing process. The project has momentum. We look forward to continuing this journey together and to working with you in the coming weeks and months as we see the future of Alaska LNG continue to unfold.

[1:19:55 PM](#)

DARREN MEZNARICH, Project Integration Manager, Alaska LNG Project, ConocoPhillips Alaska, Inc., spoke as follows:

I've been with the company for 25 years and I live in Anchorage. I'm very thankful for the opportunity to be part of this significant project, which is so important for all the participants, including the state. I appreciate the comments my colleague has made and I'd like to build on them. For ConocoPhillips, we see two steps in front of us before a FEED decision: commercial and fiscal. First, we are building a commercial foundation for the project, in particular completing two key agreements: gas supply agreement and a governance agreement. Only after the commercial foundation is in place would we recommend the administration and the legislature consider implementing that second step, which is finalizing the fiscal foundation. Then, with the commercial and the fiscal foundation in place, and the completion of the technical Pre-FEED work, we would expect to have the information necessary for all of us to make a FEED decision. When we refer to a gas supply agreement, we're just talking about matching our share of cash investment with the share of gas or LNG we'd receive. ConocoPhillips, like everyone else, expects to be making a cash investment based upon our gas percentage share to the project. Once we make that investment we need to be sure that we can deliver our gas into the project on that same share on a day-to-day basis. And also that we have the ability to get that same share of gas or LNG from the back of the project. So it's a relatively simple concept - our investment share equals our gas throughput equals our product off-take out the back. But it requires working through the details and getting it right. That second ... agreement I talked about, the governance agreement, we might call that the venture

agreements. What we mean are the agreements that set up the business - what is your share of cost, what are your voting rights, who is in charge of what, how long do we have to pay the bills, and all those kinds of details. So, these concepts will be discussed more when Bill [McMahon] takes us through the slides shortly. As we sit here today the commercial agreements are not complete, but we are working hard to meet the schedule in front of us. I believe we all want to find a way to make this project a success, and, again, we're all working well together.

1:22:38 PM

BILL MCMAHON, Senior Commercial Advisor, noted he has more than 32 years of experience with ExxonMobil. He specified that today's PowerPoint presentation is on behalf of all five parties before the committee today. He spoke as follows:

My last 22 years have been spent pursuing commercialization of Alaska gas. And Alaska has been and continues to be an important part of ExxonMobil's worldwide investment portfolio. ExxonMobil has been encouraged by the progress that's been made on the project so far. Steve Butt was before you on January 30 [2015] and provided you an update and we look forward to building on that update in additional areas of the project. This time last year we advised you about a Heads of Agreement that had been signed related to the Alaska LNG Project and that was a positive milestone. It provided a robust roadmap on how to move forward. As Dave [Van Tuyl] indicated, Senate Bill 138 was passed. That was consistent with the Heads of Agreement, provides a great foundation upon which to build, and we advise you of what additional work has been done since then. So, the five parties that are at the table today, as well as the Department of Natural Resources and the Department of Revenue, have been actively engaged in the work that needs to be done to get us to that critical decision about FEED that we want to make in 2016. And we'll walk through the different components that will underpin that during the presentation.

1:24:40 PM

VINCENT LEE, Director, Major Projects Development, TransCanada, spoke as follows:

I have been with TransCanada for 24 years. I serve as the commercial lead for TransCanada in the Alaska LNG Project. In 2014 TransCanada signed the Heads of Agreement for the Alaska LNG Project with [Alaska Gasline Development Corporation (AGDC)], the state, and the three producers. At the same time, TransCanada and the state agreed on a Memorandum of Understanding [MOU] that established the material terms for TransCanada to provide gas treatment and transportation services to the state for the state's share of gas in the Alaska LNG Project. Following the passage of [Senate Bill] 138, TransCanada entered into a Precedent Agreement and an Equity Option Agreement with the state. The Precedent Agreement formalizes the major terms that were agreed in MOU. The Equity Options Agreement provides the state an option to acquire up to 40 percent of TransCanada ownership interest in the gas treatment plant and pipeline segments of the Alaska LNG Project. As a party to the joint venture agreement for Alaska LNG Pre-FEED, TransCanada has seconded highly skilled and experienced pipeline and important management employees into the Alaska LNG Project team, including pipeline manager who leads all technical activities for the pipeline segments of the project. TransCanada is negotiating with the state administration to reach agreement on a long-term firm transportation services agreement which would replace the Precedent Agreement. We are working to have the FTSA, the firm transportation services agreement, finalized and ready to present to legislature for review and approval later this year. TransCanada also is working diligently with the other Alaska LNG participants in the [indisc] commercial agreements to prepare for the FEED decisions.

[1:26:59 PM](#)

DAN FAUSKE, President, Alaska Gasline Development Corporation (AGDC), pointed out that AGDC is owned by all citizens of the state. He said he is unique at this table in that one of AGDC's subsidiaries is the Alaska Stand Alone Pipeline (ASAP) Project. Additionally, AGDC represents the state's position on the equity share for the liquefaction plant - the downstream portion of the

Alaska LNG Project (AK LNG). He reminded members that he has testified in the past that things are going very well and that he appreciates the sharing of information, the agreements that have been signed, the ability for ASAP to attempt to align itself with the other project, the sharing of data, and doing actual contract work for AK LNG from an engineering standpoint to help facilitate that project. He thanked the committee for having the team provide this presentation.

[1:28:44 PM](#)

MR. MCMAHON noted that today's PowerPoint update is an overview consistent with Senate Bill 138. Drawing attention to slide 2, he said the Alaska LNG Project's sponsor group is made up of all the parties that have an interest in moving Alaska LNG forward: the State of Alaska through the Department of Natural Resources (DNR) and the Department of Revenue (DOR), the Alaska Gasline Development Corporation (AGDC), TransCanada, ConocoPhillips, BP, and ExxonMobil. The sponsor group meets on a regular basis to discuss the project, to read the progress, and discuss issues of current interest. The sponsor group is working in particular to align the parties to allow the parties to move forward in consort. The approach with the Alaska LNG Project is consistent with other projects around the world. A gated process is being used. The sponsors want to get all seven parties moving together so that when a gate is hit there can be a positive decision by all parties to move forward through that gate into the next phase. For simplicity, he said, he may refer to the Alaska LNG Project as "the project" and when referring to the sponsors he will be talking about all seven parties who are interested in moving this project forward.

MR. MCMAHON turned to slide 3 to address the other arrangements under the project. In addition to the seven parties in the sponsor group, there is the joint venture group that is made up of [AGDC, TransCanada, ConocoPhillips, BP, and ExxonMobil]. These are the parties that are actually doing the Pre-FEED work to move the project forward, such as the engineering and the environmental permitting. A third group is the Alaska LNG Project, LLC [currently made up of ConocoPhillips, BP, and ExxonMobil]. A formal legal entity, the LLC was put together to allow the start of the DOE export license process. The license application needed to be filed last year to keep the project on track and a legal entity was needed to hold land access for the LNG plant to show to DOE that this is a bonafide project. The project has been actively securing rights to land in the Nikiski area, the proposed site for the LNG plant.

1:32:00 PM

REPRESENTATIVE SEATON observed on slide 3 that the State of Alaska, as an owner of gas, is not included under the [Alaska LNG Project, LLC]. He inquired about this.

MR. MCMAHON replied that at the time the LLC was formed it was ExxonMobil, BP, and ConocoPhillips. It is anticipated that the state will have a representative in this LLC in the future.

REPRESENTATIVE SEATON asked whether the anticipation is that that will be with 25 percent of the gas and therefore an equal-share partner with voting rights.

MR. MCMAHON responded correct, it would be consistent with the state royalty-in-kind (RIK) and tax as gas (TAG) volumes as outlined in Senate Bill 138 and would total about 25 percent. This would be subject to the state electing to take royalty-in-kind and subsequent elections for the state to take tax as gas.

1:33:25 PM

MR. MCMAHON resumed the presentation [slide 4], highlighting the interests of each entity within the sponsor group. He said the state administration represents the State of Alaska in the project's efforts. The Department of Natural Resources (DNR) administers, among other matters, the state's royalty interest and pipeline rights-of-way. The Department of Revenue (DOR) administers the regulation and collection of taxes. Depending on the state's election to take royalty-in-kind (RIK) and the election by ExxonMobil, BP, and ConocoPhillips for the state to take tax as gas (TAG), the state could receive about 25 percent of the resulting production. As far as the infrastructure project, DNR and DOR are representing the interests of the state. The departments are concerned with the security of gas supply going into the project and the departments are keen to facilitate the ability to expand the project in the future and to ensure that third parties have potential access to the project. Moving to slide 5, he said that for Pre-FEED, AGDC and TransCanada represent the State of Alaska's infrastructure interests in the project: AGDC represents the state's ownership interest in the LNG plant and TransCanada represents the state's interest in the pipeline and the gas treatment plant (GTP).

1:35:15 PM

REPRESENTATIVE HAWKER addressed Mr. McMahon's statement that AGDC and TransCanada are representing the State of Alaska's infrastructure interests in the project. He presumed that infrastructure means hard things on the ground, such as pipe, buildings, and facilities. He noted that in the legislation establishing AGDC, AGDC was given much broader authority than just holding infrastructure, such as being able to develop and potentially be a participant in downstream marketing or other activities. He asked whether a decision has been made to strictly limit AGDC to being an infrastructure participant.

MR. FAUSKE answered there is great communication with the state through DNR and DOR. A variety of discussions of this sort are going on as to what role AGDC can play in the future, so the best he can say is that those conversations do take place but no decision has yet been made on that.

[1:36:51 PM](#)

REPRESENTATIVE JOSEPHSON observed that slide 4 talks about BP, ExxonMobil, and ConocoPhillips electing for the state to take tax as gas. He asked whether the understanding is that that decision is in the producers' discretion rather than the state's discretion.

MR. VAN TUYL replied the dynamics of the state's choice to take royalty-in-kind versus in-value and then the subsequent election by the producers to pay their production tax as gas are both outlined in Senate Bill 138. The tax as gas election by the producers is contingent upon the state first making its decision to take royalty-in-kind. Assuming the state was to make that election, which it has not yet done, the producers would then have the opportunity to make an election to pay their production tax obligation in the form of gas, so it is a producer election to pay production tax as gas.

REPRESENTATIVE JOSEPHSON noted that if the state exercises royalty-in-kind but the producers don't exercise the election on tax as gas, it would undermine the state's ability to market in an economical way. He asked whether that would be a factor in the industry's decision.

MR. VAN TUYL responded another element leading up to the state's decision for the RIK election will be sufficient confidence in the state's ability to market its gas. There is a specific requirement for the state to work individually with producers, it cannot be done collectively because of anti-trust reasons,

and so he imagines that the state would want to be very keen on understanding that decision and that election before making its subsequent election. The element of marketing certainty is something that was identified by the legislature and included in Senate Bill 138.

MR. MEZMARICH added that the expectation, as laid out in the Heads of Agreement (HOA) roadmap, is that those decisions would be made prior to the parties taking their FEED decision. So, that should all be bundled up in that fiscal foundation.

[1:40:10 PM](#)

MR. MCMAHON turned to slide 6 and continued highlighting the interests of each entity within the sponsor group. He specified that ExxonMobil, BP, and ConocoPhillips hold rights to produce natural gas from the Prudhoe Bay Unit and the Point Thomson Unit and are actively working on how to commercialize those resources. Each represents its respective companies and shareholders in any efforts to commercialize the gas, including ownership in the new Alaska LNG Project facilities.

REPRESENTATIVE HAWKER pointed out that the Prudhoe Bay Unit and the Point Thomson Unit are anticipated to put the majority of gas into this project. He inquired as to the approximate ownership percentages at Prudhoe and at Point Thomson for each of the three companies.

MR. MCMAHON answered that ExxonMobil has about 62 percent of the working interest in Point Thomson, BP about 30 percent, ConocoPhillips about 5 percent, and some minor owners make up another percent or so.

MR. VAN TUYL explained that Mr. McMahon did not answer about Prudhoe Bay because BP is the operator of Prudhoe Bay. He said that both ExxonMobil and ConocoPhillips, in round numbers, have about 36 percent of the ownership of Prudhoe Bay, BP has about 26 percent, and the balance of about 2 percent is owned by Chevron.

[1:42:32 PM](#)

MR. MCMAHON outlined the Alaska LNG Project Pre-FEED activity (slide 7), saying the sponsors are keenly interested in this key part of the project. He said the integrated team includes personnel from ExxonMobil, the lead party, TransCanada, BP, and ConocoPhillips. The project is currently in Pre-FEED activity.

Engineering of the project facilities is being advanced. Project execution plans are being put together because, for a project of this size, getting all of the materials and personnel on site at the right time is a big consideration. The overall cost and schedules are being refined. And, very importantly, the environmental permitting applications are being put together. A lot of technical work underpins the applications. A cooperation agreement is being worked with AGDC to coordinate field data collection so that if the Alaska LNG Project collects some data that is of interest to the ASAP Project, there is the ability to share that and vice versa - ASAP data that is collected can be shared with AK LNG. There is no reason for folks to pay twice for field data.

MR. MCMAHON understood the legislature is considering the "parks right-of-way bill" [HB 139]. He said that could be a key enabler to help the project progress through the five parks located between the North Slope and tidewater in Southcentral Alaska.

MR. MCMAHON described the project facilities [slide 8], explaining the LNG plant will be on the south end and will include LNG storage tanks as well as a loading terminal. The LNG plant will be fed by an 800-mile-long pipeline going from the North Slope down to Southcentral. A gas treatment plant, designed to take out products like CO<sub>2</sub> and H<sub>2</sub>S, will be located on the North Slope. About 60 miles of transmission line will take gas from Point Thomson to the gas treatment plant. Based on the location of the gas treatment plant, the transmission line from Prudhoe Bay to the gas treatment plant will be rather short. Work is going on at Prudhoe Bay and Point Thomson, but that work is outside the purview of the Alaska LNG Project and is the responsibility of the owners of those two units.

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REPRESENTATIVE SEATON asked how the transmission lines will be paid for by the project as a unit, given the different ownerships and amounts of gas.

MR. MCMAHON replied [the project] will put together a commercial structure that will allow it to align the ownership of the Thomson transmission line with the gas that's flowing through that, and the same thing on the Prudhoe transmission line. When the two streams co-mingle, the ownership of the gas treatment plant, pipeline, and LNG plant will be aligned with the gas flowing through them. [The project] has the flexibility to

adjust ownership within the different components to match the expected throughput.

REPRESENTATIVE SEATON inquired whether the transmission lines will be on a toll or tariff that is based on the transmission amounts. He said he is trying to understand how it will be paid for as a unit, given that different owners will be transmitting different amounts of gas, and how that will relate back to a revenue stream corresponding to the expense stream of building it in the unit.

MR. MCMAHON responded it is anticipated that the project will be built under "FERC Section 3" [of the Natural Gas Act (NGA)]. Therefore, the rights to move gas on an asset will be tied directly to the ownership in that asset. To the extent the state takes the royalty and tax as gas out of Point Thomson, it is anticipated that the state's share of that transmission line would match [its] molecules going through and so it would be back-to-back, that the right for the state to flow the gas will be tied right to the state's ownership in the pipe, and similar for ExxonMobil, BP, and ConocoPhillips.

[1:47:53 PM](#)

REPRESENTATIVE HAWKER remarked he is unsure the aforementioned answer by Mr. McMahon quite "rang" with him, but said he may come back to it later. Noting that the diagram on slide 8 is abstract, he said what is really be talked about is the whole pipe project from the gathering lines and gas treatment plant on the North Slope, the 800 miles of pipeline, and the LNG plant in Nikiski. He asked whether he is correct in recollecting that these are the assets that are currently estimated to cost upwards of \$65 billion.

MR. MCMAHON answered yes.

REPRESENTATIVE HAWKER understood a statement was made in another committee by other people that all the money being spent on this infrastructure would be deductible under the State of Alaska's net production tax calculations for determining taxable value of oil and gas. He inquired whether the costs of these pipes and structures are going to be deductible in the calculation of a tax based on the net value.

MR. MCMAHON replied his understanding of Senate Bill 21 [28th Alaska State Legislature] is that the facilities within the

dotted [red] circle on the diagram are not deductible for the calculation of production tax.

REPRESENTATIVE HAWKER said that is certainly his understanding. He requested Mr. McMahon to make it doubly clear that this project is not deductible in calculation of production taxes.

[1:50:03 PM](#)

REPRESENTATIVE SEATON, addressing the diagram on slide 8, said he is trying to get the cost structure of the transmission line from Point Thomson. He asked whether ExxonMobil will be liable for 62 percent of the 75 percent of the costs for the transmission line because its ownership is 62 percent and then there would be royalty if royalty-in-kind is taken. He said he is "trying to align that since this is all in one project in which there seems to be a more equal share."

MR. MCMAHON first pointed out that the royalty percentage at Point Thomson is different than at Prudhoe Bay, so it would be a matter of taking the royalty percentage and then taking 13 percent of what's left for production tax to come up with the total state share. ExxonMobil would be responsible for 62 percent of the cost, less that state gas share. He believed Representative Seaton was suggesting it would be 75 percent, so times that it might be 72 percent or 74 percent or whatever the number works out. He said Representative Seaton is on the right track as far as calculating what each producer would pay towards that asset and the remainder would be to the account of the State of Alaska or the state's representative in the project.

REPRESENTATIVE SEATON inquired whether there will be a toll for shipping the gas on the pipeline once gas is flowing or whether there will be no revenue from transmission through the pipeline.

MR. MCMAHON responded that under a FERC Section 3 structure it will be the decision of each individual owner as to how the owner wants to structure that.

[1:52:23 PM](#)

REPRESENTATIVE SEATON understood, then, that there may or may not be a tolling on each individual to repay the capital costs, and so the State of Alaska might have a totally different tariff structure than would ConocoPhillips, BP, or ExxonMobil. He asked how the Alaska LNG Project, LLC, will get money to pay for these things if there is not a tariff structure.

MR. MCMAHON answered the way the LLC will get the money is the owners will receive cash calls to pay for construction as the pipeline is being built, and during operations there will be additional cash calls to pay for the operating expenses. He confirmed that the State of Alaska could have a particular arrangement as described by Representative Seaton; for example, TransCanada, or the owner of the asset, may have a tolling arrangement to handle that, and that may be different than the way ExxonMobil, ConocoPhillips, or BP may choose to structure theirs.

MR. VAN TUYL nodded in agreement.

REPRESENTATIVE SEATON, in regard to downstream of the gas treatment plant, inquired whether that means each owner is going to be negotiating what could be a totally different structure on any revenue coming from the project based on whether it is a tariff or some other mechanism.

MR. MCMAHON replied correct. As the pipeline is being built the owners will have cash calls and have to pay for that. Once operating, there will be cash calls for operating expenses and it will be up to ExxonMobil to decide how it will charge itself to use the capacity that it owns.

MR. VAN TUYL nodded in agreement.

[1:55:02 PM](#)

REPRESENTATIVE SEATON understood, then, that possibly there would not be any revenue from this project; that if the State of Alaska owns, say, 25 percent, the state would be responsible for 25 percent of the costs and the value of the state's end product would be increased because there wouldn't be any transmission tolls through the project.

MR. MCMAHON responded that would be the case if that is the way the State of Alaska structures its commercial arrangements. The large income source for this project is the sale of natural gas off the line or LNG off the loading jetty. It would just depend on how the State of Alaska structures its ownership, who the state has owning the different pieces, and what commercial arrangement the state might have with those parties to move state gas on the state's share of the project.

REPRESENTATIVE SEATON remarked he thinks that it is a little bit different picture than [the committee] has been looking at as far as revenue goes, as far as the pipeline or tariffs, and [the committee] has talked about another pipeline situation. He suggested that the committee get a fuller explanation of exactly how that would all work within the state's purview.

[1:56:59 PM](#)

MR. MCMAHON resumed his presentation, addressing the Alaska LNG Project arrangements listed on slide 9. He said other work is ongoing in addition to the work stewarded by Steve Butt [Senior Project Manager, Alaska LNG Project]. While the sponsor group is keenly interested in the project work and Pre-FEED work, other very important activities are also going on to support the project and to support the FEED decision. This other work includes the production of gas into the project, the commercial agreements that will underpin the project, the fiscal terms for the project, regulatory work, plus a large effort in external affairs and government relations for the project. Turning to slide 10, Mr. McMahon said preparations for commercial natural gas production into the project are underway at both Prudhoe Bay and Point Thomson, the anchor fields that will be used for justifying building the project. After decades of oil operations at Prudhoe Bay, a transition will go on from oil operations to simultaneous gas and oil sales. As part of that the Prudhoe Bay owners will need to install some new facilities. In the context of this LNG project those additions are not going to be major, but they are going to be essential to be able to produce gas out of Prudhoe Bay. At Point Thomson, development is now underway to get first production out of that field in advance of May 2016, consistent with the Point Thomson settlement agreement. This initial development is focused on producing oil and condensate. To accommodate gas deliveries from Point Thomson, a significant amount of investment will have to be done to drill additional wells, put in gas production facilities, and to flange up to the 60-mile gas transmission line. The Prudhoe Bay and Point Thomson owners are working with the Alaska Oil and Gas Conservation Commission (AOGCC) to secure field gas off-take authorizations that are consistent with the designs on this project. Early completion of this work will allow a better understanding of the project volumes that can be expected and ensure that the project designs are robust. The gas off-takes from Prudhoe Bay and Point Thomson will help establish the equities in the project because that ratio between Prudhoe Bay and Point Thomson impacts the aggregate volumes and ownerships that will be flowing for the three companies as well

as the State of Alaska. The desire is to get the field gas off-take authorizations in time to inform the 2016 FEED decision.

2:01:13 PM

REPRESENTATIVE SEATON inquired about deductibility or credits for the expenditures for this other work listed [on slide 9].

MR. MCMAHON answered Representative Seaton is rightly pointing out that gas production is outside the dotted [red] circle [on the slide 8 diagram]. Those expenses will be paid by the Point Thomson owners and Prudhoe Bay owners respectively. He said his understanding is that those expenditures, depending on their exact nature, will be deductible according to the system under Senate Bill 21, the More Alaska Production Act (MAPA).

REPRESENTATIVE SEATON asked whether these expenses will be just deductible against profits or will also include credits.

MR. MEZMARICH replied he will get back to the committee with an answer.

2:02:44 PM

MR. MCMAHON discussed the commercial work being done [slide 11]. He explained that Senate Bill 138 provided for the potential for lease modifications to address switching between royalty-in-kind and royalty-in-value as provided in the lease agreements. The idea would be for the Department of Natural Resources to address the switching to be more consistent with the way that LNG is marketed and sold through long-term contracts. Senate Bill 138 also provided the ability to convert certain lease forms into fixed percentages. Point Thomson has some sliding scale royalty leases (SSRs), so if the Point Thomson owner and the Department of Natural Resources can see eye-to-eye on a fixed percentage that could be used to extinguish the sliding scale royalty obligation, that authority has been granted under Senate Bill 138. Similarly at Point Thomson, there are net profit share leases that provide for a variable royalty and that same opportunity is there to turn that into a fixed percentage if the parties can reach agreement. These are things that make the state's exact percentage of gas unknown at this time until it is decided whether those conversions can be made at Point Thomson. A key part of the commercial work is the Department of Natural Resource's consideration of state royalty-in-kind. Under the current lease agreements the state does have the choice between royalty-in-kind or royalty-in-value, so the three producers will

be working with the Department of Natural Resources to provide information to help them in that decision, which is key to the state's gas matching its ownership in the project.

[2:05:12 PM](#)

REPRESENTATIVE SEATON, regarding state royalty-in-kind and given that there is both condensate and gas, inquired whether those are tied together or separate.

MR. MCMAHON replied that is something that will have to be worked through with the Department of Natural Resources. When it comes to net profit share, it would seem that working oil and condensate and gas together may make sense because they all generate profit. In sliding scale royalties those could be separated. It will just have to be seen what the administration wants to do.

[2:06:04 PM](#)

REPRESENTATIVE HAWKER asked how [the producers] would characterize the importance of the state exercising its royalty-in-kind option as it relates to the ability of [the producers] to continue to develop the project along the lines that were conceived and presented the last year.

MR. VAN TUYL responded the importance of royalty-in-kind related to state participation was outlined in the January 2014 Heads of Agreement. [The producers] certainly believe that state participation, and alignment of interests among all the parties, including the State of Alaska, is critical for the project to be successful. [The producers] see the royalty-in-kind decision as being a key element of that. Clearly, there is a lot of work to be done and much of it incumbent upon [the producers] as lease holders to support that decision by the state. It's not a foregone conclusion, there is work that needs to be done. Many of those elements are outlined in Senate Bill 138, Section 28, as to what is required to lead up to that decision. Those conversations are actually being had right now with the administration to support that. It is absolutely a critical element of the whole construct as [the producers] see it today.

MR. MEZMARICH seconded the comments made by Mr. Van Tuyl, saying that from the perspective of ConocoPhillips the royalty-in-kind and tax as gas - state participation - are key terms in the Heads of Agreement and they are reflected in Senate Bill 138.

ConocoPhillips sees those as critical to enable a successful project.

2:08:26 PM

MR. MCMAHON resumed the presentation [slide 11], addressing the commercial foundation agreements among the state, AGDC, TransCanada, ExxonMobil, BP, and ConocoPhillips that will be needed to underpin the project in the FEED decision. Governance will need to be established for the long-term venture for FEED and beyond. Agreements will need to be put into place for gas to be supplied to the project, which will be of keen interest to the State of Alaska because if there is a situation with royalty-in-kind and tax as gas the state will need to understand how it receives gas from Prudhoe Bay and Point Thomson and bring it into the project. Also, agreements will be needed around how gas is taken off the pipeline and LNG is lifted from the LNG plant to make those sales that provide revenue to this project. Because the supply of gas for in-state needs is keenly important, agreements will be needed in that area. Making sure this project is expandable to accommodate future gas is an area where agreements are expected as well. This commercial work is going on right now to get ready for the FEED decision.

REPRESENTATIVE HERRON, regarding the aforementioned agreements, inquired whether one must happen before the other or whether they are all "number one's" at this time.

MR. MCMAHON answered they are all "number one's" - each one of them needs to be progressed because the parties have agreed that they are important to move forward with the project. So, there is a massive parallel effort going on now to advance those.

MR. MEZMARICH added that ConocoPhillips sees these commercial agreements as foundational. The fiscal issues are being worked in parallel, but ConocoPhillips believes that "this page" must be right before coming back to the administration and the legislature to ask the legislature and ultimately the public to support a fiscal package.

2:11:19 PM

MR. MCMAHON returned to the presentation [slide 11], explaining the state would move its gas through the gas treatment plant and the pipeline under a long-term firm transportation services agreement (FTSA) between itself and TransCanada. He noted that

this is another commercial agreement that will enable the decision to enter FEED in 2016.

REPRESENTATIVE SEATON surmised there will be separate long-term firm transportation services agreements with each of the gas owners and that they may be under different terms.

MR. MCMAHON confirmed there will be individual arrangements by each of the owners.

MR. LEE added that TransCanada is currently working with the state on a long-term firm transportation services agreement between TransCanada and the State of Alaska. As part of the FTSA, there will be a tariff for shipping state gas and processing state gas through the gas treatment plant. So, if the state and TransCanada agree to the FTSA, TransCanada will be the transporter for the state gas. In return, TransCanada will receive a tariff from the state.

[2:13:16 PM](#)

MR. MCMAHON resumed the presentation, turning to slide 12 to discuss the fiscal work being done. Given the unprecedented scale, complexity, and cost of the Alaska LNG Project, along with the need to compete in the global energy markets, he advised that a competitive, predictable, and durable fiscal environment will be required. Establishing these terms is a key enabler for the project and the project's LNG buyers, lenders, and investors. In 2014 good progress was made towards this goal, including the Heads of Agreement and Senate Bill 138; that sets up for the work around the lease modifications as well as the royalty-in-kind. A key consideration for ExxonMobil, BP, ConocoPhillips, the administration, and the legislature is what the best option is to provide these predictable and durable terms for this project. Also being worked on with the administration, and ultimately with the legislature, are ideas related to property tax and payments that would occur during construction. The work products that will be coming out of the Municipal Advisory Gas Project Review Board (MAG group) are going to be very important to ultimately finding lasting solutions to property tax. Legislative review and approval will be necessary for property taxes to support the FEED decision. Mr. McMahon defined what is meant by predictable and durable fiscal terms, explaining that predictability is about the state's take, royalty and taxes, being calculated in a way that is as consistent and as unambiguous as possible. Durability is that these terms should last for a period of time commensurate

with the risks that are being taken. Risks are being taken by the investors in the project, by the lenders to the project, and by the buyers of the LNG from the project. These terms need to be balanced. The revenue share for the state, ExxonMobil, BP, and ConocoPhillips needs to be clearly defined in a way that improves the probability that a commercially viable project can be achieved. The Alaska LNG Project is a world-scale project. All the investors, including the state, need to understand the investment structure and the commercial terms before proceeding. These terms must also recognize the risk, and balance the needs, of the state, ExxonMobil, BP, and ConocoPhillips.

[2:17:01 PM](#)

REPRESENTATIVE HAWKER pointed out that [Senate Bill] 138 essentially established a fiscal regime for the State of Alaska. He asked whether [the producers] are still comfortable with the fiscal regime as established in Senate Bill 138.

MR. MCMAHON replied Senate Bill 138 was an excellent piece of legislation that is being built upon today. It established production tax as a 13 percent gross tax, authorized the state's participation in the project, and established a process to develop project-enabling agreements like the aforementioned. Looking at property taxes is a next natural step in building upon Senate Bill 138 and providing a way to pay those taxes that is predictable and durable. Project-enabling agreements around predictability and durability are another thing to build on that foundation. [The producers] feel good about Senate Bill 138 and what it has provided for the project.

REPRESENTATIVE HAWKER acknowledged Senate Bill 138 left open the matter of determining predictability and durability on property tax, which is why the Municipal Advisory Gas Project Review Board is currently working to come up with a proposal that comes back to the legislature. The elephant in the room is the production tax, the 13 percent gross tax on gas at point of production. He said he didn't hear a very clear answer from Mr. McMahon that, "yes, you were still okay with that provision." He asked whether [the producers] are going to come back asking for any further production tax changes in order to meet [the producers'] definition of predictable and durable.

MR. MCMAHON, from ExxonMobil's standpoint, responded no.

MR. VAN TUYL answered no, it is not BP's intent either.

MR. MEZMARICH replied he has no knowledge of that being the intent of ConocoPhillips. He said ConocoPhillips sees the Heads of Agreement and Senate Bill 138 as a roadmap to a successful project and so ConocoPhillips believes the components of that can lead to a successful project and a decision to take FEED. Senate Bill 138 was consistent with the Heads of Agreement.

REPRESENTATIVE HAWKER noted the state's income tax provisions are currently worldwide-apportioned state income taxes. He inquired whether the state income tax provisions are still acceptable to [the producers] and the ability to move forward with this project.

MR. VAN TUYL replied he doesn't believe Senate Bill 138 included a specific treatment of state corporate income tax. Talks with the administration will include discussion of the entirety of the fiscal arrangements between the state and the producers. Those discussions are ongoing and whatever fruit is born in those discussions will come back to the legislature. He said he does not know that there is a specific desire to change it, but as the discussions are ongoing it will be seen where they end up and the legislature will have a key role in determining what is ultimately agreeable.

MR. MEZMARICH responded that the perspective of ConocoPhillips is consistent with BP's. He said the key to ConocoPhillips is to have the predictability and durability that understand what this is going to be like for the next several decades and know what is being gotten into when everyone makes the FEED decision together. A solution must be found that works for everyone. This is going to be a huge decision, he said, but he believes it can be done, and ConocoPhillips is focused on doing that.

[2:21:43 PM](#)

REPRESENTATIVE TARR said the alignment structure only works with the 13 percent production tax in place because that's what gets the state with its royalty portion to the ownership share that the state needs to have. She said she was expecting a stronger answer in this regard from all of the producers because if the producers want to make any changes to that it would disrupt the state's alignment interest and would be inconsistent with the agreement in Senate Bill 138.

MR. MCMAHON answered the reason hesitancy is being heard is that any commercial negotiator knows a deal is not a deal until it's a deal. As [the producers] work with the administration there

could be additional puts and takes in the overall formulation and so [the producers] are being careful not to tie the hands of those at the negotiating table. [The producers] certainly recognize that changing the production tax from 13 percent has a cascade effect on state participation in the project and tax as gas and state gas share. Other things are being worked on right now, so [the producers] are hesitant to close off an avenue of discussion while trying to come up with a package that works for all of the folks at the table. The way many negotiations go is that things are nailed down and [then move on to the next] in trying to corner the uncertainty. Sometimes that doesn't work and a little bit of backtracking is required, which is why certainty is not being heard - [the producers] know that the deal is not complete yet.

[2:23:38 PM](#)

REPRESENTATIVE SEATON understood that all of the expenses relevant to gas at Point Thomson and at Prudhoe Bay are going to be written off against oil profit tax. He asked whether that is [the producers'] understanding of the way this is going to work.

MR. MCMAHON replied yes, under Senate Bill 21, MAPA, the expenses that are associated with the oil and gas operation are deductible under the calculation of production tax.

REPRESENTATIVE SEATON posited that if gas taxes are not going to occur for 10 years or however long the contract takes place because it is going to be gas in-kind, then what is being said is that all of the gas expenses are going to be written off against oil profit tax currently and through that full development stage. He said the committee needs to see and discuss an analysis of what those expenses at Point Thomson and Prudhoe Bay are going to mean for the oil profit tax for the next 10 years. An analysis will ensure it is known what the impact is on the state between now and when gas flows.

[2:26:38 PM](#)

MR. MCMAHON continued the presentation, moving to slide 13 to discuss the regulatory work being done. He reported that the export authorization [application] filed last year with the U.S. Department of Energy (DOE) has resulted in a free trade agreement (FTA) authorization, thereby allowing [the Alaska LNG Project, LLC] to export Alaska gas to countries that have signed the free trade agreement. An application for non-FTA export authorization is on track and the process at DOE is continuing

to be followed. A major regulatory effort is underway with the Federal Energy Regulatory Commission (FERC) for the National Environmental Protection Act (NEPA) process. It is currently in the pre-file phase where information is being exchanged with the regulator to help ensure that the highest quality application is submitted. The NEPA process results in the environmental impact statement (EIS) needed at the end to issue the authorizations to construct the project. A key part of that is the set of 12 resource reports being prepared for the project. The first draft of those was submitted this month; over 9,000 pages are now on the FERC web site. This first pass at these applications will be used to collect information from stakeholders to have a better assessment of what the impacts of the project are and the potential mitigations. A second draft of the resource reports will then be put in with FERC with the idea of putting in a final submission for that process entering the formal filing process. Progress is being made in this area. This is a very open and public process - FERC and its contract will continue holding public meetings to solicit feedback. This will be a great opportunity for the people and the leaders of Alaska to provide input on the project.

[2:29:15 PM](#)

REPRESENTATIVE JOSEPHSON recalled Mr. McMahon earlier stating that the gas treatment plant would not be deductible under Senate Bill 21. He inquired whether Mr. McMahon thinks the participants in the Alaska LNG Project and the present administration have an understanding of at what point gas exploration is deductible vis-a-vis is not deductible, for example the gas treatment plant. He further inquired whether Mr. McMahon thinks the statutes and regulations already answer those questions.

MR. MCMAHON offered his belief that the statute and regulations are clear in that area. The activities within the dotted red circle [slide 8] are not lease activities, they are project activities to commercialize Alaska gas. The expenses that have been talked about as far as Senate Bill 21, MAPA, are lease expenditures for the ongoing oil and gas operations at the fields. Those expenses are part of the calculation of the tax liability for the producers. It is the way that the state has chosen to collect production tax, he said, so he believes the regulations and statutes are clear.

[2:30:59 PM](#)

MR. MCMAHON turned back to the presentation [slide 14], stating that the final area of interest for the sponsor group is external affairs and government relations. He said this team facilitates public dialogue about the Alaska LNG Project with federal, state, municipal, and tribal governments, including agencies and legislative bodies. This is an effort to reach all the stakeholders and there will be initiatives to target different stakeholder groups. A project of this magnitude and complexity cannot succeed without broad support.

REPRESENTATIVE OLSON inquired whether one or all five [of the sponsor group members] are going to the stakeholder meetings.

MR. MCMAHON responded the seven parties in the sponsor group are working together when talking to the public. The effort is to speak with one voice as the project and a myriad of teams and consultants are working this area.

REPRESENTATIVE TARR commented that in looking at the list of sponsor group members, it would appear that if a vote was taken the state would have three votes among the seven members of the group. She pointed out that when the sponsor group has been talked about previously, the state was talked about as one in addition to the others in that relatively equal relationship in the sponsor group. She said she wants to ensure it is on the record that the role of the state has not changed.

MR. MCMAHON thanked Representative Tarr for that clarification, adding that "depending on which venue we're in, different parts of the sponsor group have a vote and have a say and we try to display this as broad as possible because ... the state has many different roles in this project and so we try to display that." He said Representative Tarr is right when talking about venture party activities where the state is paying 25 percent of the cost - the state, the state entities, have a 25 percent say so.

[2:33:50 PM](#)

MR. MCMAHON resumed the presentation, moving to the last slide, slide 15, "Deliverables to Support 2016 FEED Decision." He said each of the six work areas [AKLNG Project, Gas Production, Commercial, Fiscal, Regulatory, and External Affairs/Government Relations] will be delivering hard deliverables that will help support the FEED decision next year. The project team will have all of its Pre-FEED project deliverables coming out for gas production. Prudhoe Bay and Point Thomson will have their development plans and it will be understood what the off-take is

from the Alaska Oil and Gas Conservation Commission (AOGCC). Key agreements will be in place. The fiscal terms will be understood in regard to property tax, royalty-in-kind, and predictable and durable terms. The DOE export licenses will be had and there will be progress on the FERC NEPA process. Broad support for the project is being envisioned. These are things that each of the sponsors will be looking for as they make that decision about entering that next phase of this project - FEED.

MR. MCMAHON concluded his presentation with comments about the timeline. He said efforts are continuing to target this key decision of FEED in the second quarter of 2016. Each party is resourcing the efforts accordingly. As required in Senate Bill 138, there must be a public review prior to any formal legislative review and there will be certain agreements signed by the state that will require legislative approval. Given the magnitude of this project and the decision that is going to have to be made on FEED, a decision that will entail more than a billion dollars of spending for the next phase, it is essential to take the time to satisfactorily complete all these deliverables so that every party at that critical time will be able to vote yes for moving the Alaska LNG Project forward.

[2:36:26 PM](#)

REPRESENTATIVE OLSON noted TransCanada may possibly have three world class megaprojects all coming on line at roughly the same time. He asked Mr. Lee whether this will put a real stress on the labor market or the availability of skill.

MR. LEE answered the two other major projects that TransCanada is working on right now have a different timeframe than the Alaska LNG Project. TransCanada does not believe that internal resourcing is an issue for handling the Alaska LNG Project, given that this project is a few years further down the road as compared to the other projects that TransCanada is handling right now.

[2:37:24 PM](#)

REPRESENTATIVE JOSEPHSON said he received comfort from a recent seminar with the legislature's consultants that the alignment gave equal shares of ownership, the state's in conjunction with TransCanada's, and that there would be less litigation over things like tariffs and tolls. He said he would appreciate it if the committee could follow up on some of the questions that

Representative Seaton had on those issues because they are less clear to him now than they were before.

CO-CHAIR TALERICO offered his belief that [the producers] are going to provide the committee with information on the questions that were had earlier.

MR. MCMAHON replied yes.

CO-CHAIR TALERICO understood that the transmission lines, gas treatment plant, pipeline, and LNG storage and loading facility are not part of the credit system.

MR. MCMAHON nodded in agreement.

CO-CHAIR TALERICO further understood [the producers] have no intention of making changes to the 13 percent [production] tax.

MR. MCMAHON responded correct.

[2:39:23 PM](#)

REPRESENTATIVE SEATON inquired whether a firm transportation services agreement (FTSA) between TransCanada and the state would mean that TransCanada is the operator of the pipeline or that there would be four independent operators of the pipeline based on the percentages of ownership of the gas.

MR. LEE answered that since the pipeline is one physical asset, it is logical to have one operator. However, no decision has yet been made by the sponsors as to who is going to operate it.

REPRESENTATIVE SEATON said he is trying to understand how the FTSA between TransCanada and the state works when it is one physical asset that has multiple shippers that may have other arrangements other than similar firm transportation shipping.

MR. LEE replied there are two aspects when talking about operations. One is the commercial operation and the other is the technical or field operation. The physical operation of the pipelines is what he was referring to earlier - it only makes sense to have one physical operator. In terms of commercial operations, the commercial structure that is being contemplated is each project participant would look after its own portion of the pipeline in this particular case. So, for TransCanada, there would be a commercial arrangement with the State of Alaska

for TransCanada to be the commercial operator for the state portion of the pipeline.

[2:42:09 PM](#)

REPRESENTATIVE HAWKER asked whether the project is still on schedule to meet the anticipated FEED decision of second quarter 2016.

MR. MCMAHON responded [the sponsor group] is still moving forward on that timeframe, but, as has been said, it is critical to have high quality deliverables out of each of the work areas. Where things sit today, it is a challenge but [the sponsor group] is moving forward with the plans that have been set.

MR. VAN TUYL echoed Mr. McMahon's comments, saying second quarter [2016] is the target being worked towards. He pointed out that, as discussed, there are elements beyond the project's control, such as the Municipal Advisory Gas Project Review Board, which is a critical element of the project in understanding how property taxes might be levied and coming up with a mechanism that is supportable by those communities as well as the state and the project. That process is running its own course and is making good progress, but the project has no control over how quickly people will reach agreement.

REPRESENTATIVE HAWKER acknowledged that the "management science on megaprojects" clearly demonstrates that schedule-driven projects have a much greater possibility of failure than those that are outcome driven. He said he understands the point that quality decisions are needed and to not be totally schedule driven. Yet, he opined, if there is no striving for perfection, then the project is probably not going to land on excellence. He related he is hearing that for the major benchmarks the target is still 2016, but that the minor benchmarks are much more fluid in their completion than the major benchmarks. The legislature was anticipating receiving the majority of the contracts for its approval in August 2015. However, he said, his sense is that legislators should probably not presume they are going to get those in August but that [the project sponsors] will be working to get them to legislators in a timely fashion so the FEED decision can still be met. He asked whether that is a fair statement.

MR. MCMAHON nodded yes.

[2:46:39 PM](#)

REPRESENTATIVE TARR, in regard to a pipeline operator, recalled that committee conversations last year were centered on TransCanada's strength as both a pipeline operator and a pipeline builder, but the committee didn't really tease out the physical operation versus the commercial side. She asked about the status of that conversation and whether other alternatives are under consideration if TransCanada is not the operator.

MR. LEE answered the current structure in the Pre-FEED is TransCanada has secondees in the project team; for example, the pipeline manager is a TransCanada secondee who has many years of experience and a leverage of the TransCanada internal resources to perform his job with design and development (D&D) in the Alaska LNG Project. Through that channel the project teams receive the benefit of TransCanada's expertise and experience, and that is one model that TransCanada can add value to the project. Perhaps it will be similar to the Pre-FEED arrangement or there might be a different model. However, there is no such discussion at this point in time. Things will have to progress further down the road before the operating model can be firmed up and who is going to operate the facilities.

[2:48:51 PM](#)

CO-CHAIR TALERICO recognized members in the audience: Kenai Peninsula Mayor Mike Navarre and DNR Commissioner Designee Mark Myers.

The committee took an at-ease from 2:49 p.m. to 2:52 p.m.

[2:52:27 PM](#)

MARTY RUTHERFORD, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources (DNR), stated she is the Walker Administration's lead person for the Alaska LNG Project. She said she rejoined DNR on December 1, [2014], and began receiving non-confidential briefings from the Alaska LNG Project team. Shortly thereafter, she was allowed to sign the seven-party confidential agreement (CA) and, along with Ms. Keppers and others, she began getting more in-depth briefings that included the confidential information. Upon rejoining DNR, she was impressed with the quality of the [project] team, which was retained [from the previous administration]. While she and the other new people were coming up to speed, the [project] staff and contractors continued to do their work on their respective teams.

MS. RUTHERFORD said the state continues the priorities that were set under the Heads of Agreement (HOA) and under Senate Bill 138, and by the previous administration in its discussions with the committee. These have to do with protecting the state's interest and downside risk associated with this project and to continue to investigate and to assess and address through the commercial negotiations the full spectrum of both the State of Alaska's opportunities with this project and the benefits and the costs as well as the risks associated with that. Pursuant to the HOA and Senate Bill 138, all the parties are progressing the principles and moving forward aggressively. The task is huge, but the goal is to allow the parties to make that FEED decision in early second quarter 2016. Given the amount of cooperation she has seen and the willingness by all the parties to find means of addressing the various challenges that each party faces, she said she thinks it's something that can be accomplished. She added that she is looking forward to the next 12 months and getting to that point where a positive FEED decision can be made.

[2:56:38 PM](#)

DONA KEPPERS, Deputy Commissioner, Office of the Commissioner, Department of Revenue (DOR), said she came to [the Department of Revenue] in 2008 as an audit master and stepped in as the deputy commissioner during the transition to the new administration, so she is not new to the Alaska LNG Project. In the previous administration she participated in the project in different capacities of detailed work dealing with governance and the tax issues. With the change into her new role she is participating across all of the work being done by the state's gas teams, allowing her to see at a global level how the detailed work fits into the larger picture. With the change in administration a very aggressive step was taken as far as briefings for the new members of the administration and new members of the team. The [new members] have been in lockstep up to this point, and DNR, AGDC, and the sponsor group will continue to keep all the deliverables moving forward. This is a very exciting project, she added, and she cannot imagine any place else she would want to be in order to join with the state, the legislature, and all of the parties in going to the next step.

MS. KEPPERS said the Department of Revenue is currently focusing in two major areas. Phase 2 of the financing alternatives is about to start and will be worked on over the summer in order to deliver a report to the legislature in the fall. The other

piece of large work deals with the Municipal Advisory Gas Project Review Board (MAG group), which began meeting monthly in November and will be meeting this Friday. These meetings have escalated and people are engaged. The commissioner leading that charge [Randall Hoffbeck] started in December and [DOR] is looking forward to being able to land a mechanism and work through this. The relationship with the municipalities is very important and their input is valued for getting to the right place to move this piece of the business forward.

2:59:39 PM

RANDALL HOFFBECK, Commissioner Designee, Department of Revenue (DOR), related that the MAG group tried to put together a report at the end of the last administration. However, unrelated to the last administration, things kind of blew up at the end and the report became almost a wish list rather than a specific plan to move forward. The MAG group was re-engaged in January [2015] and the group reconfirmed the idea that it is comfortable with the payment in lieu of taxes (PILT) structure moving forward. Because the PILT in general is too big of a concept for the MAG group to work with, the group requested DOR to put some parameters around it. So, on Friday [2/20/15], DOR is meeting with the MAG group with some structure around a PILT. That structure has been informally floated to most of the major players associated with the MAG group, and was floated with the sponsor group yesterday. Although the devil is in the details, the concept appears to be something that people are going to be willing to work with. If a consensus is reached on Friday, it will be loaded into the sponsor group for consideration. The MAG group's authority is to provide the advice and input, but because the MAG group is not the decision maker it must go to the AK LNG group to look at.

COMMISSIONER HOFFBECK advised committee members to keep in mind that this is not just a municipal issue. The state is a large stakeholder in the property tax as well, he said, and it could be 40 percent or more. For example, a very rough number for a \$60 billion project at 2 mils is \$1.2 billion a year in property tax and the state could have as much as 40 percent of that. Therefore, the state has an interest in making sure that this PILT works for everybody. He said he is happy with the progress that has been made. The commitment from the municipalities has been tremendous and he is hopeful that some structure will be landed upon on Friday that can be loaded into the process.

3:02:19 PM

REPRESENTATIVE TARR understood the MAG group has an interim report with a number of recommendations and that, pending new appointees to the board, a final report is to come out. She asked whether that process will be by-passed and the focus will be just on the details of the PILT structure.

COMMISSIONER HOFFBECK confirmed the PILT structure is going to be the focus and that it can certainly be incorporated into a final report, which is still owed to the legislature. The idea would be to actually report on the results.

3:03:02 PM

REPRESENTATIVE HAWKER said the MAG group is composed of very good people, but each person has a very provincial interest of looking after his/her own community. The last time he watched the group, he related, he was worried things would not get very far very fast given all the differing opinions. Noting it now sounds like substantial progress is being made, he inquired whether it is progress that is making everyone at the MAG group happy or whether there will be a lot of dissent once there is a proposal before [the legislature].

COMMISSIONER HOFFBECK believed there will be some dissent. He said he has floated the idea past the mayor of the Kenai Peninsula Borough, the representative from the North Slope Borough, the mayor of the Denali Borough, and the mayor of the Fairbanks North Star Borough. Reiterating that the devil is in the details, he said they all, in concept, thought it was a good direction that was being taken. One thing that needs to be understood going forward is that the sponsor group cannot carry the burden of the allocation of the revenues from the property tax. If the decision is made by the state that there is too much money going to a specific borough or municipality, that is not an issue that the sponsor group takes on; theirs is total revenue into the system. There may be another more difficult discussion with the MAG group going forward as far as how that is dispersed, but that should not hold up the progress on the gasline, he specified.

3:05:12 PM

REPRESENTATIVE TARR recalled a provision in Senate Bill 138 to provide a percentage to rural communities outside of the road system that are ineligible for some of this PILT arrangement. She asked whether that is being worked on now.

COMMISSIONER HOFFBECK replied he has not worked on that yet.

3:05:50 PM

CO-CHAIR TALERICO thanked Mr. Fauske for his good presentation in the other body about two weeks ago. He inquired whether Mr. Fauske has any comments for today.

MR. FAUSKE remarked that transitions, or any change, are hard because things are done differently or there is mystery in what is going to be done. However, he said, he can only speak in a very positive manner as to how things are progressing and moving forward. The list of [work] items is a significant list, but everyone is dedicated to getting that list completed. He concurred with Representative Hawker about trying to achieve the benchmarks that are set in a gated approach and that they need to be realistic. The effort going forward is spectacular. As a former financial officer for the North Slope Borough, he said he understands the property tax issue and has offered his assistance to Commissioner Hoffbeck. He said he has talked to people many times about the importance of local revenue but also not to be deal breakers on the idea in that everyone benefits from this but everyone needs to be reasonable in terms of how to put a project together. He said his sense from the producers is that the mechanisms need to be improved upon but that this is a solvable problem. His message is that this will be solved and the next issue moved on to.

3:08:18 PM

**ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:08 p.m.