

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

March 13, 2015

1:00 p.m.

**MEMBERS PRESENT**

Representative Benjamin Nageak, Co-Chair  
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**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Jim Colver

**COMMITTEE CALENDAR**

HOUSE BILL NO. 105

"An Act relating to the programs and bonds of the Alaska Industrial Development and Export Authority; related to the financing authorization through the Alaska Industrial Development and Export Authority of a liquefied natural gas production plant and natural gas energy projects and distribution systems in the state; amending and repealing bond authorizations granted to the Alaska Industrial Development and Export Authority; and providing for an effective date."

- HEARD AND HELD

PRESENTATION(S):

Alaska Oil and Gas Competitiveness Review Board Update

- HEARD

State Of Alaska, Alaska LNG Project, 3rd Party Cost Forecast by Department Of Natural Resources

- HEARD

ASAP Project Reconfiguration Plan by Alaska Gasline Development Corporation

- HEARD

HOUSE BILL NO. 132

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

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 105

SHORT TITLE: AIDEA: BONDS;PROGRAMS;LOANS;LNG PROJECT

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/11/15	(H)	READ THE FIRST TIME - REFERRALS
02/11/15	(H)	ENE, RES, L&C, FIN
02/17/15	(H)	ENE AT 10:15 AM BARNES 124
02/17/15	(H)	Heard & Held
02/17/15	(H)	MINUTE(ENE)
02/24/15	(H)	ENE AT 10:15 AM CAPITOL 17
02/24/15	(H)	Moved CSHB 105(ENE) Out of Committee
02/24/15	(H)	MINUTE(ENE)
02/25/15	(H)	ENE RPT CS(ENE) 7DP
02/25/15	(H)	DP: NAGEAK, WOOL, TILTON, TALERICO, CLAMAN, COLVER, VAZQUEZ
03/09/15	(H)	RES AT 1:00 PM BARNES 124
03/09/15	(H)	Heard & Held
03/09/15	(H)	MINUTE(RES)
03/13/15	(H)	RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

TOM HENDRIX, Chair  
Alaska Oil and Gas Competitiveness Review Board  
Anchorage, Alaska

**POSITION STATEMENT:** Provided a PowerPoint presentation and update on the Alaska Oil and Gas Competitiveness Review Board.

JERRY BURNETT, Deputy Commissioner  
Office of the Commissioner  
Department of Revenue (DOR)

Juneau, Alaska

**POSITION STATEMENT:** Answered questions during the PowerPoint presentation and update on the Alaska Oil and Gas Competitiveness Review Board.

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

**POSITION STATEMENT:** Provided the State of Alaska, Alaska LNG Project, third party cost forecast in accordance with Section 77 of Senate Bill 138 [28th Alaska State Legislature].

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

**POSITION STATEMENT:** Provided information regarding the Alaska Stand Alone Pipeline (ASAP) reconfiguration plan [the planned PowerPoint presentation, "ASAP Reconfiguration", was not given].

FRANK RICHARDS, P.E., Vice President  
Engineering and Program Management  
Alaska Gasline Development Corporation (AGDC)  
Anchorage, Alaska

**POSITION STATEMENT:** Assisted in providing information regarding the Alaska Stand Alone Pipeline (ASAP) reconfiguration plan [the planned PowerPoint presentation, "ASAP Reconfiguration", was not given].

## **ACTION NARRATIVE**

[1:00:07 PM](#)

**CO-CHAIR BENJAMIN NAGEAK** called the House Resources Standing Committee meeting to order at 1:00 p.m. Representatives Herron, Johnson, Josephson, Seaton, Olson, Hawker, Talerico, and Nageak were present at the call to order. Representative Tarr arrived as the meeting was in progress. Representative Colver was also present.

### **HB 105-AIDEA: BONDS;PROGRAMS;LOANS;LNG PROJECT**

[1:01:59 PM](#)

CO-CHAIR NAGEAK announced that the first order of business is HOUSE BILL NO. 105, "An Act relating to the programs and bonds

of the Alaska Industrial Development and Export Authority; related to the financing authorization through the Alaska Industrial Development and Export Authority of a liquefied natural gas production plant and natural gas energy projects and distribution systems in the state; amending and repealing bond authorizations granted to the Alaska Industrial Development and Export Authority; and providing for an effective date." [Before the committee was CSHB 105(ENE).]

1:02:09 PM

REPRESENTATIVE HAWKER stated he would like to bring up HB 105 because the committee and co-chairs had requested amendments for this bill by noon today. While the bill itself is simple, he said, this deadline is difficult because he does not yet know enough about the specifics of the project being taken by Alaska Industrial Development and Export Authority (AIDEA) and what its alternative plans are. Prior to the committee taking amendments or reporting the bill, he said he would like an opportunity to hear more from AIDEA and the other entities participating in that new project.

CO-CHAIR TALERICO submitted that the committee was looking for more of a plan for the project and more needed to be heard from other participants and entities. He suggested that more information be provided by the utilities involved as well as others. Given that well over \$200 million would be required for this project, he maintained that more information is needed by committee members.

REPRESENTATIVE JOSEPHSON asked whether the co-chairs have a schedule in mind.

CO-CHAIR NAGEAK replied he would like to hear what the other committee members have to say.

1:05:09 PM

REPRESENTATIVE JOHNSON offered his concern about the pace and said he would like to get more information because he does not know what the problem is, much less how to fix it. He therefore stated that additional time is needed.

REPRESENTATIVE OLSON related that about two months ago AIDEA launched a \$750,000 study on all the alternatives of getting energy relief to Fairbanks. He suggested the committee have AIDEA share an update on this study.

REPRESENTATIVE SEATON noted that at the bill's previous hearing, he had questioned the presenter about whether it was limited to LNG. The presenter had thought that there was some way the wordings could be interpreted that that could be a small diameter pipeline as well going from Cook Inlet. Representative Seaton recalled that he had told the presenter he would like to see a legal opinion in this regard because that would be such a stretch "and whether the committee wants to have it cheaper energy for Interior Alaska if we are including or not including that portion ... in that analysis." Since he has not yet received an answer, he said he is hoping the committee will have more time to get the information from the Interior project.

REPRESENTATIVE HERRON said he, too, would like more information so he can make a better conclusion and decision.

[1:07:19 PM](#)

REPRESENTATIVE OLSON recollected that at the previous hearing the committee asked for additional information on the port authority's gas offering of several years ago, but the committee only received the names of some of the companies and not much information. He said receiving more information in this regard would also be helpful.

REPRESENTATIVE JOSEPHSON shared the committee's desire for more information on the revised AIDEA plan. Given the crisis in the Interior, however, he offered his hope that something will be done this session with ample time for the other body to look at the bill as well.

REPRESENTATIVE HAWKER pointed out that a companion bill is currently being heard in the Senate.

REPRESENTATIVE OLSON commented that in his eight years on this committee, the committee has always tried to send the cleanest bill forward that it can, even when there is a companion bill. He opined that the committee having inadequate information would be a disservice to the people in Fairbanks as well as to the rest of the state.

[1:09:12 PM](#)

CO-CHAIR NAGEAK offered his belief that a bill will not move forward today. He agreed the committee needs to see a plan from the people who brought the bill forward.

CO-CHAIR NAGEAK held over HB 105 after determining there was no objection to doing so. He directed committee staff to talk with AIDEA about a future presentation of the alternative studies.

**PRESENTATION(S):**  
**Alaska Oil and Gas Competitiveness Review Board Update**

[1:10:11 PM](#)

CO-CHAIR NAGEAK announced that the next order of business is a PowerPoint presentation and update on the Alaska Oil and Gas Competitiveness Review Board.

[1:10:29 PM](#)

TOM HENDRIX, Chair, Alaska Oil and Gas Competitiveness Review Board, offered his appreciation for being able to testify today.

JERRY BURNETT, Deputy Commissioner, Office of the Commissioner, Department of Revenue (DOR), noted that the Department of Revenue (DOR) staffs the Alaska Oil and Gas Competitiveness Review Board.

[1:10:57 PM](#)

MR. HENDRIX turned to slide 2, explaining that the overview he is providing today follows the report [entitled "Alaska's Oil and Gas Competitiveness Report 2015"] that the committee has already received.

MR. HENDRIX moved to slide 3, specifying that the Alaska Oil and Gas Competitiveness Review Board was formed under Senate 21 [28th Alaska State Legislature]. The board was created to establish and maintain salient data regarding oil and gas exploration, development, and production in Alaska, and to advise the Alaska State Legislature on the state's fiscal system, labor pool, and regulatory competitiveness. Reviewing the members of the board, he said the board's two public members are Joey Merrick, a business secretary for Alaska Laborers' Local 341; and Rodney Brown, the treasurer for the Plumber and Pipefitters Local 375. The board's three [administration department heads] are Randall Hoffbeck, Commissioner, Department of Revenue (DOR); Mark Myers, Commissioner, Department of Natural Resources (DNR); and Kristin Ryan, [Director, Division of Spill Prevention & Response], filling in for the commissioner of the Department of Environmental Conservation (DEC). The

board's one commissioner from the Alaska Oil and Gas Conservation Commission (AOGCC) is Mike Gallagher. The board's three oil and gas subject matter experts are Pete Stokes, Petroleum Engineer [Petrotechnical Resources of Alaska]; Curt Freeman, geologist [Avalon Development Corporation]; and Tom Maloney, CPA [CH2M Hill]. The board's two industry trade group representatives are Kara Moriarty, President/CEO, Alaska Oil and Gas Association (AOGA); and himself. Providing background information about himself, Mr. Hendrix shared that he was born and raised in Fairbanks, has two grown children and a grandson, resides in Palmer, and has been with Carlile Transportation Systems, Inc. for 23 years where he is currently vice president and running the company's oil and gas division.

[1:14:27 PM](#)

MR. HENDRIX drew attention to slide 4, explaining the board began its work by identifying [Alaska's oil and gas producing] peers. The peers identified by the board are located in the Arctic, North America, Europe, and the Pacific Region and all the jurisdictions have concession-type fiscal arrangements for tax and royalties that are similar to Alaska. The identified jurisdictions have similar size reserves and undiscovered resource potential as Alaska, and have a history of significant hydrocarbon production.

MR. HENDRIX said Alaska has vast resources [slide 5]. Although not all of them are proven reserves, Alaska has a third of the nation's reserves. Regarding land and lease sales in Alaska [slide 6], he said the federal lands are vast [61 percent], but are locked up and challenging to develop. The private lands [12 percent] have the smallest offering and are contrary to many of Alaska's peers. State lands [27 percent] have the most potential for development in the short term. The State of Alaska's lease sale program is more consistent and reliable than the federal government, which is very important to the state.

[1:16:18 PM](#)

MR. HENDRIX brought attention to slide 7, stating that drilling activity in Alaska is a good indicator of petroleum-related activity. For example, there was an uptick in activity when Senate Bill 21 was enacted [June 2013]. He pointed out that slide 7 is from the Alaska Oil and Gas Conservation Commission and depicts all well activity, including workover wells, water production wells, coiled tubing unit drilling, and infield

production drilling and said the slide shows a tremendous amount of activity.

MR. HENDRIX turned to slide 8, specifying it is a Baker Hughes measure. He advised that the number of active drilling rigs on slide 8 differs from the number of drilling rigs shown on slide 7. This is because AOGCC measures every drill rig activity, whereas the Baker Hughes slides are more of a production drilling, fixed rig, reported by the bit salesman. He said slide 8 shows that Alaska has had a fairly consistent drilling program through the ups and downs compared to the other states which have gone through boom and bust cycles. While the well counts and the rig counts are significantly different [from the other states], the slide shows that there is a tremendous amount of stability in Alaska.

1:18:20 PM

MR. HENDRIX reviewed North Slope infrastructure and challenges [slide 9]. He said current infrastructure consists of: the Trans-Alaska Pipeline System (TAPS), the state-owned Dalton Highway, and oil and gas related infrastructure that is primarily owned by industry. While there has been conversation about whether industry or the state should own these, it is not an issue that the board looks at. Current North Slope challenges are: incident response, increased water handling capability as fields decline, and the oil flow contingencies for the Trans-Alaska Pipeline System. The board has met with former Commissioner Kemp and discussed roads and other Department of Transportation & Public Facilities infrastructure. However, he noted, the board has not yet had a chance to meet with new commissioner, Marc Luiken.

MR. HENDRIX addressed the infrastructure of the Cook Inlet and the frontier basins [slide 10]. He said the Cook Inlet has 34 units/fields, all of which are connected to infrastructure to bring oil or gas into processing facilities. As well, there are oil pipelines, dockage, and gas storage facilities. He said the six frontier basins include the Fairbanks area, Glennallen, Kotzebue, Emmonak, Egegik, and Port Moller.

1:20:11 PM

MR. HENDRIX, regarding labor and employment [slide 11], reported that the board met with the Department of Labor & Workforce Development and learned about the department's current training programs. Tracking workforce development will be one of the

board's "dashboard items" when doing its study. Workforce development is something to be keenly aware of because it is necessary for being able to attract industry expansion in the state. Having labor involved on the board is key in Alaska's future growth. Expansion in this area would be important and a competitive advantage for Alaskans.

CO-CHAIR NAGEAK pointed out that his district has two training centers. He said they are very important programs to meet the North Slope labor needs. He inquired whether there is anything the legislature can do to ensure that these two training centers will continue to be a program of the Department of Labor & Workforce Development.

MR. HENDRIX deferred to the department to answer the question, saying he cannot speak directly to the department's business. He reported, however, that the Department of Labor & Workforce Development provided an extremely good presentation to the board showing the state's different training programs. Looking at the state's available workforce and the programs to train additional Alaskan workers is something the board believes should be measured and watched closely to ensure Alaska has a workforce of Alaskans to do that.

[1:23:24 PM](#)

MR. HENDRIX said slide 12 is not in the board's report, but shows the difficulty, challenges, and complexity that is had in permitting. He pointed out that the yellow boxes depicted on the graphic are items that the State of Alaska can make changes to, if needed. The board has not identified whether the state's permitting process is fast enough, robust enough, or competitive with other states, but permitting is something the board must study closely to ensure that Alaska is not disadvantaged by its permitting process as compared to competing jurisdictions.

MR. HENDRIX addressed slide 13, which lists the typical permitting requirements. He said federal, state, and local permits are required to explore and develop, whether onshore or on the outer continental shelf (OCS).

MR. HENDRIX turned to slide 14, which shows how royalty and different taxes make up the Alaska fiscal system. He noted that the pie chart is from a better time than what the state is faced with today. Not shown on slide 14, he added, is the actual federal and local taxes that are generated in the process.

MR. HENDRIX stressed that slide 15, highlighting the petroleum fiscal regimes of Alaska's peer groups, is not meant to be a comparison because there is no perfect fiscal system. Of note, he said, is that those fiscal regimes having higher taxes - such as Norway, Australia, or Australia deepwater - do not have royalties. While not a comparison, the slide is a snapshot of the factors that were in place at the time the board's report was put together. Nothing remains static for long for many of the jurisdictions, he advised, especially during low prices.

[1:26:23 PM](#)

MR. HENDRIX moved to slide 16, pointing out that the Alaska Oil and Gas Competitiveness Review Board was faced with a very fast start. The board was mandated by Senate Bill 21, but due to the referendum the board's first meeting didn't occur until August 2013. Then the change in Alaska's administration resulted in a change-out of some of the board's members. The board has had 10 meetings and extremely good participation in getting the report done; however, the 2015 report does not meet the statutory requirements under Senate Bill 21. The board's task was for a deliverable at end January 2015 with written findings, and this report by no means is written findings or recommendations. The board has assembled a baseline of where [Alaska] is at today and a starting point. In looking at what it has been tasked with doing, the board has discovered that an outside study needs to be done, much like the experts the administration has hired for different studies for oil and gas. The board feels it important that this be an outside study to ensure there is good feedback from oil companies or producers or folks who are interested in doing business in Alaska. If it comes from the state he does not think that the oil companies or explorers would feel as compelled to give absolutely anything that might be a criticism or something that the state could fix. So, the board feels that having a third party do that will yield far better information and analytics. There is a broad base from which this information needs to be drawn. As unfortunate as it is, the board has prepared a request for proposals (RFP) where the board has asked for funding to continue its work. Following this study the board believes it can meet its statutory requirements to give written recommendations, but that work has not been completed yet.

[1:29:24 PM](#)

MR. BURNETT added that the Department of Revenue (DOR) has met with the Alaska Oil and Gas Competitiveness Review Board. He

confirmed the board has had 10 meetings and has been working on the aforementioned. He specified the fiscal note for Senate Bill 21 was simply for funding the administrative costs of operating the board. The board, including the commissioners on the board, have concluded that an outside study is needed. The report was due in January [2015], which is about when administratively it was understood what the needs would be, so it didn't come to DOR in time for the budget process this year. It continues to be discussed, he said, and he thinks all the board members, including DOR Commissioner Hoffbeck, are supportive of finding funding someplace. There could be a way to get funding from industry, but because an unbiased report must be ensured public funding is being looked at as the source, and this will be discussed with members of the legislature. A meeting was held with the governor's office earlier today and support was received for making a funding ask for this work.

[1:31:00 PM](#)

MR. HENDRIX stated that without funding in this budget cycle the board's work will be pushed out nine months. The board would not be brought to a complete stop, he said, but without that funding the board cannot get to the written recommendations required under statute. Other items that will be pushed out as a result of no funding are the board's future deliverables [slide 17]. The date for the board's next report to legislative committees is January 15, 2017; with lack of funding that date will be pushed out. The board can try to compress this work, but this work is extremely important to the State of Alaska and the board wants to be thorough and accurate in the execution of this. So, he advised, there will have to be something legislatively to push the dates for delivery on the January 15, 2017, deadline, as well as the January 31, 2021, deliverable.

MR. HENDRIX noted the board is diverse and includes a large contingent of labor, for which he is glad because labor is a key piece of Alaska's competitiveness. He concluded by thanking all of the departments for their participation, as well as that of AOGCC, because every department gave its time to pull together the data the board has presented in its 2015 report.

[1:33:41 PM](#)

REPRESENTATIVE JOHNSON asked whether the board has an estimate on the amount of funding needed.

MR. HENDRIX replied the board has identified a request of \$300,000 in the RFP.

1:34:06 PM

REPRESENTATIVE HAWKER appreciated Mr. Hendrix's acknowledgement that the board's 2015 report does not comply with the statutory requirements. He inquired whether the board's intention is to supplement this with a report that is in compliance with the statutory requirements for the January 31, 2015, report in addition to the January 15, 2017, and January 31, 2021, reports, or whether the intention is to move on forward with the 2017 and 2021 reports.

MR. HENDRIX responded that the board intends to submit what was statutorily required prior to the January 2017 report. So, the board will meet its statutory requirements, which will take more time, prior to the 2017 deliverable. The board owes the House Resources Standing Committee a report as outlined statutorily in Senate Bill 21 and also owes another report in 2017.

REPRESENTATIVE HAWKER asked whether the board will be able to complete the 2015 report if the legislature does not appropriate funds for the consulting study.

MR. HENDRIX answered no. Responding further, he explained that "without having the data to be able to do the comprehensive study that we ... need the information and professional surveys to pull together, his answer would be 'no', we're not going to turn out a quality product ... that we would feel that we could recommend to the state to move forward with."

1:36:55 PM

REPRESENTATIVE TARR observed the RFP will be issued on March 23 [2015] and the contractor's work period will be May 4 to July 1 [2015]. Concluding that something must therefore come together fairly quickly, she asked whether the plan is to issue the RFP without knowing how it will be paid for. She further inquired whether July 1, 2015, is when the board is expecting to get the consultant's final work product that would then be integrated into what Representative Hawker was just asking.

MR. BURNETT replied the expectation is that those dates will be moved, those dates are there as placeholders. So, depending on when funding is available and how it is identified, the dates

will be moved. However, the body of the RFP is ready to go, so the dates can be changed and the RFP put out.

REPRESENTATIVE TARR observed the notice to award is April 20 [2015] with the contract for May 4 to July 1, a window of two months. She asked whether two months is enough time for a contractor to be able to complete the study work.

MR. HENDRIX responded yes.

[1:38:23 PM](#)

REPRESENTATIVE HERRON requested Mr. Hendrix to state for the record why the board slid past this deadline.

MR. HENDRIX answered that the legislative directive [requiring] the board to produce written findings was a hurdle if the board had been formed and started as soon as Senate Bill 21 was passed. With less than seven months, and a volunteer board, coming up with the deliverable mandated under Senate Bill 21 is an insurmountable task.

[1:39:23 PM](#)

REPRESENTATIVE SEATON turned to slide 12 regarding the regulatory and permitting structure. He recalled Mr. Hendrix's statement that comparisons needed to be made with other jurisdictions. He asked which comparisons were being made; for example, costs per unit of production, accidents, oil spills, or looking at regulations in relation to results.

MR. HENDRIX replied that slide 12 speaks to permitting. He said a comparison of Alaska's permitting process needs to be made with other states, provinces, and jurisdictions to ensure that Alaska's permitting system doesn't inhibit producers from being able to get permits to develop leases. The board is trying to compare Alaska's permitting system, labor system, and fiscal system. Permitting was an item that the board strongly felt needed to be matched up against Alaska's competitive peers to ensure that Alaska's system is as good or better to try to attract business to the state of Alaska.

[1:41:09 PM](#)

REPRESENTATIVE SEATON remarked that there are reasons for permits. He inquired whether the board's review of permitting will include looking at the outcomes of the other permitting

systems as well as how functional they are. For example, will the review be about how quickly the permits could be gotten through the system or how well did the permits control water, oil spills, and accidents.

MR. HENDRIX responded the board is cognizant of the environment and how responsible the producers are in the environment. But, the permitting view being taken by the board is very simple, it is just looking at the application and processing of permits to be able to develop hydrocarbons and nothing more than that.

[1:42:28 PM](#)

REPRESENTATIVE SEATON specified that if it is found that another state's system allows for quicker drilling, he wants to know the value of those quicker permits; for example, what the outcomes are and whether it was responsible permitting. Without that information it will be unknown whether that other state's permitting was responsible permitting or whether Alaska has excess requirements that do not generate any value for the state. It would be valuable information, he opined, to know the end outcome of the chain of permits in the other jurisdictions.

The committee took an at-ease from 1:43 p.m. to 1:45 p.m.

**State Of Alaska, Alaska LNG Project, 3rd Party Cost Forecast by  
Department Of Natural Resources**

[1:45:01 PM](#)

CO-CHAIR NAGEAK announced that the next order of business is a presentation on the State of Alaska, Alaska Liquefied Natural Gas (LNG) Project, third party cost forecast.

MARTY RUTHERFORD, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources (DNR), noted she is the lead for the State of Alaska on the Alaska LNG Project (AK LNG). She said she is before the committee to present the third party cost forecast to the legislature in accordance with Section 77 of Senate Bill 138 on the amount of money the state may be obligated to pay a third party - TransCanada - under an agreement or contract under AS 38.05 if a North Slope natural gas project is terminated before the first flow of gas in the project. The report is focused on information specific to development costs that TransCanada is undertaking on the state's behalf through the precedent agreement (PA). This PA was signed in June 2014 and has a term of no more than two years and is

expected to last through the Pre-front-end engineering and design (Pre-FEED) phase of the Alaska LNG Project.

[1:46:55 PM](#)

MS. RUTHERFORD related that on February 17, 2015, DNR provided an updated report to the committee. It was an update of the previously submitted report that was sent on January 29, 2015. She projected onto the screen a copy of the February 17, 2015. As of December 31, 2014, TransCanada has reported spending \$13.7 million on the state's behalf, she said. This was from January 2014 through December 2014. This amount includes \$5.6 million net of Alaska Gasline Inducement Act (AGIA) reimbursements spent from January 1 to June 9 on concept selection costs. Another \$7.8 million was spent on Pre-FEED cash calls and \$300,000 on carrying costs. Through the Pre-FEED phase it is anticipated that TransCanada will incur a total of \$108 million, split up as follows: \$77 million in Alaska LNG Project cash calls made on the state's behalf; \$18 million in TransCanada's internal costs for Pre-FEED; \$5.6 million net of AGIA reimbursements on the concept selection, which was cost prior to entrance into Pre-FEED; and \$8 million in carrying costs, which are allowance for funds used during construction (AFUDC) or, in this case, funds used during development.

[1:48:17 PM](#)

MS. RUTHERFORD said that going forward the State of Alaska has several options. The state can exercise the equity option at any point between now and the end of 2015. If the state exercises this option, the state can choose anywhere from 0 - 40 percent of the 25 percent that is held on the state's behalf by TransCanada, and the state would owe anywhere between 0 and 40 percent of the total costs up to that point. Another option is that the state can continue as is with TransCanada holding the full 25 percent of the state's equity interest in the midstream, which means the pipeline and the gas treatment plant (GTP). The third option is that the state could also terminate the precedent agreement between now and any time up until the end of Pre-FEED if the state provides TransCanada with a 90 day notice. Also, TransCanada has the option to terminate the precedent agreement. The estimates of what would be owed vary depending on the date the state exercises either option as that will depend on what reimbursable costs have already been accrued and the associated carrying costs at the time of termination.

MS. RUTHERFORD concluded, saying the aforementioned completes her presentation which was for the purposes of getting onto the record the information that was provided in the two letters.

[1:49:57 PM](#)

REPRESENTATIVE HAWKER asked whether the aforementioned numbers are in line with the costs that were anticipated when Senate Bill 138 was passed a year ago.

MS. RUTHERFORD replied yes, they actually are almost exactly in alignment.

REPRESENTATIVE HAWKER concurred and offered his congratulations to Ms. Rutherford.

The committee took an at-ease from 1:50 p.m. to 1:51 p.m.

**ASAP Project Reconfiguration Plan by Alaska Gasline Development Corporation**

[1:51:37 PM](#)

CO-CHAIR NAGEAK announced that next order of business is a presentation on the reconfiguration plan for the Alaska Stand Alone Pipeline (ASAP) Project.

[1:51:46 PM](#)

DAN FAUSKE, President, Alaska Gasline Development Corporation (AGDC), thanked the committee for its patience, noting that AGDC was supposed to be before the committee more than a week ago, but various things occurred and that was not able to happen. He said the AGDC Board met yesterday [March 12, 2015] with the three new board members in attendance. The meeting started at 9:00 a.m. and concluded about 3:30 p.m., with the meeting going very well. He said that today he will review the outcome of that board meeting as well as what the board of directors has asked the staff to do over the next few weeks in reference to the slide show that Mr. Richards will present today on the reconfiguration to collect data and to come up with some assessments as to what potential costs might be involved in the request that has been made of staff by the board. [This planned presentation, "ASAP Reconfiguration", was not given.]

[1:53:23 PM](#)

REPRESENTATIVE HAWKER asked a "framing question" prior to commencement of the slide show. He recalled that the last time Mr. Fauske was before the committee, Mr. Fauske was with Ms. Rutherford and all the stakeholders in the Alaska LNG Project (AK LNG). At that time, the committee was given assurances that everything was on track, on budget, moving forward, and the issues were being resolved. Later that day, however, the administration announced that a new competing project was in place. He requested Mr. Fauske to address what happened after that committee meeting in which AGDC gave a very resounding endorsement for the work that was being done in accordance with Senate Bill 138 and the directions the legislature had established by policy. He asked what has brought Mr. Fauske before the committee today to talk about a reconfiguration of what [the committee] thought was [the state's] backup project.

MR. FAUSKE replied:

What's happened is that there has been interest shown and the good work still continues. What [staff has] been asked to look into is an upsizing of that project. We are on track, we are on budget, we are moving along precisely as we were directed to do under not only [House Bill] 4, but [Senate Bill] 138. ... the request that has been brought forward to [staff] is to take a look at the upsizing of the project so as to make it more economical. In other words, the 500 million feet that we've had ... through statutory constrictions in the past and/or policy restrictions. As of late last year, we had arrived at a position where the 500 million, and I've stated this before, is economical in the sense of it can still supply gas to Alaskans at a price we believe below imported LNG. Where you run into a problem, we feel, is that when you go above that, and ... Alaska only needs about 250 million feet a day, at least on the Railbelt section, that doesn't include as we branch it out further hopefully into the future, only needs about 240/250 million feet of gas a day. With a limit of 500 that means you have to sell that other ... 250 million feet of gas in order to maintain the tariff schedules that we have published. There is where it gets a little tricky, where you might have a gas that is not in a position to be sold readily to ... an Agrium or a Donlin Creek or a Conoco or whoever else that might want to purchase that residual gas.

1:56:20 PM

MR. FAUSKE continued his reply:

The administration has also announced that they had felt that way; that they wanted to see an upsizing. That is not new news. What happened yesterday was the board has directed [staff] to come back in a couple weeks with an estimate as to what work would be involved, or what the costs would be, to look at a reconfigured ANSI.

MR. FAUSKE explained that the current design is to an American National Standards Institute (ANSI) 600, 36 inch, one compressor station, 800-mile-long pipeline coming down to Beluga. He continued his reply:

What we have been asked to take a look at is an ANSI 600 with added compression to go from 500 million up to 1.4 - 1.5 billion feet of gas a day. And then to take a look at what it would take for an ANSI 900, which is denser steel and ... stronger steel ... to look at a pipeline that could generate, again with more compression, up to 2.5 billion feet of gas a day. ... that is the directive [staff] has been given. Ancillary to that will be some additional work on the gas treatment plant [GTP]. There is no LNG configuration made in this ... estimate which falls in line with what [House Bill] 4 has always ... remember we are talking ASAP [Alaska Stand Alone Pipeline], we've never been involved in the liquefaction business on the ASAP side. That was always the intent, was to get the gas to Beluga, and that the sale from beyond that point after where it had fed into the ... ENSTAR line, that any commercial activity after that would be the responsibility of the person or firms or companies buying that residual gas. So, Representative Hawker, that's what's changed.

1:58:19 PM

REPRESENTATIVE HAWKER asked another "framing question", saying he is now thinking back to the first time Mr. Fauske was before the committee this legislative session, rather than the last time. He commented that he is sometimes not sure which Mr. Fauske he has in front of him. He recalled that an ASAP Project

update was given at the first meeting and his takeaway from that discussion was that the original ASAP, AGIA-limited, concept was a backup project that was prepared and ready to move forward into an open season should AGDC choose. But, with the success that was going on with AK LNG, [the ASAP] open season timeframe had been sort of suspended. It was thought that AK LNG would move forward, but if it didn't, AGDC was ready to take ASAP and ramp it up into a much larger project that would allow the state to continue its momentum in getting gas if something happened to AK LNG. Now it sounds like ASAP is no longer being viewed as a backup project. The governor has now characterized it as a race to the finish -- that ASAP is to compete with and enter into a race and a competition for state resources with AK LNG. He asked whether what has been heard from the governor comports with the directive that AGDC staff has received and where staff is taking this new reconfiguration.

[2:00:11 PM](#)

MR. FAUSKE responded:

The way I'd like to characterize that is ... the administration, the governor's comments, bear a strong resemblance to - the board of directors met, the governor didn't direct me to do this - but the board of directors has met. ... we're going to analyze this data to come back to the board with what kind of costs are associated with this. And I'd like to talk about that for just a moment, if I may. We currently, prior to the issuance of Administrative Order 271 from Governor Walker, to I think it was six projects, directing them to cease and desist on ... discretionary funding. And we had prior to that announcement already started that work in reference to, we were so far ahead time-wise of AK LNG that it made no sense for us to continue to spend the money at the clip we were spending it, so we had ratcheted back the spend by about \$90 million and we settled on \$60 million as ... nondiscretionary funding that would continue that project to move forward doing work that was beneficial to both projects. And then it also stayed within the parameters of the administrative order issued by the governor. And so, that's where we currently were.

[2:01:41 PM](#)

MR. FAUSKE continued his reply:

ASAP has completed FEED [front-end engineering and design]. And if we were not constrained, and I'm not saying that being constrained is bad because the AK LNG we're partners in that too ... we're proud of the work we're doing on that. But we are the state's representative on the liquefaction piece of the Alaska gasline ... AK LNG Project, but it made no sense for us to continue to move forward ... to hold it and to file for the recourse tariff filing with the RCA, subsequent to that hold an open season knowing that the outcome would probably not be beneficial based on the work that AK LNG is doing and would you get, for instance in this case, would the producers bid. And there was the desire to allow the other project to catch up; the intent then being as you move into that first to second quarter 2016, which has been the published dates shown, it's slipped a few months I know, when the ... PRE-FEED [pre-front-end engineering and design] work is completed and the decision or the time has come for the FEED decision to be made, it's always been the intention that you would have two projects melded together. ... if AK LNG were successful, which would be a great event, the work that we had done would ... meld into that ... and it would go on. But I think it's a fair statement to say that you're not going to see two projects, so the intent was always that that's what would occur.

[2:03:11 PM](#)

MR. FAUSKE continued his reply:

... what's been published now and the discussion is: Is 500 million the size line that you want to end up with at the end of the day if, in the event, ... FEED ... isn't successful. If there's a decision that's made by industry and others that this project isn't worthy or doesn't meet market conditions to a level that companies are comfortable, including the State of Alaska, to spend \$60 billion, what should the fallback position be? That's where we find ourselves. Do we want to end up at the end of the day with a 500 million feet per day gas pipeline that's very well designed - and I want to say this to Frank and the employees and consultants we have had, we've done

exemplary work - I'm just so proud of it, it just stands up to any scrutiny. We've just submitted our class 3 estimate, which is good. ... but the question is, and what's being raised is: Do we want to end up at 500 million feet design, let's just call it June of next year, in the event that a FEED decision doesn't make it and doesn't go forward? I think we then find ourselves - and statements that have been made about a merchant type program where you're marketing dealing directly with market forces and buyers of gas - rather than necessarily producers. And so, there's this distinct difference....

[2:04:43 PM](#)

REPRESENTATIVE HAWKER agreed that Mr. Fauske characterized the committee's previous meeting just as he recollected it: it doesn't make sense to continue on the backup project while making progress on the much larger integrated project, the entire LNG project not just the in-state gas project. He agreed with Mr. Fauske that the likelihood of a successful open season for "ASAP 1" was highly unlikely, particularly since all the people that hold and have all the gas are the investors in the other project -- there is no gas for ASAP at the moment.

MR. FAUSKE interjected, "Including the state."

REPRESENTATIVE HAWKER said "the state has no gas until the producers produce it." He inquired as to "what has changed that suddenly makes it proper now ... to spend the money the legislature earmarked for that backup project that had been testified to us was going to be protected, marshalled, preserved for the future, to start forward right now on the course of expanding a project." He further asked, "How can we expect a different outcome than what you had reached the conclusion and testified to us would be the fate of any other competing project here just ... a month ago?"

[2:06:06 PM](#)

MR. FAUSKE offered:

I don't think we need to expect a different outcome. ... for clarity, we've been asked to, as quickly as we can, come back with some estimates at what the cost of doing the very work that I described would be. We haven't been directed to start that project, at this

point .... We're going to come back to the board in a short period of time with ... the estimates because then you have to analyze the remaining money in the fund. Is there enough to do it? There's a great deal of analysis. What level of estimate do you end up with at the end of the day? As you know, we have no requests in before ... the legislature ... for funding on the ASAP Project. The work was going to continue on what we're doing on the complementary work for both projects; we're doing that. What's changed, Representative Hawker, is that we've been asked to supply some numbers for what could be a subsequent decision made on that, I will admit that, when we go back to the board.

REPRESENTATIVE HAWKER recalled testimony that without the constraints of AGIA, AGDC had already, in concept, taken the original ASAP Project far beyond the original 500 million cubic feet per day and was looking at it being a much larger line. The question, he said, is whether the state would receive value by continuing to invest money in developing the larger scale or would it be duplicative. He noted his appreciation of the distinction between AGDC not spending, but rather looking at spending here today.

[2:08:11 PM](#)

CO-CHAIR TALERICO asked whether the direction is just for the pipe component.

MR. FAUSKE replied no. The resolution is pipe, but with that is the ancillary, one must look at the gas treatment plant (GTP), what the pipe is going to attach itself into. He said numbers will therefore be reviewed that include pipe reconfiguration as well as estimates as to what the GTP would have to be. He then reminded the committee that ASAP was designed using the Fluor Solvent [Process] because the directive of House Bill 4 (28th Alaska State Legislature) was to bring gas to Alaskans at the lowest possible cost. The design was not for an LNG line, but rather a pipeline flowing utility grade gas. However, prior to the passage of House Bill 4, an addendum was included specifying [the requirement] to haul about 1.5 percent propane, which equates to about 4,000 barrels of propane [passing through the pipeline] for potential use down the Yukon and/or the Richardson Highway. Therefore, AGDC is going to examine whether a larger line could be used while maintaining the Fluor Solvent design or would an amine process have to be used to produce. Are we

switching now to an LNG line or would this be a gasline? The directive was not to change to an LNG line with an LNG plant configuration, but AGDC is going to obtain numbers as to whether the same Fluor Solvent Process could be used to deliver the gas in greater volumes to the same destination.

2:10:13 PM

REPRESENTATIVE TARR surmised that after this work is completed there will be three options:

If you're at FEED with the ASAP line as it is ... we have all the ... specs and engineering work ... ready for that stage, and then this will give you a second piece of information for some alternatives, and then AK LNG. So, at some point here we'll have essentially three alternatives to evaluate?

MR. FAUSKE said he would not characterize them as alternatives, rather he clarified that AGDC will obtain the numbers, get back to the board with the idea that if it fits within the parameters of what [AGDC] can afford or the board wants to do, then there might be another alternative. However, currently [AGDC] is still at the point of obtaining estimates as to how much the endeavor would cost. He acknowledged that a third alternative could result. He further clarified that it's an attempt to determine whether "you can operate where we're currently at, redesign, up the volume, ... stay within the funding levels that we're currently at." He advised that the schedule cannot be forgotten. "You want to time yourself so that you're coinciding with the already published FEED decision based on the AK LNG side." The difficulty, he opined, is in terms of the level of design that could be accomplished to get to the class 3 estimates, which has taken a great deal of time.

FRANK RICHARDS, P.E., Vice President, Engineering and Program Management, Alaska Gasline Development Corporation (AGDC), interjected that AGDC does the work to industry standards.

2:12:01 PM

REPRESENTATIVE TARR recalled there was testimony at a previous meeting that pipe had been ordered and some testing had been done. She surmised that at some point that work could be for naught because a different decision could be made.

MR. FAUSKE clarified that that pipe was ordered to be tested for the current design of ANSI 600, 36-inch [pipe].

MR. RICHARDS specified that the pipe was ordered specifically for areas where strain accumulation was expected from discontinuous permafrost either from frost settlement or frost heave. The pipe was an X70 class pipe. Mr. Richards offered that the work is beneficial to the ASAP Project, any new iteration of the ASAP Project, or the AK LNG Project. He opined that it's beneficial work because it's about the grade of steel and meeting those design criteria for a pipeline.

[2:13:34 PM](#)

REPRESENTATIVE SEATON pointed out that the cost of the two pipelines is impacted by whether the gas is utility grade or LNG grade and whether CO<sub>2</sub> could be carried. He then recalled a recent presentation from Agrium Inc. regarding restart during which it was related that CO<sub>2</sub> is an input necessary for its process. He asked if AGDC is working with Agrium Inc. regarding the amount of CO<sub>2</sub> necessary for the processing of urea and whether the [proposed] pipeline configuration still makes sense with higher levels of CO<sub>2</sub> in the pipe versus North Slope LNG quality.

MR. FAUSKE said that AGDC has met with Agrium Inc. several times in the past, but not recently. He acknowledged that there is a difference in the [level of] CO<sub>2</sub> with the Fluor Solvent Process versus the LNG quality gas versus utility grade gas.

MR. RICHARDS noted his agreement with Mr. Fauske that AGDC has met with Agrium Inc. several times in the past, but not of late. The current design of the ASAP Project with the Fluor Solvent Process is one in which the gas is reduced down to a consistency of about 3 percent CO<sub>2</sub> flowing down to Southcentral Alaska.

[2:15:45 PM](#)

REPRESENTATIVE SEATON presumed that AGDC will be in conversations with Agrium Inc. as this is analyzed.

MR. FAUSKE replied that AGDC will probably have discussions with Agrium Inc. He then explained that AGDC, as a builder of a pipeline, will state the consistency of the available gas during the open season and as the bids/requests are received and analyzed, the consistency of the available gas can be altered. He remarked, "You don't want to end up, at the end of the day,

with a pipe that you miss a golden opportunity to have a large anchor tenant and not have the ability to service that client."

2:17:13 PM

REPRESENTATIVE HERRON related his understanding that the work product will be completed by the next regular board meeting [of AGDC]. He inquired as to when that board meeting will be held.

MR. FAUSKE related his belief that the next board meeting is scheduled for [April 9th]. However, he noted that in the event [the work product is completed] sooner, or there is a compelling reason through the available data, AGDC can certainly request a meeting of the board sooner. Mr. Fauske acknowledged that this is an issue that plays heavily into what the committee is considering, and therefore the sooner the data can be comprised the better.

2:18:20 PM

REPRESENTATIVE HAWKER returned to the topic of pipes and sizing up without really sizing for LNG. He related his understanding that AGDC staff has only been tasked with determining cost estimates to scale up the pipe size.

MR. FAUSKE said that's correct.

REPRESENTATIVE HAWKER then inquired as to why [estimates would be made] to scale up the pipe without the intent and purpose of it being an LNG project. He questioned whether estimates not considering an LNG project are being made to avoid saying there is a competing LNG project.

MR. FAUSKE clarified that AGDC is not involved in an LNG project, the only LNG project in which AGDC is involved is AK LNG. However, he related his understanding that AGDC will consider LNG.

MR. RICHARDS informed the committee that the presentation and what the AGDC Board has provided goes into the specifics of the reconfiguration plan. He offered to address that now or during the presentation.

2:20:04 PM

REPRESENTATIVE JOSEPHSON, following up on Representative Tarr's question, inquired as to whether the discussion of a third

alternative would be more properly characterized as a reconfiguration or reconsideration of a reconfigured first alternative that is House Bill 4.

MR. FAUSKE opined that [AGDC] is ensuring that ASAP is designed at a level that better suits the needs of Alaska or a market-type condition or the ability to produce more product than it's currently designed to achieve. The ultimate goal, he said, is that AK LNG goes forward and is the end product. However, what [AGDC] is looking at is what is being done in the interim in terms of the desired end product, if this was not to occur. Mr. Fauske said that 500 feet doesn't fit with comments that were made or the sense of the board. The [pipeline] needs to be sized at a level that provides a more competitive advantage to Alaska or the ability to deliver a product at a greater level, and AGDC is trying to develop some numbers as to what that alternative would cost.

[2:22:01 PM](#)

REPRESENTATIVE JOSEPHSON asked whether there is anything in House Bill 4, Senate Bill 138 [28th Alaska State Legislature], or the precedent agreements that would preempt this in any way. In other words, he asked whether Mr. Fauske has read anything, or been informed of anything, that would stop this policy adaptation.

MR. FAUSKE related AGDC's belief that under House Bill 4, AGDC has the ability to review this and potentially do this. However, Senate Bill 138 does restrict AGDC in the sense that AK LNG could only be proposed if it involves working within the AK LNG parameters of the legislation. Mr. Fauske opined that AGDC believes that under House Bill 4 it has the ability to review this as the language refers to "providing the best alternatives for Alaska" and "operating in a prudent manner". He said, "I think that's what we're exercising here is ... let's take a look at that to see if we can end up at a level that makes more sense to the state."

[2:23:19 PM](#)

REPRESENTATIVE HAWKER questioned how AGDC can be progressing in a prudent manner when the directive of House Bill 4 was for AGDC to continue with the project plan established per House Bill 369 [26th Alaska State Legislature], with modifications necessary to meet the other statutory objectives of House Bill 4 and House Bill 369. The top responsibility was to get gas to communities

in Alaska first and foremost. Representative Hawker, again, inquired as to how it can be prudent at this time to embark on this course, when, as acknowledged earlier, there is no gas for this project. He recalled an earlier rationale that it was prudent, responsible, and appropriate to back off from the further post-AGIA limitations scale-up of ASAP. He therefore inquired as to what the AGDC Board believes has changed as the current testimony is contradicting prior testimony.

MR. FAUSKE replied that he doesn't believe he is contradicting the testimony yet. By that, he reiterated that AGDC is developing cost estimates to report to the AGDC Board to determine if this is a prudent endeavor that should be pursued. He said, however, that Representative Hawker's question would bear far more weight if the AGDC Board decides to go forward.

[2:25:24 PM](#)

REPRESENTATIVE HAWKER characterized a scenario in which the AGDC Board chooses to move forward as a serious question about prudence and diligence and a horrific contradiction. He pointed out that the governor clearly stated in writing that he was embarking on a competing project that would be in a race to the finish with AK LNG. When the two competing projects reach the final investment decision (FID), the executive would choose between the two projects and put the resources behind the chosen project. However, he emphasized, that's not what is being described today. Rather, he is hearing testimony that the AGDC Board has directed staff to price larger pipe, which is very inconsistent with what he was expecting to hear. He said he expected to hear testimony that AGDC is executing the direction established by the chief executive officer of the state. Therefore, he questioned who he should believe: Mr. Fauske or the governor.

[2:27:04 PM](#)

MR. FAUSKE specified that the governor did not direct him to do anything, the AGDC Board did. He opined that there is a difference. He acknowledged that the governor has been quite public that the 500 million makes no economic sense. He said the AGDC Board has requested staff to review the alternatives to [the 500 million]. Mr. Fauske continued:

This involves so many moving parts ... because we're not only trying to figure out what exactly does this mean because we're so far down the trail on the other

project. We also have a business relationship on the AK LNG side, so then you get into the sharing of data and ... does that relationship stay the same? And I don't know the answer to that yet. I do know that that will factor in heavily to a decision going forward for information going back to the board .... We've had the ability to share data in the work that we're doing. I was clear to the board yesterday that it's going to be my desire to work with the industry to try and keep that relationship whole. ... the industry has been quite outspoken as well as to their concerns or possible confusion over this action. So, I think over the next few weeks, we're going to be working very hard to try and clear that up, try to figure out what will this thing actually look like if it goes forward and, to the best of our ability, what those costs would be.

[2:28:56 PM](#)

REPRESENTATIVE HAWKER recalled a press conference in which the governor named Mr. Fauske as his point man to respond to all questions about his competing pipeline project that would compete with the AK LNG pipeline to FID, at which point the governor would decide [which project would move forward].

MR. FAUSKE explained that he was not at that press conference. He noted his appreciation for the governor's acknowledgement and AGDC team. However, the governor's comments, he said, don't reflect his actions yesterday. He reiterated that yesterday he was not taking action from the governor but rather from the AGDC Board of Directors.

REPRESENTATIVE HAWKER identified the problem as the inability to know who is credible. He opined that he doesn't know if the governor is intending to do what he has said publicly or whether to believe what is being said today. Representative Hawker said he is horribly confused.

[2:31:01 PM](#)

REPRESENTATIVE JOHNSON said he thinks that what he is hearing Mr. Fauske say is: "It's just a coincidence that the governor appoints three new board members, does a press conference, and the board takes a different direction." He asked whether it is just coincidence.

MR. FAUSKE replied:

No, it's not a coincidence. ... I think this is a board that's taking some action based on the desire of the administration and, but more importantly, to analyze what we know has been said to see if it makes any economic sense. I'd like to hold out in reservation, and ... I think I can speak for any prudent individual whether the governor or anybody else, that if we come back with some numbers that say this makes absolutely no sense, based on whatever, I think then we could have a different discussion. I'd like to remain hopeful on that. I've been working on this a long time.

[2:32:07 PM](#)

REPRESENTATIVE JOHNSON requested that Mr. Fauske repeat his answer.

MR. FAUSKE responded:

I'm saying that we've been asked to come back to our board with what we think this would cost. This could be a situation where, if it comes back and it exceeds the amount of money that we have on hand to do it accurately, then you have to sit down with people whoever they might be - governor on down - if you're looking at [legislative] request for funding, if you're looking at a toll, a reconfiguration. We're trying to come up with ... facts and figures that would support doing this action. We don't know at this point if we have enough funds to do that. ... I guess what I'm trying to say is, if we could revisit this at a such time. I'm trying to be defensive of this isn't a final decision yet. This has been some work that's been assigned to us to go look at.

[2:33:02 PM](#)

REPRESENTATIVE JOHNSON said he is sure this will be revisited. He asked whether Mr. Fauske is talking money to kick the tires or money to build the project. He further asked how far Mr. Fauske has been instructed to go and what Mr. Fauske's intention is. He inquired whether Mr. Fauske is asking for money for the research to find out if it's feasible, or what the line is here

because he hasn't heard anything specific and it's just kicking tires and will cost X.

MR. FAUSKE answered that he didn't mean to say it that way. He said: "We're not here requesting money. We're going to come back with the idea of what this is going to cost to do."

[2:33:40 PM](#)

REPRESENTATIVE JOHNSON asked, "What is 'this'?"

MR. RICHARDS replied:

What the board asked us to do yesterday was to come back with a scope, schedule, and budget to do additional work on two pipe class size. So that means we are to go back and in the next two weeks develop what's it going to take to advance through a Pre-FEED and FEED effort for ANSI 600 and an ANSI 900 pound class pipeline.

[2:34:17 PM](#)

REPRESENTATIVE JOHNSON inquired as to how much of that work AGDC has already done through the ASAP project.

MR. RICHARDS responded:

The FEED work that we've just completed now for the ASAP Project was for a 36 inch, ANSI 600 pound class pipe, with a gas conditioning facility on the North Slope to utility grade gas. So that was for a 500 million standard cubic foot a day throughput. That's been the ... basis of our work to date. What the board has asked us to do is, then, with that ANSI pipe class in order to increase the volume throughput, then you need to add compression and you need to have additional conditioning facilities upsized on the North Slope. So they've asked us to go back and say what's it going to take in order to do the design efforts for that upsizing of the gas conditioning facility and the look at doing compression stations along the pipeline route, feeding into an LNG facility by someone else.

[2:35:22 PM](#)

REPRESENTATIVE JOHNSON said he understands that, but his question is how much of the work on the ANSI 600 pipe has AGDC staff already done.

MR. RICHARDS answered, "We've done FEED-level work for the ANSI 600 pipe."

REPRESENTATIVE JOHNSON asked how much of that is duplicative for this new project called the "governor's plan", or "new pipeline", or whatever it is going to be called.

MR. RICHARDS replied:

If we call it "reconfigured" or "ASAP Prime", whatever we call it ... consider this: the two main components right now of the ASAP Project, as currently designed, is a gas conditioning facility and a pipe. The pipe work is solid and can be used for anything going forward, because you would be adding additional conditioning on the slope and compressor stations. So the pipe, the design of the pipe, the right-of-way work, that is all solid work that can be used for an additional, or reconfigured, project.

[2:36:31 PM](#)

REPRESENTATIVE JOHNSON said his point is [the state] is sharing information that it has already paid for under ASAP with this "transformer pipeline", but it is supposed to be siloed eventually so [the state] is not competing with its partners in sharing information that the AK LNG pipeline has. It seems, he said, that there is a sieve of information going back and forth.

MR. RICHARDS responded:

The existing cooperation that we have between AGDC and our AK LNG partners is a very solid relationship. Primarily we're looking at work on the pipeline right-of-way. So we're looking at the geohazards work, we're looking at the geotechnical work, we're looking at cultural resource work, wetlands delineation, and we are looking at essentially the strength of the pipe, so that the ... strain-based pipe design effort that we've been undertaking in the small-scale testing is of value to both projects. The cooperation agreement is between ... the AK LNG partners and AGDC for the ASAP Project at 500 million max. So, if we

were to ... reconfigure the project to greater volume, we would no longer be able to, unless we can reach a common understanding and agreement to do that at a future date.

REPRESENTATIVE JOHNSON said he will follow up later because he is being unable to articulate his question very well.

[2:38:21 PM](#)

REPRESENTATIVE HERRON asked whether it is the AGDC Board that is driving the boat or whether another captain is driving the boat.

MR. FAUSKE answered:

I think it's an accurate statement to say that the board of directors takes the action. Through my entire existence of doing this type of work, governors have appointed boards ... and to state that boards don't have some responsibility to the governor would be inaccurate on my part. I'm not saying that's what occurred, but of course there is some interplay when governors make their appointments. To what level it occurred here, I'm sure that there has been discussions. I am just speculating. I wasn't in the room, I don't know, but I'm just, I'm past history. I'm sure that when someone appoints someone to a board, there is some interaction there as to what is desirous of that individual. But I'd like to defend the board on that regard. At the end of the day it's the board that makes the decisions ... the board that has fiduciary and legal responsibility. And so I'm not trying to be vague here ... I would assume nothing else.

[2:39:57 PM](#)

REPRESENTATIVE OLSON, regarding what transpired yesterday with the new board, inquired whether that was the first significant action that the new board has taken.

MR. FAUSKE replied "yes, it was; that was the first gathering of that board."

REPRESENTATIVE OLSON requested that the committee co-chairs be provided with a copy of the meeting transcript for distribution.

MR. FAUSKE agreed to do so.

2:40:33 PM

REPRESENTATIVE JOSEPHSON commented that "the fact finding is absolutely critical, it's our job, it's invaluable, and important to do, and we need to do more of it." But, what he is hearing, he continued, is that there is a new governor and a policy change in some ways, and the committee is trying to figure out what degree. There is "sort of this hushed tone or almost sort of a conspiratorial sense that something's afoot." He said he saw yesterday that there is a change in policy on Medicaid expansion, too, so he knew there were going to be some changes because he followed the election. Therefore, he said, he is a little bit confused by that part of it.

2:41:23 PM

REPRESENTATIVE HAWKER said he is trying to sort through these two new arbitrary sizes that AGDC staff is going to look at for pricing. He understood that AGDC staff was directed to do this by the AGDC Board yesterday. Recalling that Mr. Fauske had [previously] talked about the open and transparent board process, he asked whether there was any board discussion about the rationale behind this new approach and how the board came up with these two sizes that it has directed staff to look at.

MR. FAUSKE confirmed that there was [discussion by the board]. He continued:

I was fairly pleased with where the discussion originally started to where we ended up in reference to concerns that board members shared with where exactly we were heading and what data we would end up with ... as a result of this work. It transformed into more meaningful. ... originally it was more of a debate to just do pipe, but it's hard to do just pipe, come up accurately without looking at the GTP [gas treatment plant]. And so I thought the board in that regard moved the resolution closer to an event that could be far more workable, the accurate data that would be meaningful when presented.

2:42:56 PM

REPRESENTATIVE HAWKER said that is not quite the question he asked; he is asking whether there is a public discussion on the

board meeting record, that the committee will be receiving a transcript of, as to the rationale behind the two pipe sizes that staff was directed to look at. Staff was directed to look at an ANSI 600, 1.4 - 1.6 billion cubic feet a day, and an ANSI 900, 2.4 - 2.6 [billion cubic feet] a day, both of which will take a bunch of money to look at. He asked what the rationale is and whether anybody has determined that those are the right size for the market. He remarked that it seems like a backwards bit of engineering. Noting that Mr. Richards is the engineer, he asked whether there is a proper scoping or any evidence of a scoping that rationalizes the state spending money on those two particular sizes as alternatives. He maintained that these aren't even aligned with the governor's public statement about a 42 or 48 inch, 5 billion cubic feet per day, pipeline. He said he is a member doing his best to represent the public trust with the real mission and objective of seeing Alaska's North Slope natural gas get to market. However, he continued, so many data points have suddenly been thrown into this otherwise fairly clear process that he is now horribly confused. He asked what the basis is for the pipe sizes that staff has been directed to look at.

[2:44:37 PM](#)

MR. RICHARDS answered:

Since the termination agreement of the AGIA contract with TransCanada, then AGDC has been asked repeatedly, "What's the maximum throughput on the pipe that you are designing?" And ... we have talked in this committee about that. We gave [an] estimation that it was probably 1.6 billion cubic feet on an ANSI 600 class pipeline. So, the board in their discussions, and we have subcommittees on the board ... one of which is the Technical Committee, which is ... where we discuss and provide updates on the technical work that is being done by the corporation staff, we've discussed numerous times again what are the potential for an ASAP Project with this design configuration. ... in order to get more flow out of ASAP, you have to add compression, because that's how you're going to get more gas down a pipeline. So that means if you're going to have more volume then you're going to have to upsize your conditioning facility. So, in those discussions in those subcommittee hearings, we've talked about the various how do you get flow through the common diameter, 36-inch diameter? That was

really kind of the standard that we have kept to, which was 36 inch. So, in those deliberations it was a discussion on what would it take. What are general estimates of what it would take and what that would mean ultimately to consumers, to Alaskans, because ... under the premises of [House Bill] 4 it's to provide gas at the lowest possible cost. So, more volume, lower cost. Again, just looking just at the ASAP Project for the 36 inch. So, in those discussions, then, we were directed to come back with ... a scope to be able to advance this work and what that would mean going into a Pre-FEED and FEED effort for what would then be the critical path ovens. And that's essentially the facilities, because as I've described earlier, the pipeline, the ANSI 600 - and again for those watching, ANSI is American National Standards Institute class 600, which is a maximum pressure of 1,480 pounds per square inch - so ... for that class pipe, we were asked to look at ... how many compressor stations and what size conditioning facility or additional trains would make that economic. So that's where we were asked to come back and represent to the board yesterday a plan, which is again coming up with a scope, schedule, and budget to do additional engineering work on these two class pipes ... to look at the most economically viable project.

[2:47:49 PM](#)

REPRESENTATIVE HAWKER said the argument he is hearing is "we're just talking about looking how much gas we can shove down a 36-inch pipe and let's look at a couple options." However, he continued, the word 'compression' is being used, which is a pretty significant redesign of the project. He asked what this dialogue, whether it is a competing project or a reconfiguration project, has done to AGDC's ongoing environmental impact statement work that was originally underway.

MR. RICHARDS replied that the U.S. Army Corps of Engineers, as lead federal agency conducting the supplemental environmental impact statement, made the decision on March 3 [2015] to "suspend the work on the ASAP supplemental environmental impact statement because they can see, through the newspapers, that that there is policy questions that are being raised in the legislature. ... rather than having the regulators continue the work, they decided to suspend it ... for a couple months until

there is resolution and they can then ... hear from AGDC on what project is going forward."

2:49:07 PM

REPRESENTATIVE HAWKER said he understands that the Army Corps of Engineers doesn't want to waste its precious assets and time when [the state] doesn't quite know what its real project is here. He asked whether there is "a risk that that same approach could be taken by other regulatory agencies that are currently deeply involved and committed to doing the same work and other regulatory approvals on the AK LNG Project because our ramping up of this project into a competitive nature is causing doubt about what will be the ultimate project."

MR. FAUSKE responded:

We went through a similar situation when ... we decided to go away from the 24-inch, 2500 PSI. We were at a point on the original bullet line concept that we were expecting the record of decision, the ROD, from BLM [U.S. Bureau of Land Management] and at such time when we reconfigured going to 36-inch, that was suspended, meaning maybe a little bit different than the way this has been done, but meaning further outcome of we like you guys' project continuing to move forward, but this is different than what you were doing. Yes, you can expect, or would not be surprising to see other agencies, if they follow suit, the utilization of their resources if they're not sure what it is exactly we're doing, but so far it's been the Corps of Engineers ... and I'm not sure who else ... might follow.

2:50:35 PM

REPRESENTATIVE HAWKER interpreted Mr. Fauske's response as stating that "it's entirely possible that agencies involved in regulatory permitting and review of the AK LNG Project could become concerned and perhaps have their process disrupted as a result of the uncertainties being introduced by our other activities here."

MR. FAUSKE answered "that could happen, absolutely."

2:51:01 PM

REPRESENTATIVE TARR surmised that AGDC's presentation is not going to happen today, but said she has two questions in regard to slide 6 of the presentation. Drawing attention to the total cost to final investment decision (FID) for each of the three volume scenarios, she asked how this will be assessed as part of the work now being done, or whether the reconfiguration work will pre-suppose that that volume of gas will be made available to meet that design. She further observed that in the total cost to FID, all three scenarios state "\$150 million expended to date", which she said she thinks is consistent with earlier slides that say to avoid duplication and competition [slide 3] and to ensure complementary versus competitive orientation [slide 4] so that the money is being considered as having been spent for any one of these projects. She inquired what the 5 percent of capital cost [on slide 6] is referring to in the total cost to FID [for the columns under ASAP Option 1A at 1.4 billion cubic feet a day and for ASAP Option 1B at 2.4 billion cubic feet a day].

MR. RICHARDS took the second question first, stating:

On the slide specifically, total cost to FID is the line, and for the left-hand column you'll see the current ASAP and that's the 500 million standard cubic foot a day design that we have completed. When we were initially doing the work with the legislature through House Bill 369 and then subsequently House Bill 4, we identified what it would take to get through FEED, front-end engineering and design, through an open season to a project sanction or, synonymously called, final investment decision. And we represented that as approximately 5 percent of the total installed cost. So at the time ASAP was envisioned to be approximately an \$8 billion project, 5 percent was about \$400 million and the legislature responded by appropriating \$400 million for the advancement of ASAP through to project sanction or FID. As we discussed with the board, the two potential concepts, then we ... haven't done the work to define what the total installed cost would be, so we haven't really come up with what [it] will take to get to FID, but used our 5 percent as a representation as work we have done and work we will do.

MR. RICHARDS, regarding the first question about gas ownership, reiterated Mr. Fauske's earlier statement, saying "we don't have the gas and we didn't have the gas for the ... original ASAP

concept either." So, Mr. Richards continued, AGDC is designing a plant such that gas would be fed into the system from the Prudhoe Bay Unit, or potentially the Point Thomson Unit, which is now under construction and will hopefully be providing gas for sale.

[2:54:26 PM](#)

REPRESENTATIVE HAWKER directed attention to AGDC's slide entitled "Primary Objectives" and the first two objectives listed:

- Build a North Slope natural gas project
- Accelerate development of Alaska LNG

REPRESENTATIVE HAWKER noted his agreement that those were primary objectives and to the best of his knowledge is the objective. However, he clarified that the construction of a natural gas project is only to be done if it's economically advantageous and serves the greatest needs of Alaskans. He then expressed concern with the best practices in accomplishing the two primary objectives. He acknowledged that AGDC has scrupulously followed the best practices of mega-project development, including a stage-gated approach, but inquired as to whether AGDC has utilized the Independent Project Analysis, Inc. to review AGDC's process.

MR. RICHARDS replied yes.

[2:56:02 PM](#)

REPRESENTATIVE HAWKER, referring to the book entitled Industrial Megaprojects, related his understanding that the AK LNG Project is at the end of scoping or what Independent Project Analysis, Inc. refers to as Pre-FEED reaching to the FEL2 gate [front-end loading 2 gate] and moving into FEED. More specifically, he surmised that AK LNG is moving from Pre-FEED to FEED.

MR. RICHARDS concurred that the AK LNG is in the Pre-FEED phase and hopefully, a FEED decision will be made in the second quarter of 2016.

[2:56:40 PM](#)

REPRESENTATIVE HAWKER, drawing from the book entitled Industrial Megaprojects, related his further understanding that the closure of shaping, which is Pre-FEED, "must mark the start of no

further changes in scope and the data clearly and strongly support the importance of bringing the business issues to closure in conjunction with the completion of FEL 2 [front-end loading 2], moving into FEED or FEL 3 [front-end loading 3]." Continuing to draw from the aforementioned book, he highlighted that the most common reason for failure of projects is failure to achieve full stakeholder alignment and that "at a definite point, the option must be exercised or dropped." Representative Hawker stressed that the evidence clearly illustrates that megaprojects fail when those objectives and guidelines aren't followed. He expressed concern that at the critical decision point of the big project, a change to an entirely new scope is being introduced for the legislature to evaluate, the world to review, and the business partners to question why [the state] is entering into competition with them when the project is at the stage gate. Representative Hawker then questioned whether the objective abandonment of the best management practices for successful megaprojects is compromising the potential progress of the AK LNG Project.

MR. FAUSKE characterized that as a very good point, but assured the committee that if he is involved there will be no compromise on those policies. Mr. Fauske noted that this is an event that has occurred within the last 24 hours. Moving this project forward, [AGDC] will endeavor to use those same staunch policies and criteria with any advice that staff would provide to the AGDC Board within a few weeks. Mr. Fauske noted his agreement with Representative Hawker, saying:

There's no better way to move forward and you have to stay within those guidelines. So, yes, this does create a situation where using those guidelines implicitly to determine what is the viability of moving forward with this change and what is the accurate amount of money and other issues that have to be considered to stay within it. I think we are living proof, by adhering to those policies, we've been able to get where we're at today with ADAP on the Class 3. We've been complimented by the industry and others. I would never find myself in a position where I would not stick to that regime.

[3:00:06 PM](#)

REPRESENTATIVE JOSEPHSON recalled discussion about the commitment of gas and that under any revised plan in which there was a true export project, there wouldn't be enough gas since

it's already committed. However, he related his understanding that technically the AK LNG Project doesn't have any committed gas. He then asked whether the aforementioned is part of the concern that would hopefully be alleviated 18 months from now.

MR. FAUSKE replied that there might be a term difference. He explained that, with AK LNG, all the owners of the gas are at the table. Therefore, the owners are involved and would not spend this amount of money without an intent to commit that gas. Mr. Fauske stated that there is a commitment to put gas in the line to supply an LNG project. However, ASAP is different. In August 2011, an expression of interest, a confidential gathering, was held in which there were nonbinding commitments for work on that project, for gas being placed into that line. Although the commitments were nonbinding, there was extreme interest. He remarked that the line was oversubscribed as there was more gas than the 500 to which it was limited.

[3:01:53 PM](#)

REPRESENTATIVE JOSEPHSON understood that without the firm transportation services agreements, there is a hoped-for commitment, a prospective commitment, as was discussed last year and referenced in Senate Bill 138 and the agreements. However, he understood that that commitment comes with FEED, and so there is not a firm commitment of that gas.

MR. FAUSKE responded that it comes with open season, when other commitments are made and bids come forward.

[3:02:34 PM](#)

REPRESENTATIVE HAWKER asked whether Representative Josephson is referring to AK LNG or ASAP.

REPRESENTATIVE JOSEPHSON said he is referring to AK LNG.

MR. FAUSKE interjected that there is no open season on AK LNG.

REPRESENTATIVE HAWKER requested that the aforementioned dialogue start over as the information is critical and very inaccurate statements have been made.

MR. FAUSKE related his understanding that he thought the dialogue was in reference to ASAP to AK LNG.

[3:02:56 PM](#)

REPRESENTATIVE JOSEPHSON clarified that he was referring to AK LNG.

MR. FAUSKE clarified, then, that all the owners are there and there would be no open season on AK LNG.

REPRESENTATIVE JOSEPHSON then asked whether there is a hoped-for commitment or an actual commitment of gas for AK LNG.

REPRESENTATIVE SEATON interjected that the FID has not been made.

MR. FAUSKE agreed.

[3:03:25 PM](#)

REPRESENTATIVE HAWKER inquired as to the source of gas that was required to initiate a Federal Energy Regulatory Commission (FERC) application.

[3:03:43 PM](#)

REPRESENTATIVE OLSON recalled from attending an "IPA program" that Representative Hawker put on a couple years ago that the definition of a megaproject is in excess of \$1 billion.

MR. FAUSKE agreed with Representative Olson's recollection.

REPRESENTATIVE OLSON asked whether anyone on the new AGDC Board has been involved in a significant manner with a megaproject that came to fruition.

MR. FAUSKE answered that he does not believe so.

REPRESENTATIVE OLSON related his understanding that Mr. Fauske has been involved in at least one megaproject that came to fruition.

MR. FAUSKE indicated his agreement.

[3:04:33 PM](#)

REPRESENTATIVE SEATON referred to the third bullet on [slide 2], entitled "Primary Objectives", which states "Ensure Alaska has an economically viable alternative if Alaska LNG falters". If that's the goal with the review of the 1.4 or 2.5 billion cubic

feet, then it seems to be in alignment with what House Bill 4 and ASAP were with the 500-million-cubic-feet-a-day constraint removed. Representative Seaton continued:

We've kind of changed a little bit our positions here and where we are. But I hate to put the designation of what we were trying to do and what we're trying to make sure that we have if final investment decision is not reached, so that we don't have an economically viable alternative on the table. And so, I think that slide number 2, we need to look at all of those bullet points. ... I think that's what I've been hearing today is that you're looking at design on [an] economically viable alternative if it falters. Now, am I wrong? Should we take that bullet point off or is that what we're really talking about?

MR. RICHARDS replied that Representative Seaton summarized it very well. The work product that will be presented to the AGDC Board will be an estimate to do a traunch of work, not starting the traunch of work at that point; staff are defining what that work effort will be at this point. Following the objectives in line with the success factor and the strategy so that there is no duplication of effort while meeting the intent of House Bill 4 and Senate Bill 138 and the powers that reside within AGDC.

[3:07:24 PM](#)

REPRESENTATIVE HAWKER asked whether the AK LNG Project has filed for an export permit.

MR. FAUSKE responded yes.

REPRESENTATIVE HAWKER related his understanding that as a part of that permit, a source of gas and commitment of that gas has to be identified by those filing.

MR. FAUSKE answered that is correct.

REPRESENTATIVE HAWKER then surmised that AK LNG has a committed source of gas.

MR. FAUSKE replied that is correct.

[3:08:02 PM](#)

REPRESENTATIVE HAWKER, in regard to the governor's proposal for a competing project to race neck-and-neck to a final FID, inquired as to whether the regulatory authorities will allow [AGDC] to commit the same gas to a separate project simultaneously so that [the state] can compete to FID.

MR. FAUSKE replied that although he cannot answer definitively, it certainly will be something that will be questioned and draw a great deal of scrutiny. While he can say probably not, he added that he does not know that for sure.

REPRESENTATIVE HAWKER asked whether there is anyone in the room who knows the answer to his question.

CO-CHAIR NAGEAK directed that someone be found who can answer this question.

REPRESENTATIVE HAWKER observed that some very knowledgeable people are in the room, including the deputy commissioner of the Department of Natural Resources and the head of the Alaska LNG Project. He asked whether any of them have a clear answer to his question of whether the same gas can be committed twice.

REPRESENTATIVE TARR understood it was ExxonMobil or one of the other partners that filed the export application.

MR. FAUSKE responded that [the three partners] formed a limited liability company (LLC).

MS. RUTHERFORD stated she is not completely sure, but added that she does know that the gas that was identified by the three sponsors of the AK LNG did involve their gas but did not involve the state's royalty or tax as gas. If in fact the State of Alaska enters into the LLC, the state can add its gas in the application. She said she is unsure, though, whether there is a limitation on a competing project to identify the same gas. But, she continued, she thinks the controlling entity on the gas would need to make that commitment of gas or attempt to make it to a second project.

REPRESENTATIVE HAWKER said the state doesn't have gas to commit until the producers produce it.

MS. RUTHERFORD answered correct, the state cannot overlift.

[3:11:12 PM](#)

## **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was recessed at 3:11 p.m. until 1:00 p.m. on March 14, 2015.