

ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE RESOURCES STANDING COMMITTEE
HOUSE RESOURCES STANDING COMMITTEE
Palmer, Alaska
September 9, 2015
6:31 p.m.

MEMBERS PRESENT

SENATE RESOURCES

Senator Cathy Giessel, Chair
Senator John Coghill (Online)
Senator Bill Stoltze
Senator Peter Micciche (Online)
Senator Bert Stedman (Online)
Senator Bill Wielechowski (Online)

HOUSE RESOURCES

Representative Benjamin Nageak, Co-Chair
Representative David Talerico, Co-Chair
Representative Mike Hawker
Representative Andy Josephson
Representative Bob Herron (Online)
Representative Geran Tarr (Online)
Representative Paul Seaton (Online)

MEMBERS ABSENT

SENATE RESOURCES

Senator Mia Costello

HOUSE RESOURCES

Representative Craig Johnson
Representative Kurt Olson

OTHER LEGISLATORS PRESENT

Senator Mike Dunleavy
Senator Charlie Huggins
Senator Anna MacKinnon
Representative Shelley Hughes

Representative Charisse Millet (Online)
Representative Dan Saddler
Representative Lynn Gattis (Online)

COMMITTEE CALENDAR

UPDATE: Alaska LNG Project

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LARRY DEVILBISS, Mayor
Matanuska-Susitna Borough
Palmer, Alaska

POSITION STATEMENT: Welcomed the joint committee to Palmer.

STEVE BUTT, Senior Project Manager
Alaska LNG Project

POSITION STATEMENT: Provided AKLNG Project update.

BILL MCMAHON, Senior Commercial Advisor
AKLNG Project

POSITION STATEMENT: Provided AKLNG Project update.

DAN FAUSKE, President
Alaska Gasline Development Corporation (AGDC)

POSITION STATEMENT: Provided AKLNG Project update.

VINCENT LEE, Director
Major Projects Development
TransCanada

POSITION STATEMENT: Provided AKLNG Project update.

DAVID VAN TUYL, Regional Manager
BP Exploration Alaska, Inc.

POSITION STATEMENT: Provided AKLNG Project update.

DARREN MEZNARICH, Project Integration Manager
AKLNG Project
ConocoPhillips Alaska, Inc.

POSITION STATEMENT: Provided AKLNG Project update.

RIGDON BOYKIN, Lead Negotiator
AKLNG Project

POSITION STATEMENT: Provided AKLNG Project update.

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

POSITION STATEMENT: Participated in the AKLNG Project update.

DONA KEPPERS, Deputy Commissioner
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Participated in the AKLNG Project update.

JUSTIN PALFREYMAN, Director
Global Power, Energy & Infrastructure Group
Lazard Freres

POSITION STATEMENT: Participated in the AKLNG Project update.

ACTION NARRATIVE

[6:31:04 PM](#)

CHAIR CATHY GIESSEL called the joint meeting of the Senate and House Resources Standing Committees to order at 6:31 p.m. Present at the call to order were Senators Micciche, Coghill, Stedman, Wielechowski, and Chair Giessel; Representatives Tarr, Seaton, and Herron.

UPDATE: Alaska LNG Project

[6:33:08 PM](#)

CHAIR GIESSEL announced the fall quarterly AKLNG Project update provided for in SB 138. She welcomed Mayor Devilbiss to give an opening welcome to the committee.

[6:34:00 PM](#)

LARRY DEVILBISS, Mayor, Matanuska-Susitna Borough, Palmer, Alaska, welcomed the joint committee to Palmer. He said unlike Anchorage and Fairbanks that have a large part of their tax load carried by commercial properties, the Mat-Su Borough is more than 80 percent residential. So a project that jumps over \$1 billion is really significant and they have been told that 20 percent of just the pipeline is going through borough property. He is currently working on recommendations for taxation issues for the special session.

[6:35:58 PM](#)

CHAIR GIESSEL invited Steve Butt to provide the AKLNG Project update.

[6:36:30 PM](#)

STEVE BUTT, Senior Project Manager, Alaska LNG Project, Anchorage, Alaska, said he represents about 1,000 people who are working on the project; about 130 are employees from the sponsor companies who work directly within the project and about 250 people are in the field in Alaska (about 80 percent are Alaskans) gathering the data needed to get the permits to build this project. In addition, 500-700 contractors are doing the design work. The design work and field data gathering all feed into the regulatory process, which underpins the project and helps get the permits needed to move forward.

MR. BUTT said the AKLNG Project is trying to treat the gas (removing non-hydrocarbon elements) and transport it just over 800 miles from the north to the south. The gas is on the other side of the Brooks Range where there isn't a market. Once the gas is transported to the southern coast, it gets liquefied. When it gets very cold, it condenses down to a ratio of 600:1. Moving it in an un-liquefied (uncompressed form) would take 600 ships whereas it can be done with one ship in a liquefied form. Moving the gas product from Alaska to Asian markets takes 12-14 days. Six hundred ships is an enormous number compared to one.

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MR. BUTT said the modules have arrived at Point Thomson - and incidentally, that Alaska had pioneered the use of modular construction where things are built in one place and moved to more difficult places on the North Slope. "Plug and play" is basically pushing the modules together, welding up the flanges where needed and getting the equipment ready to run.

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MR. BUTT said it's been a real advantage for this project to be able to work seamlessly under FERC III with the Prudhoe Bay operator, because the parties involved in AKLNG are the same parties involved in the upstream, for the most part. The core concept that underpins what makes AKLNG different from previous attempts to commercialize gas is all of the resource claimants are working together. Those parties are BP, ConocoPhillips and ExxonMobil (often called "the producers"); the fourth party is the State of Alaska, which under SB 138 is a 25 percent equity participant in the project. All Alaskans are represented by the state and the state benefits and receives 25 percent of the

revenue that the project might generate. That framework of moving the gas, bringing it into the project, having all four parties together is the core element of AKLNG.

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MR. BUTT said the gas gets treated in a Gas Treatment Plant (GTP) and they have found ways of reducing the cost of construction (about \$1 billion) by going from four trains down to three and he said, "It continues to go very well." Once the gas is treated, all the impurities are removed and the CO₂ is taken out and put back in the ground. The gas is what is left - mainly methane and some ethane - and that gets transported down from the GTP to the south in a pipeline. A lot of progress has been made on the pipeline: everyone agrees on the routing, but more work still needs to be done on the sizing.

Once the gas gets down to the south, it goes to the liquefaction facility. A lot of design work has been done positioning it for optimization and really improving the layout to make sure the LNG plant can be built as efficiently as possible.

Over the last several months, they continue to focus on safety. It's the most important thing, because if they are successful in moving the project forward, it will have 9-10 years of design and construction life, but then it will have 25-50 years of operating life. They really want to build the right environment where people can work safely; it's called a "culture of caring." Mr. Butt said little incidents have happened, but fortunately nothing has been a reportable incident.

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MR. BUTT said they also continue to progress the pre-FEED design work spending about \$243 million on it in addition to a \$107 million on concept work. Right now they spend about \$32 million a month because they are in peak summer work; that falls off a little in the winter.

The pre-FEED work that was initially scoped under the Joint Venture Agreement (JVA) is about 75 percent complete and the field work is about 50 percent complete. There is about 2 more weeks of intense summer work. This is the third year of summer field work and it is focused mainly south of Livengood now. They are trying to understand geotechnical issues, so that when the project is built the pipeline can be designed safely around earthquake-prone areas.

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They seek sites of historical or cultural significance and work with the State Historic Preservation Office (SHPO) to make sure they aren't impacted in any way by the project.

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MR. BUTT said their focus remains on basic design and execution work. The project will cost \$45-65 billion and they are working to push it towards the bottom of that range and hope to have that work done towards the end of 2015 and beginning of 2016.

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REPRESENTATIVE HAWKER asked how spending had been allocated amongst the partners.

MR. BUTT replied that spending ties back to the equity shares. The largest gas resource owner - ExxonMobil - has 32.6 percent, the state has 25 percent, ConocoPhillips has 21.6 percent and BP has 21.4 percent.

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MR. BUTT said permitting work continues, because it underpins everything they do. A range of federal, state and local permits are needed. Fortunately, the permitting process is going well. The project continues to have a lot of community open houses, sessions where folks are told what the project is and advised that Alaskan citizens are owners of the project.

Work is also continuing on a 48-inch pipeline system (which he would talk more about in a few more slides). The 2016 work program and budget is a near term milestone, because of the way the JVA is structured. Each party has to have a good understanding of how each of the participants are going to be represented in 2016 and how they are going to fund their share. It is a critical decision that has to be made over the next several weeks and if the decision isn't made, they face a lot of consequences that adversely impact timing or project [indiscernible].

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MR. BUTT said he always likes to talk about a couple of key messages. From an AKLNG Project perspective it is an integrated project. Every piece of the project talks to every other piece. If temperature or pressure is changed at any one point in the project, it touches everywhere else in the project. As an integrated system, it has been permitted under FERC III; the DOE export authorization and all the permitting work is tied to it. This allows design integration, which makes it easier to

progress at Prudhoe Bay, because they can talk to the operators. Under different structures, it's a lot more difficult to have that conversation because there may be competitive or regulatory concerns. But because the four primary resource entities are all represented in the project, those concerns are mitigated; the conversation can be much more transparent, which allows the design and construction to be a lot more efficient.

MR. BUTT said they have worked to understand what the five offtake points might look like and where they might be, and continue to reach out to the state's representatives, principally the AGDC, to understand where the hydraulics can be completed. It is an important question to answer, because they know how much gas is flowing from the top of the system to the bottom and where the gas moves out impacts how the compression is designed along the system. This issue needs to be resolved soon.

Most of all, he repeated, they are focused on trying to reduce cost of supply, a term which is used in the LNG business to describe how much money is spent to move the amount of energy that has been produced over the life of the project. So, if a project takes \$45-65 billion to build and moves 32-35 tcf/gas over a 30 year period, the cost is calculated for moving every million btus of gas. LNG is often sold in "millions of btu units or therms," a convenient phrase that folks use to define how much energy they are consuming. Put into context, the State of Alaska (SOA) uses about 220 mmcf/gas a day. This project has the ability to liquefy 2.7 - 2.8 bcf/gas a day, enough to fuel an economy the size of Germany or Canada. When it comes on stream, it has the ability to replace, plus or minus 5 percent, of all the LNG in the world. It's an enormous number, but it only works if the cost of delivering that energy is low enough to compete with other people who are selling gas.

Gas is a true commodity, he explained. Most folks aren't interested in where the gas comes from, because it goes into their utility grids and domestic distribution systems, and one molecule of gas looks a lot like another. This gas has a little more ethane, so it's a little bit richer or hotter, but the methane is identical. The content of the ethane can be manipulated. So, gas is a true commodity and the only thing to compete on is price. In today's world where LNG is selling for less than half of what it was when this conversation was started three years ago, the cost of supply becomes critically important. They haven't found ways to cut the \$45-65 billion in half and this is one of their primary concerns.

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The way that is done is through the ARC of Success:

- Alignment of all the parties: can issues be resolved amicably and not adversely impact cost of supply.
- Risks associated with project: can they be reduced, because as one goes through the life of the project costs go up, and risks need to go down so that investors and buyers want to be part of the project with you.
- Success is measured in cost of supply.

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MR. BUTT said the initial design scope for the LNG plant and marine terminal is 72 percent complete. The team is focusing on the geo-technical issues, making sure that if this LNG facility gets built in the Nikiski area that it will work. The way that is done is they drill a lot of bore holes and collect a lot of seafloor data to make sure they understand that what sits under the heavy equipment is stable and won't move. To date, nothing but encouraging data has been found, and they continue to think that the folks who did the initial design work in the 60s and who selected the east side of Cook Inlet just below the forelands made some really good choices; and the characteristics of the area continue to be positive.

MR. BUTT said it all comes down to costs. Right now the team is saying ok, if I build it with this layout, how would I move the pieces in there and how can I do that as efficiently as possible?

MR. BUTT reported that the pipeline side is also continuing to make a lot of progress; the initial scope is about 78 percent complete and most of the work on well development procedures has been finished.

He explained that there are lots of different ways pipe can be welded and today he had visited the Northern Industrial Training (NIT) facility and saw their excellent welding facilities. They are doing those exact same things: testing different ways to use electrodes to make sure the weld is stronger than the body of the pipe. The weld has to be 20 percent stronger than the body so it never fails. This testing has been completed on the 42-inch system and now they are looking at testing the 48-inch system. It's also very important that when the pipe is put in the ground it doesn't have any sort of deterioration or corrosion, so it gets coated. Where and how it gets coated is a

very important consideration and it is a key issue that is being worked on now.

In response to the state's request, he reported that about \$1 million of project funds had been allocated to buy 48-inch pipe. One overseas supplier was found that was willing to give them enough material to do the tests. The team is now working with the federal regulators to look at design issues that will accommodate the interior of Alaska where it gets very hot in the summer and very cold in the winter. When that happens the ground moves up and down and the pipe has to be designed so it doesn't move. This is called strain-based design and means the pipe is loaded to be heavy so that it doesn't move as the ground moves.

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The federal regulatory agency in charge of all pipelines in the U.S. is called the Pipeline Hazardous Material Safety Agency (PHMSA). They make sure the design, construction and execution of pipelines are safe. The partners are very interested in testing the 48-inch system, because early tests on a 42-inch system weren't always successful.

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MR. BUTT presented a graph depicting ramp-up, plateau and decline of the Prudhoe Bay (PBU) and Point Thomson (PTU) units and explained why a 42-inch system was used as the lead case for the pre-FEED stage. The North Slope has 32 tcf/gas (known and discovered). They assumed that LNG buyers would want to write contracts in the 20-25 year timeframe and worked with the Department of Energy (DOE) to get a 20-25 year export authorization. Then they asked what size system makes sense to monetize the amount of gas they know is there in that timeframe. So they looked at different balances and came up with these curves [in the graph] to try and create balance between the GTP design, the pipeline design and the LNG plant design including expansion capabilities. To balance the system the GTP was sized to use three trains that handle about 3.3 bcf/gas that could be expanded up by about 1 bcf/gas. The LNG plant at the bottom would receive 2.7 - 2.8 bcf/gas for three LNG trains. The reason the sizing - 3 GTP trains, 3 bcf/gas in the pipeline and 3 LNG trains - matters is if one wanted to expand it, everything stays balanced. A fourth GTP train would contain 1-1.1 bcf/gas; the expansion capacity in the pipeline is about 1-1.1 bcf/gas and the LNG train, after fuel, gets about .8 bcf/gas.

No portion of the system gets overbuilt, because they don't want to spend money on a portion of the system that doesn't generate

value. The project is sized to handle about 25 years of the known resource. Realizing that there will probably be some upside, capacity about the size of another Point Thomson was included on his graph and labeled "other." The system was built on a 30-year basis and needs to find another Point Thomson to keep it loaded. Expanding the system would be done by putting another 1 bcf/gas line on top of that Point Thomson line, which over a 30-year life is another 6 tcf gas.

MR. BUTT explained that if everything worked well and the life of this project were to be extended - very often the case in LNG - and from 30 years to 50 years, that would need another 25 tcf/gas or another Prudhoe Bay. So, they think a 42-inch system provides the ability to keep the system in balance, gives some expansion capability in the event more gas can be found sooner and gives some spare capacity late in the life of the project.

The project doesn't see all the data across the whole state the way other folks do. They know what the known resource looks like and how to keep a 42-inch system in balance, but other parties want them to look at a 48-inch system. So, they have done a lot of work to try and get the 48-inch system matured to a similar level and then test it, do the weld procedures, test the tensile and compressive strengths, make sure the pipe can be properly built and designed, basically making sure a 48-inch system would work.

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MR. BUTT said that both systems, in terms of peak capacity, would still handle about 3.3 bcf/gas, delivering 2.7-2.8 net of fuel for instate use; the question then becomes what is left over for export. The cost of capex and opex for a 42-inch system is lower, because it costs less capital to build. A 48-inch system might cost less to operate, because less fuel is used for the bigger pipe (because the pipe is bigger, it's easier to move gas through it). That is why about 8 stations are needed for a 42-inch system and probably only 4 or 5 are needed on a 48-inch system. This number is a range because more work needs to be done on it.

He related that they have been working on the 42-inch system for years but only a couple of months on the 48-inch system. Mr. Butt explained that the 8-station design provides more redundancy, meaning if you lose one station you still have 7. On the flip side, the 48-inch system uses a lot less fuel because it has only 4 or 5 compression stations. Either system can be expanded by 25-30 percent (1 bcf/day), and that balance could

still be preserved by adding 10 stations on the 42-inch system and about 5 stations on the 48-inch system.

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With that said, Mr. Butt continued that they don't understand all the risks yet. The 42-inch system is bigger and heavier (by 20 percent) and at a higher pressure than any other system that has been built in North America. A 48-inch system would be about 60 percent heavier. To put that into context, a 42-inch system weighs about 5.8 tons per joint, which is about the equivalent two F-150 pickup trucks. A 48-inch system is about 7.8 tons per joint, which is about three F-150s. To put that into capacity terms, a truck can move six joints of pipe for a 42-inch system, but only four joints per truck for a 48-inch system. So, instead of 150,000 truckloads of pipe moving up and down the pipeline right-of-way there will be 225,000 truckloads of pipe for a 48-inch system.

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What does that do in terms of sourcing? Right now they have not been able to find a North American supplier of pipe for a 48-inch system and may not even be able to find one for a 42-inch system, but one will be found somewhere. Evaluating a 48-inch system will result in a 6-8 month impact on the FEED timing, but the project team doesn't want it to impact the final investment decision (FID) or startup times and wants to find ways to recover that time.

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SENATOR MACKINNON asked if the administration had given him any information on who is expected to pay for the upsizing.

MR. BUTT replied that a lot of conversations on that had occurred, but no decision. The project team recommends spending monies within the existing project budget to mature a 48-inch design to a level similar to what has been done with a 42-inch design so an apples-to-apples comparison can be made. But that comparison is only going to tell how much extra a 48-inch system will cost and how much extra risk it's going to take. A lot of conversations will be needed about how any costs or risks will be borne.

SENATOR MACKINNON said the sooner that number is known the better since they are talking about a 6-8 month delay, and under the previous administration those delays cost hundreds of millions a month. The state doesn't know where it's coming up with its share of the money.

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CO-CHAIR NAGEAK asked about the cost differential between the 42-inch and 48-inch pipe.

MR. BUTT answered that it is a little premature, but the additional cost of the pipe is well in excess of \$1 billion, but fewer compression stations will save money. Their modeling told them that the larger pipe would add 10-15 cents to every cubic foot of gas. That sounds like a small number, but it adds up into the hundreds of millions when you're talking about 32-35 tcf/gas.

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CO-CHAIR NAGEAK asked about the operating cost differential.

MR. BUTT answered that the operating costs on a 48-inch system are a little bit lower assuming lower fuel use. However, propane might be needed on the 48-inch system, because the distance between the compression stations gets much larger. In a 42-inch system, the compression stations are spaced about every 80 or 90 miles, so the gas stays at a relatively consistent temperature and can be managed at the compression stations. In a 48-inch system, there are only 5 compression stations and propane chilling might be needed to keep the gas at the right temperature. That would change the math. If the parties involved feel it's important, that work needs to be done before moving through the gate, because that is what core project management and alignment is about.

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REPRESENTATIVE HAWKER said he first became aware of the 48-inch system when a five-point letter from the administration to the project was released. But he hadn't seen any engineering or economic support for that change coming from the administration. He asked if the project received any rationale for that decision.

MR. BUTT answered that the letter of June 8 was received, but no information was with it.

REPRESENTATIVE HAWKER said the letter requested rerouting the project and asked if they are contemplating that.

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MR. BUTT replied that from conversations with AGDC and the administration he knows that all parties are comfortable with

the western route. Conversations about spurs that take gas from the mainline back to population centers are happening, but there is no alignment on them yet.

REPRESENTATIVE HAWKER asked if the preferred western route requires a crossing of Cook Inlet.

MR. BUTT answered yes.

REPRESENTATIVE HAWKER asked him to explain the notation "CI crossing complexity" for construction of the 48-inch system.

MR. BUTT answered that they are a lot less confident in their ability to lay a 48-inch pipeline across the Cook Inlet. Laying any pipeline across a body of water is a challenge, particularly where it enters and exists. High directional drilling is needed to position the pipe properly and then a lay bar is used to pull the line. One of the challenges of the other route is its high tidal movement and shoreline mud and not being able to really get a construction barge into those areas. A 48-inch pipe is so much heavier that it is always trying to flex down and sink. They are fairly confident they can do it with a 42-inch system, but it will be very difficult.

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SENATOR STOLTZE asked if Mr. Butt is an "Exxon guy."

MR. BUTT responded that he worked for Exxon, but now he reports to the project and he works on behalf of all the stakeholders, which includes everybody in this room, as Alaskans. As such, he tries to make fact-based decisions. One of the questions was the routing, east or west, but all parties are in alignment on the western route. The eastern route has some pretty significant issues like construction through an ordinance range, crossing near the Knik Arm that has a lot of seabed movement (30-40 feet), the existence of eight Chugach Electric lines in that area and trying to put in a lay barge with a 300-foot anchor span. Crossing the Cook Inlet there is very difficult and would cost a lot more money than building a spur back to the Mat-Su.

Getting back to the core purpose of an LNG project, he explained that the intent of any party is to make sure they have access to the gas and utility value, and it's a lot easier to build a small spur than move a big mainline. However, how that gets paid for and how the risks are carried are open questions. But from a technical and engineering design perspective, putting a 42 or 48-inch system in a very difficult-to-construct place makes a

lot less sense than putting a 12-16 inch line into an existing utility system that can be expanded in the future.

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SENATOR STOLTZE said when he first met Mr. Butt he was trying to find out what his connections were and he very skillfully evaded any mention of Exxon, which he found troubling.

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MR. BUTT responded that while he appreciated his comments, he does work on behalf of all the stakeholders. This means there is an integrated team with people from all the companies, and he holds himself to that standard; everyone on the project does. With that said, he had worked for Exxon since the merger. His bio is clear and has been read at every public meeting. He is proud to work for Exxon; it has done an outstanding job on the project. The commitment of each of the parties has been written about many times. He does not speak for any one party.

[7:23:24 PM](#)

REPRESENTATIVE JOSEPHSON asked Mr. Butt if some of the other participants are interested in upgrading to a 48-inch pipe, not just the administration.

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MR. BUTT answered that it wasn't fair to say that any of the project participants had made a decision yet on the 48-inch pipeline, because none of them has all the information. The project team, which is an integrated entity of people from all the companies, has said they will take money from their existing budget and try to study the 48-inch system to really understand the additional costs for capital, the potential savings in operating expense and what the whole execution risk looks like. One party has agreed to put up its share of the cost to do that work and that party is ExxonMobil. The other parties have two more weeks to look at the data and make their own decisions.

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REPRESENTATIVE JOSEPHSON said he referred to "some disagreement" but he used the word "we," which he though meant AKLNG was more comfortable with a 42-inch plan visa vie other participants.

MR. BUTT replied that by "we" he means the integrated group of people trying to advance the project.

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SENATOR MACKINNON asked the "commonality" of a 48-inch pipe in the world and if pipe is normally bought in America, whether it's 48 or 42 inches.

MR. BUTT replied that that information is still emerging, because more work is needed on the 48-inch system, but a 48-inch pipe is much harder to build. A 4-foot piece of steel that is 8/10ths of an inch thick needs to be rolled or turned and welded, and not a lot of mills have that capacity or people who have that skill. AKLNG was not able to find a mill in the U.S. able to do that work now. That doesn't mean it can't be done. The project needs to understand if the line size decision changes the sourcing in any way.

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SENATOR MACKINNON asked, worldwide, if there is a lot of 48-inch pipe.

MR. BUTT answered that TAPS is a 48-inch line and early design work on the Denali and APP lines were around a 48-inch line, because it was a very long line and a lot of economies of scale were needed to make it work. There are a couple of 48-inch lines in the Lower 48 - Rex and Ruby - but they are not this long and not at these pressures, and they don't have the same wall thickness. There are no 48-inch systems like they are talking about anywhere in the world. It's not just the diameter of the pipe; it's the operating pressure, the length and the characteristic and composition of what is in the pipe. In Alaska the ground moves and a "strain-base" design will have consideration. That is a lot bigger than any other 48-inch lines. He said Turkey has a 52-inch line, but it's much thinner and the weight per joint is less than those for the 42-inch line.

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SENATOR MACKINNON said she appreciated the partners slowing down and reallocating resources to make sure the right size pipe is chosen.

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REPRESENTATIVE SADDLER asked if any vendors supplying either the 42 or 48-inch pipe could demand an equity position in the pipeline as a condition of that sale.

MR. BUTT answered that pipeline mills usually do not want equity in a project, because they would be in it for 30 years. Pipeline mills work on a three or four year project life.

7:31:49 PM

MR. BUTT reported that the Gas Treatment Plant (GTP) is going very well and is about 86 percent complete. Focus is continuing on the acid gas rejection unit (AGRU), the main system that uses amine to strip the non-hydrocarbon components from the hydrocarbon component. Everything is being done to reduce weight, because it all has to be modularized and taken up to the North Slope to be put together. A lot of permit work has been done on the train layout and design that involves the Federal Energy Regulatory Commission (FERC), the National Environmental Process Act (NEPA), and the overarching Environmental Impact Statement (EIS) process. A lot of really good work is being done with the Prudhoe Bay operator on understanding how the GTP will impact integration with other Prudhoe Bay systems as cost effectively as possible.

An important characteristic of the Alaska gas at Prudhoe Bay is that it has very high CO₂ (11 percent or about 450 mcf/day), and removing it is one of the very expensive parts of the project. Putting that into context, the State of Alaska uses 220 mmcf/gas for all of the state's energy needs. The CO₂ is recognized as a greenhouse gas and gets put back into the ground for environmental protection and this project is unique in that they have a clear understanding of how that will be done.

7:34:02 PM

MR. BUTT said a lot of work had been done on integrated logistics meaning how all the stuff will get moved. The GTP weighs as much as an aircraft carrier, about 270,000 tons. The LNG plant weighs about 220,000 tons. There is well in excess of 1 million tons of pipe in a 42-inch system and that goes up by 40 percent (1.5 million tons) for a 48-inch system. They have looked at all the ports and all the ways to move materials in and out of the communities to make sure that impacts are minimized and as cost effective as possible. They want to understand how to move big, heavy pieces of equipment by rail and sea, and how people and the more time-sensitive materials will be moved by air.

He said that this work was started with Pacific Rim Logistics, a local Alaskan company. He related that 250 modules which will have to clear customs will be moved through Dutch Harbor. By comparison, Point Thomson has five modules and even that was a big amount of work. The southern ports will have to bring in 200-400 thousand tons of material in 150,000 containers. A lot of the pipe will have to move through the Mat-Su area. A lot of

work will have to be managed on the rail and fuel systems. Construction activities will have to be managed in a way that doesn't adversely impact the community. It has to make sense all across the system. About 150,000 loads of pipe will be trucked; a bigger system would require 220,000 loads. Sourcing and moving all that has to be figured out and that is what the logistics study does.

[7:36:25 PM](#)

MR. BUTT reported that a lot of work is being done on integrated labor and early estimates indicate 9,000 - 15,000 jobs will be needed to build the AKLNG Project. Preliminary availability analyses are being done on where to get the skilled craftsmen and it's hard to find them. Workforce development and capacity building will have to be undertaken. He said the work study is about half-way done. A lot of conversations had happened with labor groups and the Department of Labor and Workforce Development (DLWF) to understand their concerns. Gap analyses are being done to find where more capacity is needed and where people can be found to do this. That information will be built into their recommendations and that will probably take until the end of the year.

[7:38:02 PM](#)

SENATOR DUNLEAVY asked if Exxon decided independently from the Five Point Letter to commit some resources to studying the 48-inch line or as a result of it.

MR. BUTT answered that he wasn't sure if it was fair to divorce that decision from the letter or not. There have been a lot of conversations with this administration as well as the previous one about the size of the line. It's not fair to say that any one party made a decision independent of the other parties. Within the project team, they believe they need to take some time and money to study it, and one party has had an opportunity to vote. The other parties have their votes pending and he didn't want to presume how they will vote. Then they will move forward. This is an example of how a mega project is worked. In pre-FEED the big questions of how to do different things are hit and parties don't always see it the same. How that is managed so the people feel comfortable with progressing determines the ability to keep costs down.

MR. BUTT related that they want to make sure that this group under the SB 138 legislation gets the information on these activities that are being completed on their behalf.

[7:40:35 PM](#)

SENATOR MACKINNON asked if he meant one person has voted, so the Walker administration has requested that the other partners consider an upsizing of the line.

MR. BUTT answered that he hoped he had said that they have a recommendation to take money from the existing budget and change the work scope, because the JVA was written to design a 42-inch system. A change in that requires an agreement of all parties, because all have agreed that this is the work they are going to do. They have to all agree to do something different and the state as a party has said it would like to look at a 48-inch system. The project team has said to do that will cost this much money and it will take this long to do. One party has had an opportunity to say yes and the other parties have time to evaluate that per the JVA and they can vote as they chose. The vote has to be unanimous. Everyone has to be willing to move forward or they have to "go and talk to each other." That sounds difficult, but that is how mega projects are managed. It has been proven time and again to move forward without everyone feeling comfortable with how the resources are being used is not prudent use of them.

[7:42:24 PM](#)

SENATOR DUNLEAVY asked if the 48-inch concept had not come from the administration, would Exxon still be looking at dedicating resources to study it.

MR. BUTT answered that when he talks about the project team he means people from all the parties. TransCanada provides the leader for the midstream portion and they have looked at a 48-inch system multiple times over the last three years. They are always trying to understand what makes the most sense to move that gas to deliver the curve shape he referenced. All of their analysis has found that a 48-inch system costs more. The question is if more gas is found from other sources, would that changed the math. They want to understand what the cost/risk looks like. Exxon as a party has worked with all the parties to frame this issue. If any party had brought it forward, they would have looked at it, because when any party brings up a pre-FEED question, it gets considered.

He stated that mega projects are successful when all the participants work in an aligned manner and find ways to resolve differences of opinion, and you're going to have them. It's just a fact. The challenge is to get the data to make a quality decision that everyone can support.

[7:45:14 PM](#)

MR. BUTT recognized what all the work crews are doing in the field: 200-250 people at any one time and 225,000 hours of data collection field work. This is fundamental and crucial work, but everything hangs on the ability to keep regulatory work on track to get the permits, because without them they don't have the authorization to construct. The core of what they are doing until the permits are secured is called a "critical path". This is their third summer field season and one more will be needed. That information next year will inform the application process which triggers the EIS. It continues to go really well. Dozens of Alaskan companies are involved.

[7:46:42 PM](#)

"External Engagement" is another critical element. With the state as 25 percent participant with a derivative right to the revenues from that production, they want to make sure that Alaskans understand what is being done. They also have an obligation under the NEPA process to have community engagement. FERC takes over once the resource report is filed and the docket is established. That was done earlier this year. As such, FERC is actually leading the community conversations. This engagement process is core to securing the permits based on all the data they have talked about.

He said they had done a lot of outreach to 500 Alaskan businesses to try and help them understand what the project might mean to them. This is a mutually beneficial process, because all those people will be needed to do the work. Outreach has been done with the Alaska Native Regional and Native Corporations, the Alaska Federation of Natives and Alaska Native groups, village and tribal, who want to ensure that their lands are respected. The time and energy invested is very valuable and continues to go well. One of the Native corporations is directly a participant in the both the LNG plant design and the GTP design.

[7:49:05 PM](#)

MR. BUTT said mega projects fit together by having a gated process: moving from concept to pre-FEED, then to FEED, then to Engineering and Construction to the Final Investment Decision (FID). The strength of the gated project management process is that no one moves through the gate until everybody is comfortable. In focusing on the importance of the gate, they may not have done enough work to talk about what happens with any phase.

In the concept phase, you identify and rank projects on ideas: how are all the different ways to do this. Very broad questions. Using building a house as an analogy, how many bedrooms do you want and how big should they be. They don't have an exact perfect answer, but it needs to be framed in a manner that is satisfactory to all parties to be able to move into a much more detailed design phase that optimizes the design and tests it: and how it can be constructed with the lowest risk and most cost efficient manner possible.

[7:51:18 PM](#)

MR. BUTT said the project is now in pre-FEED, and in FEED more information on the regulatory and design processes gets done. Process flow diagrams were created depicting how all the fluids would move. Those are translated into process and instrumentation diagrams that details every nut and bolt. Those are given to the regulators to be tested for safety concerns and all the other regulatory issues that they are responsible for monitoring.

The execution stage is where the project is actually built. Each of the phases is about reducing uncertainty and risk as resourcing and costs increase. This matters because as cost exposure increases the project doesn't want to get hung up on a point of difference. The core element of the mega-project concept is that big decisions are made early in concept selection. About \$35 million a year was spent during concept. In pre-FEED about \$35 million a month was spent. In the FEED stage about \$35 million a week will be spent - because many more people will be doing more detailed design. What is really important is that once the permits are acquired one is positioned to go into the construct phase where \$35 million a day will be spent! His slide 11 graphed this concept using the actual AKLNG spend curve and the initial design estimate of \$45-65 billion. A red line was laid over the spend curve showing when the big decisions are made. He pointed out that as the phases are moved through the process the ability to change things goes down. Once permits are obtained around citing and routing, design, and machinery, it can't be changed. A restart would be required.

[7:54:52 PM](#)

MR. BUTT summarized once the project gets to construction they have basically locked in a set of documents which are thousands of pages long that they give to dozens of contractors to align

the work of thousands of people to build the project. The two curve shapes show why alignment is so important.

He said they feel like they have made a tremendous amount of progress since the pre-FEED work was initiated in June 2014. The integrated project which has members from all the parties including the state and its representative, TransCanada, and AGDC has done a lot of work that he has summarized here. Some great milestones have been met and some regulatory hurdles achieved that many other projects in the U.S. have not achieved, in a time that they are really proud of, and they are trying to do it in a way that builds alignment.

[7:55:53 PM](#)

REPRESENTATIVE MILLET asked if there is alignment for the 48-inch pipe with all the producers and if he had documentation of what has been agreed to with the partners.

MR. BUTT answered that TransCanada is the state's representative in the mid-stream and Vincent Lee, Director, Major Projects Development for TransCanada, could best explain conversations between TransCanada and the state. To her question about pipeline size, he said the state, a 25 percent equity participant, through its representative has said it would like to look at a bigger pipeline and make sure that as those gates are passed - as the project's influence goes down and its costs go up - that it is building the right pipeline.

The project team has said that they need to spend a few tens of millions of dollars out of the existing budget, reallocate some resources, buy some 48-inch pipe and take the 48-inch testing to the same level it has on the 42-inch system, because several years of work has been done on the 42-inch system and only a few months of work on the 48-inch system - so, we can make a real fair comparison - apples to apples - how a real comparison can be made of risks. All project participants want to be comfortable that if they go to the next step what they want is getting built.

The JVA was aligned around a 42-inch system so all parties had defined the work scope and costs accordingly. One party has said it is willing to pay its share of the work to test the two systems. No one has agreed on what makes sense going forward and believe the process under SB 138 is their opportunity to share that information and view, so that people are comfortable with what they are doing.

[7:59:42 PM](#)

REPRESENTATIVE MILLET asked if he had any analysis of what the increase from a 42 to a 48-inch line would cost and what the return on investment would be.

MR. BUTT answered that the work that has been done to date indicates the 48-inch pipe will cost hundreds of millions more, which will increase the cost of supply of the project, which impacts its competitiveness. That cost benefit analysis is based on preliminary work that was done at the concept level. They are willing to commit the resources to do the same level of work for a 48-inch line. One party is willing to support that recommendation, but the other parties, including the state, have yet to cast their vote.

[8:01:08 PM](#)

REPRESENTATIVE SADDLER said some of the more cynical Alaskans have seen progress on gasline projects that have not proceeded to fruition, but he is excited about the momentum and the potential around the work that has been done on this one and hopes it proceeds. He asked how much work from previous projects provide a foundation for the AKLNG Project's team's work.

MR. BUTT answered that the AKLNG Project has reached a new level and that has been done, because they have tried to preserve alignment as much as possible. Previous incarnations of the project were all around moving gas by pipe: both the Denali and APP projects were designed to take gas from the North Slope where it doesn't have a market to Alberta for access to the Lower 48, and there is no market there, either. Everyone is lucky they didn't invest resources in making that happen. With that said, he respects the skepticism of all the Alaskans he has talked to. AKLNG is very different than previous incarnations, because this is the first time all four parties have been trying to work together. That's part of the reason they aren't very good at it; there isn't a lot of history doing it. But the state is never going to be successful until it can find a way to make a project work for all parties.

The core philosophy of AKLNG is to try and create a relationship where the parties share risks and share returns. The state puts up its money and shares its risks and has the same voting rights as everybody else. It draws on the technology and expertise of the other three parties who have a lot of global LNG and construction experience. It is something that has never existed before.

[8:04:10 PM](#)

The earlier incarnations of this project did get an Environmental Impact Statement (EIS), but the plan was to vent CO₂. That is environmentally irresponsible and he wouldn't want to be part of a project that planned to vent more than 450 mcf/CO₂ a day. This project must do things no other project has done before. This gas is getting treated and the non-hydrocarbon elements will be put back into the ground. But because they are under FERC III, they can work together with the Prudhoe Bay operator, and because of the Point Thomson settlement structure they have an access to those resources and have economies of scale.

Think about it: the first molecule of LNG that gets made is the most expensive. Paying for the first molecule is the challenge everyone thinks about and that is why the project curve gets so important. They have been working together for years now and AKLNG has been structured in a very different way. The SB 138 framework gives them a chance they have never had before.

[8:05:50 PM](#)

SENATOR HUGGINS said almost eight months ago the Senate communicated to the administration to target October for a special session on AKLNG or a pipeline and they are now burning through October. He asked Mr. Butt, as the spokesman tonight, what things he would like to see next.

[8:06:57 PM](#)

MR. BUTT answered on behalf of the project, it needs some clarity on what the state as a participant wants in its role, and particularly how it wants to be represented in the midstream. Because as they move forward and look at contracting for FEED, he didn't know whose name to put on those contracts. Something else that is very important is to understand how those additional activities would be funded in the event they are changed, because the appropriation is needed. Under the JVA the work program and budget have to be funded by all the parties before the end of the year, so that as they go into the new year, everyone has agreed on what is going to be done.

[8:08:27 PM](#)

REPRESENTATIVE HUGHES asked how the pipe size decision affects the overall timeline.

[8:09:33 PM](#)

MR. BUTT answered they think they can bring the 48-inch design to a similar level of maturity in 6-8 months. The first step is

getting the pipe and that will probably be in early 2016. As soon as they get the pipe, they will start doing the weld and compression testing, the tensile strength testing and the PHMSA testing that is needed to have the same level of confidence in a 48-inch system that they do in a 42-inch system.

He stressed that pipeline diameter is only a piece of the puzzle, because the pipeline in Alaska is very different. There are wall thickness issues and the pipe itself is actually five different designs for different Alaskan environments. The most important thing about those 6-8 months is making sure information is shared on the way and in a way that keeps the project moving forward at a prudent pace to keep costs down. Then a decision will be made. Each party under the JVA has a vote and a unanimous decision is required.

[8:11:44 PM](#)

REPRESENTATIVE JOSEPHSON remarked that Exxon found enough merit in the request to pony up its share.

MR. BUTT answered that was correct. The other parties are doing their work; he is not impugning any company. You don't move to more expensive decisions until you have alignment around your design. Every project in the world that does that lives to regret it. Everyone needs to be okay with it and you can't get okay with it until you have quality data about capex and opex differentials and other things. He said they have been studying one system for three years and comparing it to one that has been studied for four months. They can take what they have learned and catch up real quick, but they don't want it to impact startup.

MR. BUTT went back to the curve and said that time is your friend prior to the final investment decision. When the curve starts to go straight up the wall, time is no longer your friend. It's \$35 million or more a day.

[8:15:38 PM](#)

REPRESENTATIVE TARR asked if they are sticking to the former commissioner's labor and workforce development plan and if he was following the budget reductions that are limiting some of the things that are happening at the Department of Labor and Workforce Development (DOLWD) and the university to make sure that areas of workforce development aren't cut.

MR. BUTT answered that they are continuing to have good interaction with Department of Labor and Workforce Development

(DOLWD) Commissioner Drygas. Their conversations are "very productive and very collaborative." One of the most important considerations in the workforce development puzzle is what long terms skills Alaska wants to build here. Talk is about folks who are going to weld pipe, but they are only going to be welding pipe for a few years. Other skills are needed like instrumentation and long-term operating jobs. He said, "You really want to get Alaskans positioned for the long haul."

[8:17:48 PM](#)

CHAIR GIESSEL thanked Mr. Butt for his presentation and welcomed the project fiscal team.

[8:19:58 PM](#)

BILL MCMAHON, Senior Commercial Advisor, AKLNG Project, provided an update on the financing progress and offered to answer questions. He invited Mr. Fauske to introduce himself.

[8:20:53 PM](#)

DAN FAUSKE, President, Alaska Gasline Development Corporation (AGDC), Anchorage, Alaska, read the following statement that the governor and Gasline Team asked him to present:

We are here tonight to present the quarterly legislative update mandated by SB 138. You just heard the technical update from Steve Butt and I think you'll agree that the AKLNG Technical Team is doing well progressing the design, engineering, and permitting on the AKLNG Project. However, the State Team is very concerned about the lack of progress on many of the key commercial and fiscal issues. The process we are currently involved in assumes that all parties are equally motivate to getting a project built as soon as possible within reasonable engineering and design constraints. That may have been an unreasonable assumption given the different alternatives and economic considerations of each party. In the State Gas Team's opinion, the progression of the following key agreements will not allow them to be completed in time for a special session this fall:

- Gas balancing negotiations are at a virtual standstill with little progress amongst all parties having been made in the last several months. This is a critical issue that needs to be resolved for the process to move forward;
- Commercial agreements including governance and operating agreements are being negotiated but are not

on schedule for a review by the legislature in this calendar year;

-A tax stability agreement, historically referred to as a fiscal agreement has yet to be agreed and there is little common ground between the parties;

-Provisions for withdrawal by a party which would allow the state to proceed without interruption or delay if a party wanted to withdraw have yet to be agreed. In addition there is no agreement on milestones to insure that the parties are reasonably progressing the project. The failure to meet the milestones without good cause would result in a loss of the fiscal stability provisions.

Without these foundation agreements it will not be possible for the State Gas Team to present a project to the legislature for review this fall. The State Gas Team does not intend to bring an incomplete package to the legislature and expect a decision from you on a change to the Constitution to the the producers the tax certainty they desire.

However, there are policy decisions including issues related to the state's participation and interim funding necessary for continuing the state's participation that may need to be resolved by a special session before the end of this calendar year.

On behalf of the State Gas Team, I thank you for your continued support of AGDC and the state's participation in the AKLNG Project.

MR. FAUSKE said the issues he has pointed out are in negotiation and the governor wanted him to be clear that these are critical issues that need to be resolved and the public should understand them.

[8:26:23 PM](#)

CHAIR GIESSEL asked for that statement to be provided to the committee. She said some issues are 100 percent within control of the State of Alaska and asked where those milestones are. For example, what is the status of the royalty in kind (RIK) determination?

MR. FAUSKE deferred to DNR Deputy Commissioner Rutherford who had a statement prepared on that issue. He also noted 11

questions that he had answered that he was prepared to deal with in the next phase of the agenda.

CHAIR GIESSEL responded that he could do that now, but before getting to that asked if the AGDC has the location of the five off-take points, which falls 100 percent within their jurisdiction.

MR. FAUSKE answered no, but they had sizes and cost estimates of the offtakes.

[8:28:50 PM](#)

CHAIR GIESSEL said that determination is a piece of the progress needed and pointed out that the state has faltered in its part on some of these elements, as well. She said they had not seen legislation on the PILT (Payment in Lieu of Taxes) issue, either. That, again, is within the state's purview.

[8:29:41 PM](#)

REPRESENTATIVE HAWKER said he hoped they had representatives of all the sponsors of the project before them.

MR. FAUSKE answered yes.

REPRESENTATIVE HAWKER asked if Mr. Fauske was representing the state's 25 percent interest in the project and who is responsible at the state for making AKLNG decisions. What is the state's AKLNG organizational structure? "Are you head of the state's AKLNG Project?"

[8:31:01 PM](#)

MR. FAUSKE answered no, he is not; the lead negotiator for the state is Rigdon Boykin.

REPRESENTATIVE HAWKER asked if the buck stops at his desk for all things AKLNG.

MR. FAUSKE answered yes.

[8:32:18 PM](#)

SENATOR MACKINNON asked if the team is aware of the gauntlet - in the letter he just read - he just laid down in terms of the state's inability to accomplish something. She asked if the state's partners had been provided the opportunity to know what he was going to say before today.

MR. FAUSKE answered no. He was asked to keep it in confidence.

SENATOR MACKINNON asked if the governor specifically threw out a 51 percent ownership on the table.

MR. FAUSKE answered no. He was in that meeting when there was a representation as to what the state could possibly do to have the ability to finance more of the pipeline. He had never been in a meeting where anyone ever suggested that the state own 51 percent. It was a finance question based on the state's ability to capture financing that might be beneficial to the project.

[8:33:55 PM](#)

SENATOR MACKINNON remarked that she heard talk about the instability that this administration has created for this project and noted the governor's op-ed piece about a 51-percent ownership, about selling our own gas, about buying out TransCanada, about cutting tax credits that he asked the legislature for, about a constitutional amendment and a reserves tax. "Please balance that for me with creating stability, so a financial team can put together something to bring the project forward."

MR. FAUSKE said he couldn't address everything the governor said or what he had written, but he could say he that is proud to be a member of this team and that there is a lot of good work going forward. It is important to point out that there are certain things that are very difficult right now in these agreements that are trying to get done and there has been a great deal of discussion as to the need for a special session. The governor's message is that until these agreements get done, there is no need for a special session. Everyone is working hard to get those agreements done, but some difficult issues are on the table and being discussed every day. These are not impossible goals.

[8:35:37 PM](#)

SENATOR MACKINNON said it didn't sound like the team was working for the same goals. She hoped everyone could work together for Alaskans. The state's gas balancing and commercial agreements have created instability and she hoped resolutions could be found.

CHAIR GIESSEL noted the document being passed out to the committee and said it is concerning that elements the state is responsible for have not been completed and at the same time others are being accused of not completing their work in the appropriate time table.

[8:37:27 PM](#)

REPRESENTATIVE HAWKER asked how Mr. Boykin fit in with the legislature's intent when it passed SB 138 and very carefully preserved certain responsibilities to their appointed and confirmed commissioners who are accountable to the people of the State of Alaska. Holding people responsible was a big part of SB 138. He asked if it is the administration's intent to remove the DNR and DOR commissioners from the significant process they were assigned in SB 138.

MR. FAUSKE answered of course not. He said they are in contact and working with Mr. Boykin every day. When he says negotiate, he means that Mr. Boykin is the one who is leading the negotiations to report back to the rest of the team. That does not mean that anyone has not carried out their duties and responsibilities. Mr. Boykin's role is lead negotiator and he is good at it in trying to move these issues along that have been very difficult to complete.

REPRESENTATIVE HAWKER said he appreciated Mr. Fauske's awkward position.

[8:39:59 PM](#)

SENATOR HUGGINS asked if the HOA has to be renewed at the end of this year.

MR. FAUSKE answered that the Joint Venture Agreement has to be renewed by December 15.

SENATOR HUGGINS asked how that will be addressed.

MR. FAUSKE replied that the plan for everyone is to continue working very hard to try and resolve the issues he pointed out in order to get to FEED.

[8:41:28 PM](#)

SENATOR HUGGINS said there are two potential Special Sessions; one is buying out TransCanada and another is the HOA. The state has to get its ducks in a row and tell the legislature when it should meet and on what items. The legislature plays a role in the HOA and they need a feel for that. Everyone wants to be organized so they can do the best they can by Alaskans and the AKLING Project.

[8:43:19 PM](#)

REPRESENTATIVE JOSEPHSON asked if Mr. Fauske agreed that the payment in lieu of tax issue is wholly within the state's authority to determine.

MR. FAUSKE answered that it is totally within the state's purview under the Department of Revenue and the legislature in agreement with the partners. Significant work has been done on the PILT issue and there will be another hearing on September 23.

REPRESENTATIVE JOSEPHSON asked if anyone in the AGDC or DNR has the kind of background Mr. Boykin brings in terms of these significant LNG worldwide dimension projects.

[8:44:54 PM](#)

MR. FAUSKE answered that he is very impressed with Mr. Boykin. He has a long resume and record of negotiating these types of deals around the world. No one else that they could reach out and grab has his experience in negotiating these types of large-scale projects.

[8:45:53 PM](#)

REPRESENTATIVE HAWKER asked if Mr. Fauske could identify a single successful global LNG project that Mr. Boykin had ever represented a sovereign entity on.

MR. FAUSKE replied that he couldn't name them off hand, but he had worked on large scale energy projects in Russian and China.

MR. BOYKIN responded from the audience that there were none.

[8:46:48 PM](#)

CHAIR GIESSEL asked if the opening on the AGDC board had still not been filled.

MR. FAUSE answered that it hadn't.

CHAIR GIESSEL remarked that it has been functioning without a full board even today.

MR. FAUSKE said that was correct.

CHAIR GIESSEL said that falls under the governor's purview.

[8:47:24 PM](#)

SENATOR DUNLEAVY asked if aspects of the financing would have to go before the people for a constitutional change.

MR. FAUSKE answered that a constitutional amendment is being proposed to secure long-term fiscal terms. He added that would occur in November 2016 in a general election.

[8:48:29 PM](#)

CHAIR GIESSEL said they hoped it would be November of 2016 and said if the constitutional language is not approved by the legislature expeditiously it could actually miss that deadline and not fall until November of 2018. It could be reviewed in a special session next month.

CHAIR GIESSEL added that they hold him in high esteem and don't mean to attack the messenger.

MR. FAUSKE said thank you.

[8:49:25 PM](#)

SENATOR DUNLEAVY asked if Mr. Boykin is a resident of Alaska.

MR. FAUSKE answered that Mr. Boykin is a resident of the State of South Carolina.

[8:49:51 PM](#)

REPRESENTATIVE HAWKER said the administration has said they are not going to entertain a constitutional amendment until all the governance agreements are on the table, and asked how each of them would respond to the question of being willing to proceed to FEED without having a constitutional amendment voted on by the public.

[8:50:53 PM](#)

VINCENT LEE, Director, Major Projects Development, TransCanada, read the following statement:

Madam Chair, Mr. Co-chairs and members of the Committee, for the record my name is Vincent Lee. I am the Director of Major Projects Development at TransCanada. I serve as the commercial lead for TransCanada in the Alaska LNG project and represent TransCanada on the project's Management Committee.

Over the last few months, the Governor has been very clear with Alaskans about his desire for the State of Alaska to take on a bigger role in the Alaska LNG project. One way to accomplish this objective is for the state to take over TransCanada's interest in the

project. The Precedent Agreement that the state and TransCanada entered into in June 2014 allows either party to terminate the agreement.

At the Governor's request, TransCanada has been working with the Administration to agree on a process for the State to terminate the Precedent Agreement and allow the state to assume TransCanada's interest. If an agreement is reached, we expect it will provide a roadmap for TransCanada's exit from the project, including an agreement by the administration to request an appropriation to reimburse costs that TransCanada has invested in the LNG effort since the beginning of 2014.

TransCanada will work diligently to ensure that the termination occurs as smoothly and reasonably as possible. I recognize that some may want more detail on the termination discussion between TransCanada and the state, but due to confidentiality, I am not permitted to share more information beyond what I have just described.

TransCanada has been involved in advancing a natural gas pipeline in the State of Alaska for four decades and has made significant contributions to the advancement of the current LNG efforts. Anticipating TransCanada's role in the Alaska LNG project may come to an end soon, I would take this opportunity to wish our project partners and the State of Alaska well in this endeavor to bring Alaska's abundant natural gas resources to global markets.

Madam Chair, Mr. Co-Chairs, I also would like to extend my thanks to you for inviting me here today. One final point, TransCanada looks forward to working with the administration and the legislature to complete the transition in a timely fashion to allow the other JVA Parties and the State continue to be focused on advancing the Alaska LNG project.

Thank you.

[8:53:31 PM](#)

CHAIR GIESSEL said the MOU with TransCanada talks about a 90 day period of time when a buyout measure is initiated and asked if that had begun yet.

MR. LEE answered no; it would start on the day they receive a termination notice from the administration.

8:54:53 PM

DAVID VAN TUYL, Regional Manager, BP Exploration Alaska, Inc., Anchorage, Alaska said he is currently on the Joint Fiscal Team and BP's representative to the AKLNG Project Management Committee. He read the following comments:

I am very pleased to be here along with my colleagues to provide an update on the progress of the Alaska LNG project. The success of Alaska LNG is critical to BP's business here in Alaska, and it's also critical to the future of the State of Alaska and to so many Alaskans who will benefit, both directly and indirectly, from a successful project.

As you are all aware, the project has taken several very important steps forward toward becoming the reality we are all working so hard to achieve, and I think it's worth reminding us just what we've achieved:

- In January 2014, we signed the Alaska LNG Project Heads of Agreement, which publicly mapped out our agreed aligned way forward to commercialize Alaska's Gas. That's the path we continue on today.
- A few months later, you, the Alaska Legislature, approved SB-138, which defined the State's participation in the project and provided the way forward.
- The Governor signed SB-138 into law the next month.
- Then last June, the parties all signed the commercial agreement that allowed the parties to advance through the pre-FEED phase.
- The next month, in July, the project submitted its export license application to the Department of Energy.
- In September, the project initiated our Federal Energy Regulatory Commission, or "FERC" pre-filing process, which the FERC approved later that month.
- In November, we received DOE's approval of the export license application for Free Trade Agreement countries.
- In May of this year we received our non-FTA export approval from the DOE. As we have said before, this

approval sent an important message not only to Alaska, but to the world - the Alaska LNG project is real, and it's coming.

-Just last month, the FERC chairman visited the Alaska North Slope to see the existing facilities and the location of the future AKLNG Project facilities. I believe that's the first time every that a sitting FERC chairman had visited the Alaska North Slope. Project momentum is building.

Also last month, the Alaska Oil and Gas Conservation Commission heard our application to modify the Prudhoe Bay gas offtake rate, and allow for CO2 injection from the Alaska LNG Project into the main Prudhoe Bay reservoir.

- Regulatory approval of Prudhoe Bay gas offtake is another critical step in this process.
- Certainty of gas offtake underpins our upcoming FEED decision;
- To support that huge financial commitment we want to reduce uncertainty wherever we can.

And as you just heard from Steve Butt, the Project Team is making good progress on the pre-FEED deliverables.

So while there is still much work to be done, we continue to make progress. We understand the Governor's recent statements about the need for additional progress. We agree.

The agreements we are actively negotiating are complex, and will impact this multi-billion dollar project that will span decades. Given the complicated issues we are working through and the fact that each of the parties in the negotiations has its own needs and concerns, it shouldn't surprise you that the negotiations can be difficult. If we did not hit speed bumps along the way, you should be concerned. It would mean that we weren't driving down the road. We are driving down that road and continuing to make progress.

BP desires to get these agreements done as soon as possible, but we also recognize that it is essential to ALL parties that these agreements are done well.

BP is committed, just as we have been throughout this process, to working out our remaining issues as quickly and as fairly as possible.

We are encouraged that the project continues to make real, tangible progress, as measured by those key external milestones I mentioned.

BP remains actively engaged to continue progressing the Alaska LNG project, both with the technical work and the associated commercial work. The project momentum is continuing. BP looks forward to seeing the project through to its success.

Thank you,

[9:01:13 PM](#)

REPRESENTATIVE HAWKER said the legislature is just trying to find out what they are working with so they can also make the best decisions. He said the statement read by Mr. Fauske on behalf of the administration was very pessimistic about their ability to work together with the partners and Mr. Van Tuyl's comments seemed to say that they are working together, but these are just long, tough negotiations. He asked in all honesty if progress was being made and if light could be seen at the end of the tunnel or are they at an impasse.

[9:02:50 PM](#)

MR. VAN TUYL answered that progress is being made. Many agreements are being worked on, and they are complicated. BP has brought in international resources who have worked successful LNG projects around the world to address these matters. The process, while painfully slow, is under way.

[9:04:27 PM](#)

REPRESENTATIVE HAWKER asked if the project is on schedule, on budget and on track, including taking up a special session in fall this year to take up the commercial agreements.

[9:05:36 PM](#)

MR. VAN TUYL answered that he didn't know; everyone needs to work through the necessary issues until they find alignment. They won't stop working those issues, but he couldn't point to a date.

[9:06:24 PM](#)

REPRESENTATIVE SADDLER asked if the team has enough financial resources to continue the work it needs to do on the somewhat extended schedule he described.

MR. VAN TUYL answered that depends on which work he is referring to. The commercial work necessary to hammer out all the agreements that have been articulated are funded by individual parties. He couldn't speak for the state's budget, but BP will commit the necessary resources. A separate issue that Mr. Butt alluded to about a vote late this year to approve the 2016 work program for the project and that will allow the pre-FEED work to continue to its logical conclusion.

[9:07:48 PM](#)

REPRESENTATIVE SADDLER asked how much money was involved with the state's share.

MR. VAN TUYL answered that he did not know, but could find out for him.

[9:08:33 PM](#)

MR. FAUSKE answered that currently the state has funded \$67.7 million for its share through to FEED, but going forward would require an additional \$500 million.

[9:10:07 PM](#)

SENATOR DUNLEAVY asked Mr. Van Tuyl if he was surprised by anything in the governor's letter.

MR. VAN TUYL answered that he hadn't read it, but agreed with the sense of frustration at the lack of progress and the magnitude of the project. He is focused more on finding solutions past the difficulties.

[9:11:29 PM](#)

CHAIR GIESSEL said she appreciated him calling out AOGCC when BP and ExxonMobil both asked for gas offtakes. That was a signal of progress and their ongoing commitment to the project. She asked how the gas reserve tax and withdrawal provisions factored into any speedbumps on this road to negotiation.

[9:12:28 PM](#)

MR. VAN TUYL answered that he had heard about the gas reserves tax and BP would view that as punitive taxation not helpful to incentivizing a project. But it's best to pose those withdrawal questions to the state.

[9:13:55 PM](#)

REPRESENTATIVE SADDLER asked if he had seen any evidence of the Alaska Stand Alone Pipeline (ASAP) project affecting the administration's commitment to the AKLNG Project.

MR. VAN TUYL answered that he had seen the administration focused on the AKLNG Project and nothing to the contrary. He added that BP's focus is not on withdrawing from the project, but on making it successful. Their Alaskan business depends on it.

[9:15:13 PM](#)

REPRESENTATIVE HUGHES asked if there had been a conversation about this project in relationship to low oil prices and if BP is committed through the long haul.

MR. VAN TUYL answered that he wished he knew how long the current environment would last. It could be for a while - several years. The current environment in some ways creates an advantage for this project and they expect the oil and gas price environment will look very different when the project is brought on line. Investors who are pursuing LNG projects are long term thinkers, because those projects are all about generating steady reliable cash flow for decades. The first year of the project and the 30th year of the project matters. Their focus is very much long term.

[9:17:47 PM](#)

SENATOR MACKINNON asked if other nations have addressed withdrawal concerns in advance.

[9:18:57 PM](#)

MR. VAN TUYL answered that it is common for any commercial agreement to have some sort of withdrawal termination provision.

[9:20:34 PM](#)

DARREN MEZNARICH, Project Integration Manager, AKLNG Project, ConocoPhillips Alaska, Inc., Anchorage, Alaska, said his role is to integrate the team efforts on all aspects of the project: technical, commercial and marketing. He said they are working hard with the administration and the other parties to complete the technical work and the necessary commercial and fiscal agreements so the project will be ready to move to the next phase.

As ConocoPhillips testified back in February and in June, the most important commercial agreement from their perspective is

the gas supply agreement. It is foundational for this project and it is the basis for determining the rate and the total volume of gas supply to the project from Prudhoe Bay and Point Thomson, the two anchor fields of the project.

The gas supply agreement provides assurance of gas supply. This is critical for ConocoPhillips' marketing of the LNG as they move into FEED. It is also critical to securing project financing. They need certainties that the gas is going to be there when they commit to the LNG buyers and talk to lenders about loaning money for their investment in the project.

MR. MEZNARICH said clarity is good for the project as well as for providing transparency and information for the state. The gas supply agreement is also key for ConocoPhillips in asking the legislature and by definition the public to support a fiscal package as well as a constitutional amendment.

[9:23:30 PM](#)

REPRESENTATIVE HAWKER noted that ConocoPhillips was not a party to the application to the AOGCC for offtake out of Prudhoe Bay and asked if they had a position on that.

MR. MEZNARICH replied that ConocoPhillips and Chevron filed comments on that application and testified, but they proposed a slightly lower number than BP and ExxonMobil did.

[9:24:37 PM](#)

SENATOR STOLTZE asked if a property tax structure and a reserves tax was part of their fiscal terms in discussing a constitutional amendment.

[9:26:14 PM](#)

MR. MEZNARICH answered that there is an agreement on the impact payments and property tax structure. The reserves tax is a "carrot and a stick approach," but parties are trying to move forward with what they can to make the project a success. ConocoPhillips is working hard to get the gas supply agreement done, but the governor wants the project to move forward even if one party falls away. ConocoPhillips has said it would make its gas available and not stand in the way of the state taking a project forward. So, they would be willing to entertain withdrawal terms and try to find a way forward for the state and other parties if that became necessary.

[9:27:55 PM](#)

SENATOR STOLTZE commented on the list of community impacts from the Kenai Peninsula Borough, but added that his community wants the impacts of jobs and prosperity that this project would bring it.

[9:28:43 PM](#)

MR. MEZARNICH answered that he hoped to make an impact in a positive way.

REPRESENTATIVE SADDLER asked if he had seen any evidence that the administration's focus had been diverted by emphasizing the ASAP line.

MR. MEZARNICH echoed Mr. Van Tuyl's comments in that he had seen a lot of energy and commitment to this project in trying to resolve issues.

REPRESENTATIVE SADDLER asked about the letter's mention of lack of progress.

MR. MEZARNICH replied he hadn't a chance to look at the letter, but he thought it reflected everyone's frustration on how slow things are moving and the complexity of the issues.

[9:30:15 PM](#)

REPRESENTATIVE SADDLER asked if he had any reassurances as to Mr. Boykin's position within the organizational structure of the project.

MR. MEZARNICH answered that he deferred to the state on who is in charge. He has been working both with Mr. Boykin and the commissioners.

CHAIR GIESSEL noted that the document in front of them was received from Mr. Fauske and on the first page were his comments and the following pages were answers to 11 questions she had provided him a couple of days ago.

[9:31:58 PM](#)

MR. MCMAHON, Senior Commercial Advisory, ExxonMobil, said he had been working on the Alaska LNG commercialization since 1992. He said that ExxonMobil, as a lease holder of natural gas resources on the Alaska North Slope (ANS), has diligently undertaken various individual and joint activities to commercialize ANS natural gas. ExxonMobil is now pursuing the Alaska LNG Project (AKLNG) with the State of Alaska, AGDC, TransCanada, BP and ConocoPhillips following the framework established by the State

of Alaska in 2014 that was set out in the AKLNG HOA (January 2014) and SB 138 (April 2014). ExxonMobil is a strong advocate for AKLNG having funded a third of the cost of pre-FEED and providing two-thirds of the personnel for that project.

He said that ExxonMobil has two key requirements to consider the FEED decision: agreeing on acceptable fiscal contract terms that are both predictable and durable and completing the pre-FEED work. A key vote is coming up this year on the 2016 pre-FEED work program and budget. He encouraged state action to allow that funding to occur so that pre-FEED work could be finished in 2016 as envisioned.

MR. MCMAHON said the fiscal contract and completing the pre-FEED work are both needed to be able to do the technical and commercial evaluation necessary to decide if they are going to FEED. That valuation will consider a view of the market conditions, LNG buyer feedback and an assessment of how the FERC regulatory process is going.

[9:35:34 PM](#)

MR. MCMAHON said ExxonMobil supports the constitutional amendment approach and the Alaska legislature putting that matter on the ballot at its earliest convenience. It is important to hit the November 2016 window for the public vote, because it can only happen in a general vote.

As Mr. Fauske said, the fiscal and commercial agreements aren't going to be completed in time for a fall special session, but the legislature should still consider: clarifying the state's role in the project, getting appropriations, authorizing the stratification vote and property tax legislation that allows flow-related property taxes as a bonafide way to pay a property tax obligation, and authorizing PILT construction as a bonafide way to pay property tax. Those details could be put into a fiscal contract.

MR. MCMAHON said they are working on all agreements that are necessary for all the parties to be able to support the decision. Alignment is critical for the success of any mega project.

[9:37:42 PM](#)

REPRESENTATIVE HAWKER asked what he thought about the Calgary Harold article citing Wood MacKenzie saying that LNG projects worldwide today are horrifically financially challenged.

MR. MCMAHON replied that he was familiar with the article and it coins the challenge with Alaska natural gas. Many things are going for Alaska gas: two world class reservoirs, gas is discovered and it is ready to go, and a host government that is actively involved in the development of that natural gas to the point of being willing to invest in 25 percent of the infrastructure and to be a partner with industry to bring that on. Alaska has a geographic advantage in being close to the markets, which will reduce the cost of supply.

There are some challenges, as well. This business is all about cost of supply. So the project participants need to put a project together that has the lowest cost of supply possible and put in place predictable and durable fiscal terms, so they can offer prices to the market without fear of having a tax increase or new taxes. A gas reserves tax would have a very chilling effect on the development of AKLNG.

[9:40:42 PM](#)

REPRESENTATIVE HAWKER asked if he thought the project could truly go forward recognizing the challenges.

MR. MCMAHON answered absolutely.

REPRESENTATIVE HAWKER wondered if the administration was keeping the parallel backup project online and asked what happened to the 45-day review.

[9:42:09 PM](#)

MR. FAUSKE answered about the ASAP project has been put on hold. The information is still intact but the team is doing work for the other project. A great deal of the money was removed from the Instate Gasline Fund during the last session, which maybe prohibits the ability to go forward.

REPRESENTATIVE HAWKER recalled that enough money was left in the budget for activities that would equally benefit both projects to allow them to kind of both move forward. He asked when the state counseled them to consider looking into a backup plan.

[9:43:36 PM](#)

MR. FAUSKE answered if negotiations simply just "blow up and fall apart" - no one wants that to occur - but the state has to look at what it's going to do then - even if it's just to go back to getting gas to the citizens, which is really how ASAP started. They are doing work that is beneficial to both projects, but they are not advancing any more technical

engineering work based on fiscal constraints. But if necessary, that work could move forward.

[9:45:20 PM](#)

REPRESENTATIVE HUGHES said the governor had narrowed special session down to two things and asked Mr. McMahon if he would be okay with taking up PILT, the constitutional amendment and the stratification authorization in the next regular session.

[9:46:06 PM](#)

MR. MCMAHON answered that it is within the purview of the state of Alaska to choose when to take those matters up, but sooner is better than later. There will be a lot of business to take up during the 90-day session.

CHAIR GIESSEL asked if a 48-inch line would require new FERC reports.

MR. MCMAHON answered that the nature of the early drafts of the reports have been general. They talk about the pipeline right-of-ways and disturbances of a certain size. They believe that once due diligence work is done and if parties agree to change the pipeline diameter that the next version of the draft application could be modified to accommodate that. Their goal is to not impact first LNG cargos, but you have to land on your pipeline diameter before going into FEED.

[9:48:41 PM](#)

MR. MCMAHON followed up with Senator MacKinnon's question about of what happens when a party wants to withdraw. He said when alignment is so critical on mega projects, typically when you get up to a decision gate, if one of the parties is not ready to move through, to maintain alignment you work with that party until all the parties are ready to go through the gate.

Senator Dunleavy's question about the 48-inch pipeline is a good example. One party raised the issue; the other parties knew it was important and so they are going to try to accommodate that. Alignment is critical to move forward. So, a withdrawal agreement that pre-agrees what happens if someone leaves and also pre-agrees how that gas will be accessed would be unprecedented in his experience around the world.

[9:50:18 PM](#)

MR. MCMAHON said the critical part of this project is how the 30-32 tcf/gas gets brought into the project. The applications are pending before the AOGCC; formal hearings happened one and

two weeks ago. They are waiting for the record to be closed and for the commission to act to make sure they have the ability to supply gas into the project.

Work continues on getting the necessary commercial agreements to go into FEED. Applications are being drafted for the DNR to support lease modifications related to the RIK/RIV switching and the conversion of leases at Point Thomson. A whole lot of staff is being applied to the foundational commercial agreements and as Mr. Meznarich pointed out, gas supply to the project is important and that is where the gas balancing issue resides. As Mr. Lee pointed out, long term firm transportation service agreements between TransCanada and the State of Alaska have been here historically but there are ongoing discussions about potential disposition of that. These agreements will be reviewed and approved by the legislature consistent with SB 138.

[9:54:55 PM](#)

REPRESENTATIVE HAWKER asked how important that RIK decision is relative to gas balancing.

[9:56:09 PM](#)

MR. MEZMARICH said the HOA laid out a road map to a successful project and the RIK was a critical element. ConocoPhillips believes that is fundamental. If it's decided after the agreements are ratified it could be a conditional agreement.

REPRESENTATIVE HAWKER asked Mr. Fauske when they can expect the RIK decision.

MR. FAUSKE answered that Marty Rutherford could answer that question later in the hearing.

[9:57:02 PM](#)

REPRESENTATIVE HAWKER remarked that he didn't know how the state can be a party to all the agreements that are contemplated in the big transaction if it doesn't have gas or RIK.

[9:58:40 PM](#)

MR. MCMAHON said they had aligned on the constitutional amendment as the vehicle to provide stabilization and they are aware that a two-thirds legislative vote is necessary to put it on the ballot and everyone is targeting the November 2016 election.

He said there is tentative alignment on the structure of the property taxes subject to consultation with the Municipal Advisory Gas Project Review Board.

He said they had talked a lot about the significance of the DOE export authorizations and the FERC process is the critical path for the project. Their focus is on getting the final permit to allow construction to begin.

9:59:34 PM

MR. MCMAHON said their ever-present External Affairs folks continue to work with public outreach and building support for the project. This will become very critical as fiscal and commercial agreements become available. They need to be able to effectively describe to the people of Alaska how the project is going to proceed from a fiscal and commercial standpoint.

10:00:09 PM

SENATOR DUNLEAVY cautioned him, since people in his district expect that they will get gas directly to their houses no matter how far they are from the road or where they live, that there be a real genuine attempt to get folks to understand that the project doesn't know where or how big the takeoffs will be.

10:01:23 PM

MR. FAUSKE responded that more work needs to be done on instate gas use. He has stated publically that this is probably going to be one of the toughest areas of debate that the entire body will deal with, because when you're looking at \$14 million for just the sled that takes the gas and decompresses it and trying to serve a community of 75 people - "let's just be honest with each other - we're probably looking at some type of subsidized figure." Everyone wants gas, the mechanism that will be used to get it is what is difficult. Do you just have offtake points and it's cheaper for the residents to have gas trucked to their homes or do you put pipe everywhere? It's not part of the project, so it will be on the state's back. He also said it would be hard to have people even consider a constitutional budget amendment if they don't have any skin in the game.

10:04:07 PM

SENATOR DUNLEAVY said it's crucial that people understand that their energy issues will benefit from the gas, but they might not actually get it at their house.

10:06:04 PM

MR. FAUSKE agreed that it is a state responsibility to do this work and coupling it to the people describing the project is misleading.

CHAIR GIESSEL said they look forward to getting data on the offtake points.

10:07:27 PM

MR. MCMAHON noted that two-thirds of the questions in their 80 public hearings are related to instate gas and he looked forward to working with AGDC to help manage expectations.

MR. MCMAHON said slide 12 captured key accomplishments; one being a tentative alignment on the structure for property taxes both during and after construction. The remaining challenges are: establishing a role for the state as a project participant, specifically midstream participation, funding and approval of the 2016 pre-FEED work program and budget, timely completion of the key commercial and fiscal contracts followed by legislative approval consistent with SB 138, royalty decisions around lease modifications and RIK elections, legislation to put property tax payment mechanisms in place and legislation to authorize the public vote on the constitutional amendment to provide predictable and durable fiscal terms.

10:09:03 PM

REPRESENTATIVE HAWKER said both he and Mr. Butt used the words "to clarify the state's role" in describing remaining challenges and asked what that means.

MR. MCMAHON answered that everyone has heard about plans that the state has with TransCanada that is currently the state's party in the midstream. Before going into FEED, clarity is needed on which party is going to hold the state's midstream interest.

10:11:11 PM

REPRESENTATIVE HAWKER asked him to explain what the vote means.

MR. MCMAHON answered that some of the voting outcomes could require an appropriation this year to fund the rest of pre-FEED.

10:12:06 PM

REPRESENTATIVE SEATON asked if there is a December 31 deadline for the TransCanada decision that will affect alignment and the RIK decision.

[10:13:34 PM](#)

MR. FAUSKE answered that there needs to be a decision made with TransCanada on the firm transportation supply agreements by December 15, 2015. The state's negotiations with TransCanada have not been finalized, yet.

[10:14:49 PM](#)

MR. LEE explained that the date of December 15 refers to when the firm transportation agreement has to be entered into between TransCanada and the state and be ratified by the legislature. The question would be how to move forward and he didn't know how that was related to the state's RIK decision.

[10:15:38 PM](#)

REPRESENTATIVE SEATON said his concern was if Alaska is the only party owning gas that would have to pay a firm transportation and profit margin to a third party. Then the gas going into the LNG plant would not be aligned in cost structure, and any joint sales agreements could mean that gas for delivery would be profitable for the other buyers and a deficit for the state. He didn't know if a built-in cost structure and profit margin to a third party would influence the other commercial agreements.

[10:16:44 PM](#)

REPRESENTATIVE HAWKER said one topic in the governor's letter had not been covered and that was the method that gas would be marketed. The state's position is they wanted everyone to market together.

[10:18:09 PM](#)

RIGDON BOYKIN, lead negotiator, AKLNG Project, said the state felt very strongly that a four-party joint venture marketing arrangement would make a huge difference in aligning the interests of all the parties especially when the project has such disparate ownership interest in Point Thomson and Prudhoe Bay. However, ExxonMobil has, for business reasons, decided they cannot do that. So, the state has conceded and is trying to formulate individual joint ventures with one or more of the producers to market with them, because that will help the state and reduce some problems in terms of gas balancing and lifting issues.

REPRESENTATIVE HAWKER asked why the state would concede to ExxonMobil. He didn't want to concede to ExxonMobil.

[10:20:22 PM](#)

MR. BOYKIN said that maybe ExxonMobil could explain their position better. He said at least one other party wanted joint venture marketing of this type and argued it, but it was clear it would not be resolved. At that point, the state had to decide what to do and felt this was the only option for going forward.

REPRESENTATIVE HAWKER asked if a joint venture marketing agreement is an absolute deal breaker for a \$65 billion project.

[10:21:34 PM](#)

MR. BOYKIN answered in all these negotiations one has to consider how hard and long to push an issue. ConocoPhillips was aligned with the state on this issue. It was discussed with ExxonMobil for four months and the state got "absolutely nowhere." The state realized this may actually be a killer point for ExxonMobil.

[10:22:51 PM](#)

REPRESENTATIVE JOSEPHSON said earlier comments suggested the administration was throwing a wrench in the works or causing delay, but it sounds like he is saying that the administration also knows when there is perhaps something insurmountable for one party and a need to move forward to some greater good.

MR. BOYKIN answered that it was a judgement call the state made after four months or so of discussions with ExxonMobil; this was extremely important for them. They came up with a way to cure it, perhaps not as perfectly, but it could work.

State's Gasline Team Update

[10:24:56 PM](#)

CHAIR GIESSEL, finding no further comments, thanked everyone for their patience and answering the questions, and said next they would hear from the state's gasline team. She invited Dona Keppers, Deputy Commissioner, Department of Revenue (DOR); Marty Rutherford, Deputy Commissioner, Department of Natural Resources (DNR); and Rigdon Boykin, counsel to the AKLNG Project, to the table and asked them to address the deferred questions.

[10:26:10 PM](#)

MR. FAUSKE said he had been asked to stay and take the lead on the questions with participation from his colleagues.

CHAIR GIESSEL said all parties received 11 questions from her office and were asked to be prepared to respond. Mr. Fauske said he would review the answers.

[10:27:17 PM](#)

Question 1: What conditions or milestones do you need in order to authorize the funding for entering the FEED stage of the AKLNG Project?

MR. FAUSKE's response: AGDC views that the milestones are primarily technical and must include successful delivery key pre-FEED work products and deliverables, and those work products are now targeted for completion in early to mid-2016.

CHAIR GIESSEL asked what those items are.

[10:28:16 PM](#)

MR. BOYKIN answered they are mostly technical in nature: reports on engineering feasibility studies and cost estimates.

CHAIR GIESSEL asked where those are in terms of achievement.

MR. BOYKIN answered that they are in the 75-percent range.

[10:29:54 PM](#)

REPRESENTATIVE HAWKER said he thought that meant things the state needs to do in order to make its decision to enter into FEED.

MR. BOYKIN answered that the state needs have a very good understanding of what the deal on the project is: the fiscal agreement, the constitutional amendment and the balancing agreements. It needs to be done in an executable form, because people need the security of knowing commercial terms for the project are agreed to before spending roughly \$500 million for FEED.

[10:31:17 PM](#)

SENATOR STOLTZE asked him to relate which departments actually formulated these answers as they are being answered.

[10:32:27 PM](#)

MR. BOYKIN responded that these questions were parceled out to various parts of the administration with the responsibility for those particular areas and they submitted drafts of answers. Those were further edited with the participation of the governor. Marty Rutherford would give responses to certain question she felt uncomfortable with, in particular the RIK/RIV question.

10:33:30 PM

CHAIR GIESSEL asked if Mr. Boykin is the lead (in place of AGDC) on negotiating the conditions for this fully papered agreement.

MR. BOYKIN answered yes, "I guess I'm sort of the point person. I'm sort of a person that has about five clients. I have the Department of Law (DOL), I have the Department of Natural Resources (DNR), I have the Department of Revenue (DOR); I have to listen to all of them and in particular AGDC, because they are the commercial lead that was intended by this legislature for this project." He then formulates a position to try and push this project forward and completed as soon as possible.

10:35:03 PM

CHAIR GIESSEL asked who at the end of the day he answers to.

MR. BOYKIN answered he is answerable to Dan Fauske and he also consults with the governor; at the end of the day he is also answering to the Attorney General. When he started leading this effort he decided to attend the sponsor meetings with the DNR commissioner, because his department has one of the biggest inputs into this project at several levels.

CHAIR GIESSEL said it sounds like a complex arrangement, but his business card simply states that he is a counsel to the governor.

MR. BOYKIN answered that his role has changed over time. That card reflects what the role was when it started. He hasn't been able to find the time to work out what his new card ought to say, because he has been so busy trying to push this project through.

10:37:00 PM

CHAIR GIESSEL asked from the perspective of the appropriating body, at the end of the day whose budget pays him the \$120,000 per month salary.

MR. BOYKIN replied that AGDC does that.

MR. FAUSKE added because of Mr. Boykin's cross-over role between AKLNG and AGDC, when he was approached on this contract, in-house counsel determined AGDC should be involved. AGDC issued a contract not to exceed \$500,000, because the work was within the parameters of what the In-state Gas Fund could be used for. Other contracts were declined, because they did not fit in with the legislature's designated purview.

CHAIR GIESSEL said she had requested an organizational chart and asked what Audie Setters is doing these days.

MR. FAUSKE answered that Mr. Setters does not work for AGDC; he is under contract to DNR.

10:38:36 PM

REPRESENTATIVE SADDLER said he sympathized with the producers' expressed desire for clarity, but he had heard "the ball be tossed back and forth between Mr. Fauske and Mr. Boykin twice now, I think," and wanted to know who is in charge.

MR. FAUSKE answered Mr. Boykin is the lead negotiator on this project. AGDC works with him and all the departments.

10:40:26 PM

MR. FAUSKE said everyone is working in various areas of their expertise, but he reports back to Mr. Boykin who takes the issues forward.

REPRESENTATIVE SADDLER asked who decided to concede to ExxonMobil on the joint marketing venture.

MR. FAUSKE said after consulting with Mr. Dubler (Joe Dubler, Vice President of Commercial Operations for the Alaska Gasline Development Corporation) that he could tell them which departments were contacted directly for answers to the questions.

CHAIR GIESSEL clarified that during the last session the lead on this project that she talked with was Deputy Commissioner Rutherford. So, that lead her to contest the statement that Mr. Boykin had been the lead as long as he has been involved.

10:41:49 PM

REPRESENTATIVE HAWKER said he didn't know where the buck stopped and asked who is physically sitting for the state when a sponsor is needed.

MR. FAUSKE answered himself, Joe Dubler and in the last couple of months Mr. Boykin, the DNR and DOR.

REPRESENTATIVE HAWKER asked if Mr. Boykin is being paid out of the Instate Gas Fund.

MR. FAUSKE answered that was correct.

REPRESENTATIVE HAWKER said they had been told that part of the special session package they should expect would be the statutory changes that would affect AGDC's authorities and asked if AGDC has the statutory authority to do what he is doing in moving this project forward. He recalled that SB 138 left that authority primarily with the DNR and DOR and not with AGDC. "Do we need to change statute to give you the authority to do what you are doing?"

[10:44:08 PM](#)

MR. FAUSKE answered that was good question; AGDC has been called upon for areas of expertise because of its staff expertise, primarily on the technical and commercial side. A decision was made a couple of months ago that Deputy Commissioner Rutherford was stepping down from her role as the lead. That decision was not made by him. An awful lot of work is going on and he didn't think AGDC had exceeded its authority.

REPRESENTATIVE HAWKER said in the beginning they heard the Attorney General's (AG) office would review all key decisions and developments and asked if the attorney general been involved in any of these decisions.

[10:46:03 PM](#)

MR. BOYKIN answered that the AG is intimately involved; there are one or two Department of Law (DOL) people at every single negotiating session; the attorney general himself has come. They are under stick instructions from him not to pass along any response or decision without him approving it.

REPRESENTATIVE HAWKER asked if AGDC has clear statutory authority to conduct the activities it is currently conducting and if that would extend to handling marketing activities.

MR. FAUSKE answered that marketing is under the purview of DNR; but the legislature put money into AGDC's budget for marketing. AGDC has not been directed to do that.

[10:47:54 PM](#)

REPRESENTATIVE HAWKER asked if the AG had reviewed AGDC's statutory authority to conduct the other activities it is involved in.

MR. FAUSKE answered not that he was aware of.

CHAIR GIESSEL asked about the personnel changes.

[10:49:59 PM](#)

MARTY RUTHERFORD, Deputy Commissioner, Department of Natural Resources (DNR), said she was asked to step down as AKLNG lead by the governor a couple of months ago. At that time, Audie Setters and Rigdon Boykin became intimately involved in gasline negotiations and leading the effort with both the FME (specialists) as well as internal DNR/DOR/DOL employees who are working entirely on AKLNG.

CO-CHAIR NAGEAK remarked that he hadn't come here for an inquisition. He came here to listen to what the state team was doing and hear the answers to the 11 questions that were given to them.

CHAIR GIESSEL asked if there were further comments on question 1. Finding none, she moved on to question 2.

[10:51:14 PM](#)

Question 2: Is there agreement on what it takes to enter the FEED stage of the AKLNG Project?

MR. FAUSKE answered that the deliverables for pre-FEED are all necessary for a positive FEED decision. Those are clearly addressed by the pre-FEED Joint Venture Agreement (JVA). While those are mostly technical deliverables, commercial agreements also need to be completed to ensure a commercial foundation is in place for FEED. Mr. Boykin mentioned some of those agreements before.

Anticipating that there may be concern by one or more producers to making any commitment to enter into FEED until the constitutional amendment authorizing the fiscal agreement has been passed during the November 2016 general election, the State of Alaska has offered that if producers make a conditional commitment to enter FEED, in advance of the general election, the state will fund its share of FEED expenditures expected to be \$400-500 million to meet all FEED cash calls for the parties to enter FEED officially without further conditions.

CHAIR GIESSEL asked if payment in lieu of taxes (PILT) would be a critical element for the partners to make a conditional commitment to enter FEED.

MR. FAUSKE answered yes; it's absolutely essential.

CHAIR GIESSEL asked if he believed RIK would be a critical piece for the partners.

MR. FAUSKE answered, "I do." The RIK/RIV decision is critical and it is being worked on now. He assumed it would be RIK, only because of all the testimony that has gone on for the last three and a half years. But the DOR commissioner is working on that decision and will make an announcement.

CHAIR GIESSEL asked if there is a need to hurry things along and who crafted the answer to that question; AGDC?

[10:54:26 PM](#)

MR. FAUSKE answered yes, in consultation with Mr. Boykin and other relevant people. The PILT question would be answered by Ms. Keppers.

Question 3: Dealt with property tax structure and mechanisms.

[10:55:09 PM](#)

DONA KEPPERS, Deputy Commissioner, Department of Revenue, said she works directly with Commissioner Hoffbeck. She said Commissioner Hoffbeck has worked directly with the producer parties in advancing the property tax structure and mechanism. He has also interacted in a public forum with the Municipal Advisory Gas Project Review (MAGPR) Board. A lot of the property tax work is not in the purview of the state, although an important piece is. The mechanisms and calculations and mil rates are being worked on with the producer parties and a tentative alignment on the structure has been reached.

MS. KEPPERS explained that they actually are working on calculations and details internally and meeting on a regular basis with the producers. At the end of this month they go back to work with the MAGPR Board on property tax component piece. The impact payment processes are also within the state's purview and requires collaboration with the MAGPR Board, too. That entails working with the producer parties as part of their socio-economic work. They are also working with their consultants on how the impact payment mechanisms would work in different places. She said the DOR has to work also with the MAGPR Board on the distribution payment process of the impact payments, the application process and lots of detailed work.

[10:58:59 PM](#)

CHAIR GIESSEL said when Commissioner Hoffbeck presented to the committee in June, he led them to anticipate some kind of

finalized document within two weeks and it's now been more than two months. That is the genesis of their question: where is this? This is similar to what the sponsor companies have described in terms of their negotiations.

SENATOR MACKINNON asked what the plan is for distribution between the local communities and the state.

11:00:53 PM

MS. KEPPERS replied that the state does know what is on the table but is hesitant to talk about value until it can communicate where it is in the process with the MAGPR Board.

SENATOR MACKINNON asked if the MAGPR's interest is more important than the state's.

MS. KEPPERS answered that their interest is just as important as the state's interest, because we are all in this together and it has to balance.

11:01:33 PM

Question 4: What analysis has been conducted for determining the buyout of TransCanada? This question was referred to DNR.

MS. RUTHERFORD responded that under the Precedent Agreement (PA) that exists between the State of Alaska and TransCanada, a couple of options are available for a TransCanada buyout. One is to complete the firm transportation service agreement (FTSA) that is identified as necessary to have in place by December 15, 2015, or the second is to buy out all of a portion of the TransCanada interest in the midstream (the pipeline and the GTP).

The state's analysis of the TransCanada buyout option has generated certain conclusions and observations. In general, if the state acquires TransCanada's ownership in the pipeline and the GTP portion of the project (the midstream) the state, through AGDC, would have greater voting rights, greater access to information and increased equity in the project, which would increase the state's potential revenues from the project.

From a technical perspective, TransCanada's involvement offers considerable technical support to the state on midstream engineering issues. From a financial perspective, the state's total cash flow from the project increases with direct participation by the state in the project midstream rather than through TransCanada. This will mean that the state would need to

repay TransCanada's investment and handle future pre-FEED and FEED cash calls to the project work plan and budget. The reason she reference the potential additional pre-FEED cash calls is because they are linked to the timing of any potential buyout of TransCanada.

As Vincent Lee, TransCanada's representative indicated, the state and TransCanada are currently in negotiations on the potential of the state buying out TransCanada, but these discussions have not been completed nor has the state provided a termination letter to TransCanada.

MS. RUTHERFORD said they hope that these discussions will conclude very quickly and then the administration can bring forward to the legislature a recommendation as quickly as possible along with all supporting documentation, a detailed technical and financial analysis that was developed primarily using Black and Veatch resources.

Also, since the negotiations are ongoing, she added that it is very difficult to provide too much additional detail at this time. Earlier today she sent Senator Giessel the quarterly report which provides an update to the amount of money the state may be obligated to pay TransCanada for the work they are undertaking on the state's behalf through the Precedent Agreement.

[11:06:17 PM](#)

CHAIR GIESSEL noted that all committee members have the letter she sent today and it had been posted on BASIS.

REPRESENTATIVE SADDLER asked if the state wants to do a buyout.

MS. RUTHERFORD answered that is the primary focus of their discussions. If that can't be concluded successfully, the state would need to progress the firm transportation service agreement.

REPRESENTATIVE JOSEPHSON asked if there is an existing document now that describes the modeling that was done on the ultimate revenue question to the state.

[11:07:28 PM](#)

MS. RUTHERFORD replied that there is a full analysis, but it is a confidential document. Should Alaska progress a proposal to buy out TransCanada's interest, it would either provide the entire analysis under confidential provisions to those who

signed the confidentiality agreement or in all likelihood do a combination of that to the people who have signed, as well as create a publicly available document.

REPRESENTATIVE HAWKER said he was party to putting together a request to the administration in May/June, because they all heard stories about this potentially happening, and the governor asked the legislature for \$108 million to complete the buyout. He thought the decision had been made. The legislature asked the governor for any analysis that had been done and received no response. He asked the rationale for the decision being under confidentiality, because this would seem to be the ultimate in public documents.

[11:09:52 PM](#)

MS. RUTHERFORD answered she believed the reason it is under confidentiality is that the model used by Black and Veatch incorporates much AKLNG confidential information as well as confidential information the Division of Oil and Gas has. She completely agrees that when a proposal is provided to the public and the legislature they will have to make as much of that data available so that there is a full understanding of the reason to propose a buyout of TransCanada.

REPRESENTATIVE HAWKER said the legislature needed the Black and Veatch analysis so their consultant could prepare them for a special session. He feels a due diligence responsibility to look out for the best interests of the State of Alaska and this information is needed in order to do that.

[11:12:02 PM](#)

MS. RUTHERFORD responded, "I do hear you and I fully appreciate your need to have this data and we will work to try to provide that to you." She explained that the confidential version could be provided only to those who signed the Precedent Agreement. She added that they will begin immediate work to develop a publically available analysis, as well.

REPRESENTATIVE HAWKER asked if the decision is not made to execute the exit off-ramp for TransCanada, if it is too late to continue the FTSA negotiation.

MS. RUTHERFORD answered that it is not too late and that many of the FTSA elements were embedded into the confidential Precedent Agreement. The state is prepared to move forward with the FTSA, she said, in a very diligent fashion if that is the result of

the discussions occurring between the administration and TransCanada.

[11:13:41 PM](#)

REPRESENTATIVE HAWKER asked if TransCanada agrees with her that it's not too late to establish the FTSA.

MS. RUTHERFORD answered that she had not asked that question of TransCanada but it would be valid to ask them directly.

SENATOR MACKINNON asked should the governor be successful in getting the \$108 million without talking to the legislature at all about it, who is going to offer the expertise for the pipeline situation.

MS. RUTHERFORD replied that SB 138 indicates that should the State of Alaska buy out the midstream element, those interests move to AGDC. So, it's appropriate for her to have Mr. Fauske respond to that question.

[11:16:33 PM](#)

MR. FAUSKE replied that AGDC is a pipeline company and it has the expertise on staff. They took the ASAP class 3 estimate for a 36-inch, 800-mile pipe and did all the work necessary to go to a recourse tariff filing, and that project is ready to be sanctioned. Just a short time ago they were on time and on budget, too. He explained that AGDC has limited personnel and deal mainly with substantive matter experts, consultants and engineers and bring people in to do a good job. He said TransCanada is a great company, but if this would occur, AGDC is set up to take on the responsibility of managing the building of the pipe.

SENATOR MACKINNON said many people over the past decade have said only a handful of companies in the world could handle a project this big.

MR. FAUSKE replied that the determination of who is building the pipeline hasn't been made yet. If AKLNG goes forward, one could argue that ExxonMobil is going to build and manage it, but AGDC will represent the state's share of the midstream and GTP. He said he is quite proud of the work AGDC does.

[11:18:27 PM](#)

SENATOR MACKINNON said they do a great job, but TransCanada brought a different level of talent to the table.

CHAIR GIESSEL said TransCanada brings more to the table than expertise; they also have financing and carry the state's note. She asked how the state proposes to replace that.

[11:19:43 PM](#)

MS. RUTHERFORD responded that the decision to buy out TransCanada will be a balance of risk and reward. It will reflect the responsibility to buy out TransCanada's expenditures it has made to date and it will require the state to take on the cash calls for pre-FEED and into FEED. On the other hand, a cost of service transportation fee will be less expensive than a third-party tariff structure. There are immediate costs and risks associated with that decision, but there is the potential for long term gain in lower costs, so that the net result would be that the state's financial position would be improved. There is no question that there is a tradeoff.

MS. RUTHERFORD said she wasn't involved in the analysis of the financing aspect and would look to the Department of Revenue for that.

MR. BOYKIN added that the financing TransCanada is providing to the state has been very important, but over the long term that financing is probably more expensive than any financing the state might be able to obtain from other parties. It was very advantageous to have that financing at first, but as the project gets further down the road, the investment community that would invest in projects like this would have more comfort lending money to this project. At the stage TransCanada, in essence, lent money to this project, very few people would be willing to take that risk. He also thought that TransCanada was concerned whether the legislature will appropriate the money to get them paid. That is the risk they are getting paid for, to some degree.

[11:23:23 PM](#)

REPRESENTATIVE SADDLER asked if the governor is trying to get financing from Asian investors.

MR. BOYKIN replied that no decision had been made on that.

REPRESENTATIVE SADDLER asked if there had been discussions.

MR. BOYKIN replied that the governor has said he would explore all options. In the last 10 years it is more prevalent for buyers to have an investment all the way up the chain to where the LNG is coming from. He had no idea whether they will be

interested in this project, but the state will explore that as well as a number of other alternatives.

[11:24:49 PM](#)

REPRESENTATIVE SADDLER asked if Asian investors is one of options.

MR. BOYKIN answered, "I'm sure it is." Another typical option is basically vendors who will provide debt through a state organization. That happens often in places like Japan. But at the end of the day he felt this project would be financed through project financing, which will entail tax exempt bonds and a whole host of different financing techniques.

[11:25:52 PM](#)

REPRESENTATIVE SADDLER asked what other financing options were available.

MR. BOYKIN answered that he does not provide that kind of advice to the state, but vendors of large pieces of equipment will help projects by loaning them money at preferential rates. Since the state will own 25 percent of this project, it is certainly possible that tax exempt bonds will be used for a large portion of it. The rest of the money will probably come from institutional investors including some even in this state.

REPRESENTATIVE SADDLER asked if by tax exempt bonds he meant revenue or general obligation bonds.

[11:27:11 PM](#)

MR. BOYKIN answered that these bonds would be backed by this project, not by the state at all.

REPRESENTATIVE SADDLER asked if the state is considering pledging the Permanent Fund to back this construction project.

MR. BOYKIN answered that usually projects like this - that are publicly financed - can use non-recourse bonds after the completion of construction. However, most institutions that would invest during construction only would require some kind of credit support to make sure that construction is completed on time and on budget. The support would pay for the interest to the degree it isn't on time or support to pay for cost overruns. That is something one usually cannot get contractors to step to for a project of this size. If this were a \$100-million project, you could get that. For this project, financing parties will probably require something like a cost overrun commitment by the

various parties involved in the project. He assumed the state would have to step up for its share, but he had no idea what the budget would be.

REPRESENTATIVE SADDLER asked if the administration is considering backing this project with the Permanent Fund.

MR. BOYKIN answered that he had no idea.

[11:29:09 PM](#)

REPRESENTATIVE SADDLER asked if he was not advising the governor about financing.

MR. BOYKIN answered no.

SENATOR MACKINNON asked him about Lazard Freres qualifications in terms of financing.

[11:29:53 PM](#)

MR. BOYKIN answered that Lazard Freres is one of the top investment banking houses in the country, especially on mergers and acquisitions; however, not the top two or three for project financing. But they may be qualified to give advice.

SENATOR MACKINNON asked who the state is relying on for advice about project financing.

MR. BOYKIN answered that one of the problems in hiring anyone in this area is because of the various laws passed after the financial debacle of the last 15 years most of them are restricted from becoming a manager of whole financing if they are also the advisor to a state organization like this. That constraint severely restricted the state's choices and severely limited the number of people who would bid on a project like this.

SENATOR MACKINNON asked who the state is relying on for project financing.

MR. BOYKIN replied that Lazard Freres is providing an analysis of options. When the project gets to the point of financing, he was sure all the parties would all get together and do integrated project financing.

[11:32:40 PM](#)

SENATOR MACKINNON asked how the market will feel about one organization controlling everything if it's 5 percent of the global market. "Will it be seen as a monopoly?"

MR. BOYKIN answered that this project is very unique, because it's unusual for a state in a stable environment such as this to have a 25 percent ownership in a project. This has unique advantages over a project that might be in the Middle East or Africa where the market may consider that environment less stable.

SENATOR MACKINNON said she was strictly dealing with this project's financing and asked if regulators would allow that close relationship.

[11:34:32 PM](#)

MR. BOYKIN said that was a problem Exxon had when they said they did not want to do a four-party joint venture marketing. It's different for the state, because it is only controlling 5 million tons and that is not creating a monopoly. Just because you finance jointly doesn't mean that you are going to sell jointly, and it's the selling of the LNG that could create the monopoly, not the financing.

SENATOR MACKINNON noted that Mr. Boykin advocated joint venture marketing earlier for the state.

MR. BOYKIN answered there is no question that the state wanted joint marketing. It ameliorated a lot of risks in the upstream, potentially. This doesn't mean issues can't be resolved through other mechanisms, which they are now doing. It is taking longer and that is one of the reasons gas balancing isn't resolved yet.

[11:36:47 PM](#)

CHAIR GIESSEL asked Mr. Fauske if he felt tax exempt non-recourse project bonds are a viable option.

MR. FAUSKE answered yes, but that gets back to either a private letter ruling from the IRS or some sort of underwriting by a bank. The tax exempt market in the United States is controlled by the Internal Revenue Service; they look at who the end user of the product is. The state is a tax exempt entity that is involved in a for profit venture, which is not prohibited and he thought it would be successful at some level there. He suggested blending tax exempt and other debt instruments to structure the deal with the lowest capital cost.

CHAIR GIESSEL said it sounded like another level of uncertainty in the process.

[11:38:51 PM](#)

MR. FAUSKE said he didn't know at what level the tax exemption would be and the state might be able to help its partners by getting cheaper money for the entire project.

SENATOR MACKINNON said the people of Alaska - Native corporations and individual Alaskan companies - had approached the legislature about participating in this project and asked if the state had pursued any of that financing.

MR. FAUSKE answered that there have been discussions; Alaskans have a sincere desire to participate in the project. One idea is allowing people to elect to participate by using their Permanent Fund dividend. He said the project itself will be supported by long term contracts with major buyers of the natural gas on the international markets.

[11:41:49 PM](#)

SENATOR MACKINNON asked if he had a timeline for providing Alaskans that opportunity.

MS. KEPPERS replied that section 76 of SB 138 requests that the department communicates with regional corporations, municipalities and individuals in order to come up with a high-level plan as to how they can become co-investors in the pipeline. That exercise took place over the summer. Lazard Freres and First SouthWest have had several face-to-face meetings and conference calls to understand what the financing strategies are. She has been educating them on what this project is and her department is learning how they make their financing decisions in order to be able to bridge this need.

SENATOR MACKINNON asked for a timeline for seeing preliminary numbers.

[11:43:37 PM](#)

JUSTIN PALFREYMAN, Director, Global Power, Energy & Infrastructure Group, Lazard Freres, answered the timeline for their report as described in the legislation is for whenever the special session is called and assume it will be sometime in mid-October.

SENATOR MACKINNON asked if he was including the Alaska Project financing numbers.

MR. PALFREYMAN answered yes; it will include analysis on capacity as well as benefits and considerations and structuring alternatives for including Native corporations, municipalities and retail or individual residents of the State of Alaska as part of the overall financing plan and options available to the state.

[11:45:39 PM](#)

CHAIR GIESSEL said the idea of terminating with TransCanada makes her nervous, because they don't know what it would cost the state nor how it would be funded.

MS. RUTHERFORD replied that many decisions they are engaged in are sort of "a chicken and egg" where certain decisions are pending other decisions.

REPRESENTATIVE SADDLER asked, absent TransCanada, if Lazard Freres will be analyzing the financing options.

MS. KEPPERS answered that Lazard Freres prepared the report on financing alternatives, Milbank, Tweed, Hadley and McCloy is an internal consultant to the state for financing and First Southwest is municipal advisor to the state. At the integrated finance team level - when the state with the producers come to terms on a fiscal agreement - a bankability review is needed, which requires other finance legal counsel, and that is being RFPd.

[11:49:09 PM](#)

REPRESENTATIVE SADDLER asked who is on the integrated finance team.

MS. KEPPERS replied it is made up of the treasury division for the producer parties, members of AGDC, DOR and Mr. Boykin.

REPRESENTATIVE SADDLER asked for some kind of diagram or documentation of that. He asked who the one person is making the decision.

MR. BOYKIN answered that it will be made by all the parties, not any one party.

REPRESENTATIVE SADDLER asked what mechanism would be used.

MR. BOYKIN said something that requires unanimity. Everyone will have to agree.

[11:50:58 PM](#)

REPRESENTATIVE HAWKER asked who is counseling the state on how it is going to make its investment in this. Did he hear Mr. Boykin say it will be the partners?

MR. BOYKIN answered that he was referring to something a little bit different. The state will have to make decisions on how to finance its equity share, itself. Some would like to see the debt portion of the project for all the parties financed in a joint fashion, because that will be a great deal more efficient and lead to simpler financing documents, because the banks that lend to this project won't want to go after Alaska's share, then ExxonMobil's share if there is a default or something like that.

[11:53:00 PM](#)

REPRESENTATIVE HAWKER asked the difference between the state financing its equity share and joint financing. He asked if the state was going to get 25 percent of this project by putting up \$1 billion.

MR. BOYKIN answered no. The intent of the state is to explore ways of getting its equity portion through types of financial instruments, vendor arrangements or buyer arrangements that will minimize the amount it will have to actually put up. It may not be possible to do that on a reasonable basis. However there is a chance that it is in the state's interest to pursue it.

[11:55:15 PM](#)

REPRESENTATIVE JOSEPHSON said he was quite supportive of the previous administration's gas team and SB 138 generally and he thought the equity option was wise. He assumed they felt it was wise, also.

MS. RUTHERFORD answered absolutely; the option that was made available to buy out TransCanada is an appropriate alternative to consider.

REPRESENTATIVE JOSEPHSON asked ultimately when she advises the governor on this matter, is this going to be a decision they agonize over?

[11:57:00 PM](#)

MS. RUTHERFORD replied that it will not be her decision; it will be made at the highest level of the administration and possibly include the legislature. She believed that there is uplift in the long term for the State of Alaska in buying out TransCanada

in terms of the potential for a much lower tariff structure, but that is offset by the immediate cash calls.

REPRESENTATIVE SADDLER asked how the state will actually pay the \$500 million for the pre-FEED decision, but also the equity portion.

[11:59:11 PM](#)

MR. BOYKIN answered that the decision will be made by the both the governor and AGDC, because AGDC will actually be holding this asset. He was not involved in that decision.

[12:00:16 AM](#)

REPRESENTATIVE SADDLER asked Mr. Fauske if he believed that was the decision process.

MR. FAUSKE answered yes.

[12:01:30 AM](#)

Question 6: What his opinion is about the constitutional amendment on fiscal terms without the full agreement being completed.

[12:01:58 AM](#)

MR. FAUSKE answered that the Department of Law supported bringing a resolution on a constitutional amendment vote to the legislature only if it was accompanied by key fiscal and commercial agreements that fully describe the state's participation in the project.

CHAIR GIESSEL asked if those key fiscal and commercial agreements are settled upon and the legislature writes a constitutional amendment and passes it forward and then something happens and things change or the project doesn't go forward. Could it be taken off the ballot and what opportunity would there be to make a more generalized constitutional amendment that simply said "a gas project going forward would be approved based on legislative approval" or something like that?

[12:03:28 AM](#)

MR. BOYKIN answered that the intention of the state was to have a constitutional amendment that if the project did not go forward, the constitutional amendment effectiveness would expire. So, there is a sunset specifically related to this particular project.

CHAIR GIESSEL said that was her inquiry to Legislative Legal folks who said it might be illegal.

Question 7: Who is the State of Alaska's gas team lead?

[12:04:19 AM](#)

MR. FAUSKE answered that it is Mr. Boykin and he is briefing himself and the governor daily. Questions about the team's day to day activities and engagements can be directed to himself or Joe Dubler.

CHAIR GIESSEL said this was new information and the committee appreciated having it in writing.

Question 8: How does the state plan to fund its share of the costs through FEED?

[12:04:51 AM](#)

MR. FAUSKE said that the DOR already responded to that.

Question 9: What is the status of withdrawal questions and why is this important to Alaska?

[12:05:14 AM](#)

MR. FAUSKE said he and Mr. Boykin had already answered this. The process they are currently involved in allows the pace of the project to be dictated by any party. Because of this, the state needs to ensure that if the process fails for any reason, it will be able to continue progressing a project to commercialize North Slope gas. The only way for it to commercialize North Slope gas is if it has access to that gas, which is an underlying principle of the withdrawal process. Specifically, the state will require the following from each withdrawing party: 1. Such parties' equity in the project company and the member's agreement. 2. Each producer must agree to sell gas or ship gas through the project. 3. All rights to receive project data plus assets, technical or otherwise, produced during the pre-FEED process up to the point of withdrawal. This is a difficult issue for all parties to resolve.

[12:07:04 AM](#)

CHAIR GIESSEL noted that their consultants have said that it's rather common for a project to start out with certain partners and as it evolves, some drop off and others come on. She was not quite sure "what our degree of fear is coming from."

MR. BOYKIN responded that the governor realizes the project's importance for the future. Even if the chance of a party withdrawing is only 2-5 percent, he feels it's important that if a party withdraws that the state has a way to still proceed with the project. He explained that the state may be seeking a different return on the money that is investing in this project than a producer might have. It's likely that the producers involved in this project have a return expectation that is somewhere between 10-16 percent. The state would probably be happy with a return less than that if it produced a project or produced gas and a future for the state. So the state has different considerations that may lead it to do a project where one or more producers may not do it. The state also, because of its lower return expectations, could potentially do a project with a lower oil expectation for the future. It will be 10 years from now when this comes on line, but that still requires a long term view as to what the future might bring in terms of oil and the longer the downturn exists and the more severe it gets, they've got to be more and more concerned about that risk.

[12:09:59 AM](#)

SENATOR DUNLEAVY asked Mr. Fauske to clarify if his board still meets and makes decisions if Mr. Boykin is in charge.

MR. FAUSKE answered that the board still meets - September 22 will be the next meeting - and makes decisions. His earlier comment referenced the slowdown of the work AGDC was doing for the ASAP.

REPRESENTATIVE SADDLER asked if any one of the parties withdraws from the deal, are the parties no longer bound to remain in terms of the HOA.

[12:11:33 AM](#)

MR. BOYKIN answered that if any party withdraws, the remaining parties have the option to decide whether they want to stay in the project or not. Maybe one of them won't and then the other parties would have to look at that again with whoever is left and decide whether they want to proceed.

REPRESENTATIVE SADDLER asked if the current joint venture agreement would be voided and new negotiations have to take place.

MR. BOYKIN answered no; it's envisioned that documents would provide a process where the parties that were still in the project could proceed under the existing agreements. Obviously,

the equity percentages would have to change, but the basic documents would stay the same.

[12:12:49 AM](#)

REPRESENTATIVE SADDLER said for the record he is not envisioning that and understands that the alignment of the current parties is a good thing.

CHAIR GIESSEL asked if the HOA would be voided.

MR. BOYKIN replied that the HOA expires at the end of this year and it's envisioned that other agreements will take the place of that HOA.

CHAIR GIESSEL verified that it does.

REPRESENTATIVE HAWKER asked to clarify the statement: "The state will require the following from each withdrawing party: the party's equity."

[12:14:15 AM](#)

MR. BOYKIN answered there has been discussion about whether there would be compensation or not. One view is that the equity in the project isn't worth anything if the project is not going forward with that party. He guessed if they were going to withdraw they would make an effort to sell their interest in the project before they even made that decision.

REPRESENTATIVE HAWKER asked if "the state will require that party's equity" means either with compensation or without compensation and if the presumption is that the State of Alaska is going to take on a withdrawing entity's equity share of the project.

[12:15:34 AM](#)

MR. BOYKIN answered that the remaining parties decide.

REPRESENTATIVE HAWKER asked if ExxonMobil decides to withdraw does the state, itself, take over its 33 percent and what does that obligate the state to in order to complete the project.

MR. BOYKINS replied that the state's preference in that situation would be for the remaining parties to decide whether they want equal shares of ExxonMobil's withdrawal or if they don't, the state would be the taker of last resort, if the state upon that withdrawal decided it still wanted to proceed, as well. The state may feel it cannot proceed depending on what the

circumstances are that required the party to withdraw to begin with.

12:17:57 AM

REPRESENTATIVE HAWKER imagined if he was negotiating this from the other side, he would want compensation for the value of the part of the project, which does have intrinsic value, because it allows the state to continue completing the project.

12:20:40 AM

REPRESENTATIVE HAWKER asked if this is a drop dead provision that the project doesn't go ahead without or is there any room to negotiate.

MR. BOYKIN answered that there is always room to negotiate. The state recognizes that no matter what view one may have of what the various engineering data is worth, it is clear that the land in Nikiski is worth money no matter what happens to this project.

REPRESENTATIVE HAWKER asked if the state ultimately has a contingent obligation and someone backs out, how that affects the state's value and credit on the open market for all kinds of things like keeping AHFC running.

MR. BOYKIN replied that the state is not making a unilateral commitment that it will take on this interest. The state may decide that the circumstances that lead to the withdrawal should lead the state to make the same decision. That obligation will not mature until the state makes the decision that it wants to continue. Whatever administration and legislature is in at the time will look at that and jointly make that decision.

REPRESENTATIVE HAWKER said the state as the payer of last recourse for a purchase of one of these entities has the contingent liability and the state's auditors wouldn't like very well to publish financial statements that didn't disclose that liability.

MR. BOYKIN explained that he meant if there were parties that decided they wanted to proceed supposing one party withdrew and there was a certain percentage interest available, the parties would look at that and decide whether they wanted to "split it or what-have-you." That is in the HOA. If the parties didn't want any of it, the state could if it wanted to at that time say it will take on the whole obligation, but the state wouldn't do

that without serious consultation with all the stakeholders in the state.

REPRESENTATIVE HAWKER said that producers must agree to sell their gas or ship it through the project and asked who will have the purchase commitment for that gas and who will have to book and record the commitment to purchase all of the withdrawing parties' gas?

MR. BOYKIN answered whatever project goes forward would have to take that gas.

REPRESENTATIVE HAWKER said the way the project is set up no project owns gas. Each one of the individual partners and stakeholders has its own share of the pipe and its own gas in it.

MR. BOYKIN said that was correct and what happens in that event is if the state is going to take on all of the engineering data - or the state and one or two producers is going to do that - they would then go forward, but they could not go forward unless they had a commitment from the withdrawing party to either sell the gas or transport it on the system. This project was designed to have all the gas from Point Thomson and Prudhoe Bay dedicated to it. Otherwise it would go to a different project.

REPRESENTATIVE HAWKER said that was his point.

[12:22:22 AM](#)

SENATOR HUGGINS said in his 13 years of dealing with four pipelines, this one has the greatest potential. He said: "This is doable. We're kind of at the 49-yard line on a football field and kind of headed downhill." He was convinced that elasticity is was needed the negotiations. About the duty to produce and the reserve taxes, he said, "We've been through all those conversations and it never really had a fruition factor." He said, "It doesn't take a genius to recognize that Alaska needs this. Let's not screw it up....Let's get across the 50-yard line."

He said that a lot of people don't like ExxonMobil, but in this case they appear to be by far the most committed and it doesn't take a rocket scientist to figure out Point Thomson is a "pretty crown jewel factor" in their repertoire. He exhorted Mr. Boykin and Mr. Fauske: "Don't let us screw this thing up." To Ms. Rutherford: "Let's learn from our experiences in the past, because this things is doable."

[12:26:28 AM](#)

MR. FAUSKE responded that he worked on the finance team for AGIA, as well, and he appreciated Senator Huggins words. But this is a tough one for the state, because it's an equity partner not a regulator. It has to start thinking like a partner. It's hard sometimes when they are moving forward, because they want to protect the state's interest, too, but at the end of the day they are trying to become partners. So, there is always going to be some give and take.

CHAIR GIESSEL said the last two questions, 10 and 11, were for Ms. Rutherford: What is the status of gas balancing and when it will be resolved?

[12:28:19 AM](#)

MS. RUTHERFORD responded that gas balancing discussions are primarily occurring between the three producers. It is a difficult discussion, because uniquely to this project, there are two different units with two different equity participation groups. They are not equally balanced. They are currently working very aggressively on it. Luckily the State of Alaska is balanced between both units.

[12:29:40 AM](#)

CHAIR GIESSEL asked when the state will make the royalty election.

[12:29:46 AM](#)

MS. RUTHERFORD answered that the HOA references the state's royalty election is subject to the prior execution of project enabling contracts. That includes satisfactory arrangements for disposition of the state's share of LNG. The DNR commissioner will, therefore, make a royalty election decision and issue the finding once he has access to adequately termed project enabling agreements to review and use as a basis for that analysis. AS 38.05.180 also authorizes the DNR commissioner to modify state leases to lock in either RIK or RIV for the duration of the initial project term (20-25 years).

SB 138 provides that for making a written determination based on a clear and convincing showing by the lessees that:

1. The lease modifications are in the state's best interest.
2. The lease modification will improve the likelihood of a project's success.
3. The project has sufficient financial commitments.

4. There are acceptable upstream gas supply commitments that have been made.

5. Lessees have offered to purchase or dispose or market the state's royalty gas on substantially similar terms to their own gas.

Additionally, she said, a decision to not switch between RIK and RIV has substantial value implications for the state, both for the general and Permanent Funds, and for instate gas provisions. Accordingly, the no-switching - current leases provide for switching between RIK and RIV mostly on a 90-day basis - must be made coincident with the determination over gas disposition, whether RIK or RIV. As a general matter, value deductions and an overall marketing risk are low for RIV. The risk and rewards of the state's goal of taking RIK are highly dependent on the specific nature of the upstream project enabling commercial agreements. These include gas supply and balancing provisions for gas from both the Prudhoe Bay unit and the Point Thomson unit.

Whether and how the state joint venture markets its gas with one or more producers, the cost responsibility for disposal of CO₂ and other impurities, the field cost deductions particularly for the Point Thomson unit leases, for any empty project capacity owing to the state's inability to actually drill for a new gas resource (it is not a producer) are significant value issues.

How the State of Alaska will secure replacement LNG cargoes for its buyers in the event of any unexpected supply interruptions - the SOA only has one gas project opportunity whereas its partners in AKLNG have alternative supply options or the net back becomes negative are issues that are under negotiation currently. Until these have been adequately resolved, the value proposition of taking RIK and thus the public interest impacts of a no-switching decision cannot be assessed.

MS. RUTHERFORD noted that AS 38.05 mandates that the royalty election best interest finding has broad scope with many associated elements that must be addressed in the determination. These include all the foregoing issues and how instate gas needs will be addressed, project governance structure to the degree the SOA will have both insight into the project and how to exercise its 25 percent control, dispute resolution elements and withdrawal provisions, which will impact the SOA value and/or risk.

She said Commissioner Myers is very anxious to make the best interest decision before the end of the calendar year. They have already hired and had a contractor on staff to pull together the structure and elements that need to be analyzed and embedded within the finding using some of the work that has been developed by Black & Veatch and other contractors. They are working towards being able to turn that out very quickly once some of the commercial agreements begin to be locked down - they don't have to be finalized to begin the analysis. They recognize that it is critical for the SOA and its partners to have a sense of whether an RIK preference is moving forward and that is their goal.

CHAIR GIESSEL found no further comments and thanked the participants.

12:37:37 AM

ADJOURNMENT

CHAIR GIESSEL adjourned the Senate Resources Committee meeting at 12:37 a.m.