

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

October 29, 2015

8:03 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Shelley Hughes
Representative Gabrielle LeDoux
Representative Scott Kawasaki
Representative Cathy Tilton
Representative Mike Chenault

COMMITTEE CALENDAR

PRESENTATION: ALASKA GASLINE DEVELOPMENT CORPORATION

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Testified during the presentation of the Alaska Gasline Development Corporation.

JOE DUBLER, Vice President
Commercial Operations
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified during the presentation of the Alaska Gasline Development Corporation.

DAN FAUSKE, President
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Answered questions via teleconference during the presentation of the Alaska Gasline Development Corporation.

JERRY JUDAY, Assistant Attorney General
Labor and State Affairs Section
Civil Division (Anchorage)
Department of Law (DOL)
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the presentation of the Alaska Gasline Development Corporation.

FRITZ KRUSEN, Vice President
Alaska Liquefied Natural Gas (AK LNG) Project
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the presentation of the Alaska Gasline Development Corporation.

BRUCE TANGEMAN, Vice President
Administration & Finance
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Answered questions via teleconference during the presentation of the Alaska Gasline Development Corporation.

ACTION NARRATIVE

[8:03:07 AM](#)

CO-CHAIR BENJAMIN NAGEAK called the House Resources Standing Committee meeting to order at 8:03 a.m. Representatives Seaton, Josephson, Tarr, Herron, Hawker, Johnson, Talerico, and Nageak were present at the call to order. Representative Olson arrived as the meeting was in progress.

PRESENTATION: Alaska Gasline Development Corporation

8:03:58 AM

REPRESENTATIVE NAGEAK announced that the only order of business would be the presentation of the Alaska Gasline Development Corporation.

8:05:04 AM

FRANK RICHARDS, P.E., Vice President, Engineering & Program Management, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community & Economic Development (DCCED), began a PowerPoint presentation. He directed attention to slide 2: "State's Objectives." He stated that AGDC was created by the legislature to work toward the goals of the state to provide stable, affordable, long-term energy, along with commercialization of the state's vast natural resources - specifically natural gas from the North Slope. The overall goal is to maximize those resources in order to bring in revenue to the state treasury. As those projects are developed, they would ultimately facilitate more oil and gas development across the North Slope and Alaska. He stated that those were the parameters provided to AGDC in moving forward as an organization.

MR. RICHARDS directed attention to slide 3: "AGDC Origins." He said the legislature's creation of AGDC was in response to concerns over the declining Cook Inlet gas reserves and supplies that would feed into the existing power generation/home heating needs of Southcentral Alaska, along with the needs of Interior Alaska - primarily Fairbanks and the Fairbanks North Star Borough (FNSB). He said [the concerns] were heightened by the brownout practices that were conducted by then Mayor Sullivan, which resulted in an outcry from the public to ensure there would be a long-term supply available to cover the needs of Southcentral Alaska and other Alaskans.

MR. RICHARDS stated that another purpose in forming AGDC was to address health concerns related to air quality affected by the

use of wood and coal as a heat source, particularly in the wintertime. The introduction of potentially less particulate-laden heating sources would help alleviate some of those health concerns. He said collectively, there is a sense of urgency to get North Slope natural gas to Alaskans, and there is an estimated 33 trillion cubic feet of proven natural gas reserves [on the North Slope], which he characterized as a tremendous resource from which Alaska could benefit.

[8:08:34 AM](#)

MR. RICHARDS directed attention to slide 4: "Alaska LNG Project Development." He said in 2011, the governor called for a joint effort by North Slope producers to explore liquefied natural gas (LNG) export as an alternative to the overland route that was going to take North Slope resources through Canada to the Lower 48. [In 2013], concept selection was completed, and Nikiski was announced as the lead site for an LNG facility, and at that time, heads of agreement were negotiated between the producer parties and the state. In 2014, participation by AGDC in the Alaska Liquefied Natural Gas (AK LNG) Project was authorized under SB 138, and with that the joint venture agreements (JVAs) were executed and the pre-front end engineering and design ("Pre-FEED") efforts were initiated. He said this is an iteration where Alaska "shifted from an overland route to an LNG solely within Alaska, under the ... confines of the Alaska LNG Project." The ultimate goal is to commercialize those tremendous resources and provide long-term fiscal stability for Alaska.

[8:10:03 AM](#)

JOE DUBLER, Vice President, Commercial Operations, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community & Economic Development (DCCED), directed attention to slide 5 of the PowerPoint presentation: "Authority Granted in SB 138." He said under SB 138, AGDC would have the primary responsibility for developing the AK LNG Project on the state's behalf. He noted that the statutory references are included in the hard copy of the presentation, included in the committee packet. He said AGDC may acquire a direct ownership interest in any component of the AK LNG project. He noted that there had been some question during a meeting prior to this as to whether the corporation was authorized to participate in the mid-stream portion currently held by TransCanada (TC), and he said the attorney general has put out a letter that states that AGDC can do that. He related that AGDC may enter into contracts related

to treating, transporting, liquefying, or marketing gas - in consultation with the Department of Natural Resources (DNR) and the Department of Revenue (DOR). Further, AGDC shall assist DNR and DOR to help those entities: maximize the value of the state's gas resources; provide economic benefits in the state; and provide revenue to the state.

[8:11:35 AM](#)

REPRESENTATIVE HAWKER, regarding the authority granted under SB 138 - which he noted was within [AS 31.25.005] - and the issue of having primary responsibility for developing the AK LNG Project, asked if AGDC was really operating in the primary capacity or if it had been "given and relegated a subsidiary role." He said, "I think we envisioned you having a primary role." He indicated there was debate around [the capitol] as to whether AGDC was really taking the lead on the projects or "following direction." He asked who else might have taken on that role if AGDC had not.

[8:12:58 AM](#)

MR. DUBLER deferred to Dan Fauske.

[8:13:09 AM](#)

DAN FAUSKE, President, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community & Economic Development (DCCED), said AGDC certainly works in concert with DNR, the administration, DOR, the Department of Labor (DOL), the Department of Transportation & Public Facilities (DOT&PF), and the Department of Law (DOL), as well as others. He said there are areas in which AGDC has direct involvement, because "it's a direct function of the corporation." It manages through the board and dispatches the work by assigning it to people. He mentioned there are areas where there is a natural "crossover." He referenced the governor of Alaska and said, "This is his bill going forward." He reiterated that AGDC works DOR and DNR, but emphasized that at this juncture it is working more with DNR via meetings where AGDC and DNR share personnel, ideas, and information. He said AGDC tries to "stay within our lane," while working with other entities, and "function in those areas that we've been charged to do by the legislature, through the law, and then certainly the executive branch of government" He relayed there is always tension, but said that is not a criticism, but is just a reality of the functions that people have. He said he thinks it is good tension. He said the

project may not be moving forward as fast as some would like, but he thinks progress is being made.

8:15:32 AM

REPRESENTATIVE HAWKER asked if he should be concerned that Mr. Fauske had not responded to his question by coming right out and affirming that AGDC is fulfilling the legislature's statutory direction and does have primary responsibility and is operating in that capacity. He said it seemed that Mr. Fauske avoided a direct answer to his question and instead talked about all the other entities that are influencing AGDC's decisions and operations. He acknowledged that AGDC would always have a symbiotic relationship with those agencies, but he expressed concern that the intent of the legislature in creating AGDC is being "overrun by events."

MR. FAUSKI stated that he does believe that AGDC is fulfilling the statutory mandate. He said he thinks AGDC is in the position to carry out a mandate. He asked Representative Hawker if he could be more specific about the issues that he indicated he had heard.

REPRESENTATIVE HAWKER said he was certain there would be more questions as the presentation continued.

8:16:56 AM

REPRESENTATIVE HERRON offered his understanding that since the passage of SB 138, AGDC has requested more specificity in the statute related to the responsibilities that it has been given by the legislature. He asked Mr. Fauske if he believes the legislature should revisit those statutes and revise them in an attempt to clarify those responsibilities.

MR. FAUSKE responded that a person could always go back and find things that could have been done differently. He said he thinks AGDC is working within the parameters established under SB 138, and he said that at this point, he would hesitate stating anything specific that needed to be changed. He indicated that there had been a lot of news related to the corporation and the work that it is getting done. He stated that AGDC has been able to get its work done under the current arrangement; therefore, he said he would offer no changes at the current time.

REPRESENTATIVE HERRON said he believes Mr. Fauske that the statutes allow him to do his job. Nevertheless, he questioned

whether - since the passage of SB 138 - the corporation had thought of any changes [to statute] that would allow it to do its job better. He asked, "Has there been a desire to make some changes by the corporation, in conversations with any legislator or the administration?"

[8:19:50 AM](#)

MR. FAUSKE answered there had been ideas that had been "floated." He said board selections and how the members serve is an issue. He said the commissioners on the board have functioned well. He stated that the most apparent issue is marketing: AGDC has not budgeted for marketing, though people have assumed it has. He said DNR has "clearly staked out an area for marketing," which he said he does not find problematic, but it has been discussed back and forth where that function should reside. He said there have been legal issues: On the Alaska Stand Alone Pipeline (ASAP) side there is independent representation, whereas AGDC is represented by the Office of the Attorney General. He said that creates tension, but works fine. He said those are things that have been discussed and could be changed; although AGDC is not advocating for that change.

[8:22:11 AM](#)

REPRESENTATIVE HERRON stated his understanding that the attorney general was not available to take part in the meeting; however, there was an assistant attorney general available.

CO-CHAIR NAGEAK noted that Assistant Attorney General Jerry Juday was available via teleconference.

REPRESENTATIVE HERRON suggested he may have some questions for Mr. Juday.

[8:22:56 AM](#)

REPRESENTATIVE JOHNSON directed attention to slide 5, and he observed that the only "shall" listed under the authorities granted AGDC was in terms of AGDC assisting DNR and DOR. The other authorities, he said, are listed as "may acquire" [ownership interest] and "may enter into contracts". He asked, "If you don't, who would?"

[8:23:28 AM](#)

MR. DUBLER responded that if AGDC had been directed that it shall acquire a direct ownership interest in any component of the AK LNG Project, then if there was no AK LNG Project, it would make it difficult for AGDC to fulfill that statutory obligation. He said he believes that is why the permissive ["may"] was used there. In response to Representative Johnson's question, he said he does not know who would do it if AGDC did not, because he believes that AGDC is the only entity with the statutory authority to do so.

REPRESENTATIVE JOHNSON asked, "Are you sure you have statutory ability to do that?"

MR. DUBLER answered that he believes AGDC does.

REPRESENTATIVE JOHNSON asked Mr. Dubler if he does not think that DNR or DOR could "assume the duties." He specified that he was talking about the transfer of TC, if Alaska decides to sever the relationship with TC. He reiterated that the aforementioned "may" would allow someone else to take over those duties.

MR. DUBLER replied that he does not know the particulars of the deal that the state has with TC, because that is a contract that DNR has with TC; therefore, he cannot speak to who the intended recipient is, but AGDC has been told it is the chosen entity. He added, "And I have no reason to doubt that."

REPRESENTATIVE JOHNSON asked Mr. Fauske, "Are you in charge?"

MR. FAUSKE answered, "I'm in charge of Alaska Gasline Development Corporation." Inquiring whether Representative Johnson's question had been asked in a broader sense, he clarified that he is not in charge of the AK LNG team or the overall [project], but is "a member of it" and is in charge of "the functions that we have going forward."

[8:25:53 AM](#)

REPRESENTATIVE HAWKER, building on the previous comments of Representative Herron, echoed the question asked by Representative Johnson: Who is running the show? He said there is a great deal of concern over "who is doing what at what part of the project." He said DOR and DNR have constitutional and strict statutory responsibilities in Alaska. He recollected that Mr. Fauske had said he did not see the need to clarify more roles for AGDC, but he questioned if the legislature should be trying to clarify "the whole road map" by "better delineating

and defining the roles and responsibilities" of the various agencies. He said in making a business work, responsibilities must be fixed, tasks must be assigned to the people who have the responsibility of fulfilling those responsibilities, and then the performance of those people in achieving those specific tasks must be graded. He said he thinks "we" do not know who has what task and, thus, who to hold responsible. He reiterated his question as to whether the legislature should clarify the responsibilities of all the agencies.

8:27:40 AM

MR. FAUSKE said that is a good question, which he indicated has been discussed in testimony and some of the debate that has occurred. He stated a need for alignment, which he indicated the state is attempting to achieve through legislation to figure out the roles of all involved. He listed some of the functions of AGDC from a technical [standpoint], including the Project Steering Committee (PSC), the Management Committee (ManCom), and the sponsor group, and said AGDC works with various agencies and works to develop "those areas where we work." He said better clarification is needed as to the function of each entity, because there always seems to be "mission creep." He said, "Good or bad, it can cause confusion." He said clear delineation in the assignment of duties would not only help immensely, but would also send a great message to the industry as Alaska negotiates very complex, commercial contracts and gas balancing. He said the management of the resource and the gas balancing is a producer function, but DNR has a difficult role in that mission. He further suggested either removing some of the bureaucracy or establishing an organization that fits within a larger organization - the entire state umbrella as an equity partner in the project - to produce at maximum output to get the work done. He said, "Time is a killer on these projects." He recollected that he had heard testifiers and officials state that they wish things could be going faster. He talked about meeting assignments and benchmarks to coincide with the industry.

8:30:38 AM

REPRESENTATIVE HAWKER said one point Mr. Fauske had made that resonated with him was regarding the need for additional clarification for the purpose of alignment and keeping the project on track as a means of enhancing productivity. He said that sounds like Mr. Faust is able to see inefficiencies that have "crept into the process" that were created by the

legislature. He asked if Mr. Faust could offer an example of which inefficiencies the legislature could address.

MR. FAUSKE responded that some inefficiencies are natural. He expressed pride in the speed at which AGDC had been [formed], but said the corporation has "a lot of hoops to jump through." The same is true for DNR, he said. He related one inefficiency is when AGDC is not used to its full capacity in terms of its technical side. He said he sees duplication of services that he finds unnecessary. He said he was not being critical, but was responding as a manager that sees areas where things could be done better. He stated his belief in small assignments, with small functionality, with top-notch people completing them. He opined that at times, the state has a tendency to assign too many people to a function. He said he thinks that organizations need to morph as they go along and fix those things that are not working to maximum capacity. He said the legislature has been gracious to AGDC and DNR, because "we all want the same thing." He said he thinks that needs to be realized, and he reiterated the need to "keep the momentum going forward."

MR. FAUSKE, in response to Representative Hawker, said both AGDC and DNR have top-notch engineers, and he opined that the two should be working together, rather than work as separate entities, holding separate meetings. He explained, "We're trying to keep pace with industries that are putting their top-notch people on specific items, and I think the state should respond in kind." He said the state has those people available in AGDC, DNR, and DOR, but they need to be aligned. He said he gets frustrated when he goes to meetings, because all the people there are good people, but there are just so many of them. He questioned whether the right people are being assigned to the right tasks. He advised it is possible to do this.

[8:36:17 AM](#)

REPRESENTATIVE HAWKER asked Mr. Faust if there is anyone who is in a position of authority over all aspects of the project that can address the problem Mr. Fauske is describing.

MR. FAUSKE answered that he believes there is.

REPRESENTATIVE HAWKER asked who?

MR. FAUSKE talked about the possibility of the entities admitting they could be better at their functions and mentioned "taking this on up the chain." He said he does not expect the

governor, who is actively involved, to be at meetings, but said he is trying to "deflect from that to an individual ... or an agency that is monitoring the work product that is going forward." He explained he means to clearly establish tasks and assignments with timeframes attached." He said the governor is in charge, but offered his understanding that Representative Hawker is seeking out: "How does the function move forward." He mentioned Regan Boikin (ph), whom he said is the liaison between AGDC and the Office of the Governor and the gasline team. He mentioned Ethan McAllister (ph) in conjunction with coordination between DNR, DOR, the sponsor group, and ManCom. He said, "There is no clear picture."

8:38:48 AM

REPRESENTATIVE HAWKER offered his understanding that Mr. Fauske was saying that there is no one in a state organization that is in charge of this project. He said the only name that keeps coming up is the governor of Alaska. He said if that is the case, maybe the legislature should be talking to Governor Walker to find out what is going on. He stated, "Apparently there is no one at the State of Alaska working in this administration who has the ability to coordinate interagency operations on this project. That scares the bejeebers out of me."

8:39:30 AM

MR. FAUSKE emphasized that a lot of people are working in concert to "get that message up to the governor." There is coordination through different agencies, and the attorney general is heavily involved and doing a good job in "trying to coordinate the activities and the flow of information." A negotiating team is currently in place. Notwithstanding that, he opined that there needs to be a clearer answer as to how "this function is working." He said he thinks it is imperative that he and his colleagues in the other state agencies and in the Office of the Governor come up with a way to deliver this message as to "how this commanding control system works." He indicated that he understands [the concern of] legislators, because there is a lot of money involved in such a project. He said he would sit down with his colleagues to find a better answer to the question.

8:41:06 AM

REPRESENTATIVE OLSON directed attention to two organizational charts in the committee packet: [One labeled, "State of Alaska

AKLNG Integrated State Gas Team 10.26.15"; another labeled, "State of Alaska FY 2017 Governor Organizational Chart Department of Commerce, Community and Economic Development Alaska Gasline Development Corporation (AGDC) & Alaska LNG Participation (combined)." He noted that for the most part, the charts are missing the names of the people who hold the positions listed. He remarked that with all the turnover that "both organizations" have had in the last few months, it is not so helpful to see a chart of vacant position control numbers (PCNs).

MR. FAUSKE asked if Representative Olson was referring to charts from AGDC or DNR.

REPRESENTATIVE OLSON responded, "I can't tell where they came from. Today's the first day I saw them."

MR. FAUSKE said AGDC could provide the information from its own chart to the committee "in just a few seconds"; however, the other chart was not created by AGDC. He indicated that the makers of the other chart had been asked in another hearing the day before to "come back with that."

REPRESENTATIVE OLSON noted that the other chart was produced by the Department of Commerce, Community & Economic Development. He offered his understanding that Mr. Dubler had nodded his head in recognition.

[8:42:44 AM](#)

REPRESENTATIVE TARR, referring to slide 5, "Authority Granted in SB 138," highlighted AS 31.25.005(1), which read as follows:

(1) develop and have primary responsibility for developing natural gas pipelines, an Alaska liquefied natural gas project, and other transportation mechanisms to deliver natural gas in-state for the maximum benefit of the people of the state;

REPRESENTATIVE TARR also highlighted AS 31.25.005(2) and (3), which are summarized on slide 5 as saying that AGDC shall assist DNR & DOR, as follows:

Maximize the value of the state's gas resources
Provide economic benefits in the state
Provide revenue to the state

REPRESENTATIVE TARR opined that that language makes clear the responsibility of AGDC and that "they'll have those lead roles." She said the fact that AGDC just completed work on ASAP gives her cause to believe that the corporation was able to "get through that process and bring the right team of people together." She recollected that Mr. Fauske, at a hearing yesterday, had mentioned there were about 138 people on one of the project management teams. She questioned if, for this major undertaking, "some of this can easily be worked out without legislation, so long as the people involved really have that commitment to ... sit down at a table and iron it out." She asked Mr. Fauske if [doing so] is a natural occurrence for such a major undertaking. She recollected that AGDC was supposed to be a "lean operation"; however, the transition of taking over for TC would require additional staff. She said that changes AGDC's role to being involved in all parts of the project - not just the downstream part. She explained she is trying to understand the context of the transition and whether Mr. Fauske thinks legislative involvement is necessary.

[8:44:44 AM](#)

MR.FAUSKE said AGDC does not have 138 positions "listed out." He said there are currently 22 people working for AGDC; the legislature authorized up to 38 PCNs. He said AGDC pledged not to "create a bureaucracy that needs to be fed on an annual basis." He said AGDC has a strict, structured objective and plan to function as a private entity enterprise, in the sense that it will keep full-time employees to a limit and utilize expertise through a system of managing subject matter experts (SMEs) that will be brought in to focus on a particular task and leave when it is done. He opined that is the way to streamline operations and be efficient and effective. He said that was the mandate AGDC was given, but some other agencies were given different mandates and have different needs and requirements. He said he supports those other agencies in that, and "they need to come forward and explain that."

MR. FAUSKE said during the testimony yesterday, Mr. Lee, from TC, for whom he expressed his appreciation, shared that TC currently has 15 employees on the project: 12 technical and 3 administrative. If the legislature passes "this bill" and the functions of TC are brought over to the AGDC, the corporation would be in the position to negotiate with TC to hire some or all of its experts to assist through the process. He said they would be experts that could be utilized for particular parts of the project. He said that is AGDC's functionality, which he

opined would and should not change. He said that's where he thinks AGDC brings something to the table and where the writers of the legislation recognized the need to "create something that can operate like that." He reemphasized his belief in maximizing functionality. He indicated that some of the upcoming slides in the presentation would illustrate his point.

[8:48:56 AM](#)

REPRESENTATIVE JOSEPHSON asked Mr. Fauske to compare his comments about efficiency and there being "too many people" to the implication made at the aforementioned hearing yesterday that the state should not buy out TC, because it just did not have sufficient talent and staff. He said it could be that "there are two different types of staffing or subject matter going on."

MR. FAUSKE responded that he did not recall a comment regarding not having enough staff. He said, "What we're referring to is the expertise." He indicated the expertise housed within AGDC comes from those seconded experts made available to the corporation for specific tasks. He expressed confidence in the capabilities of these individuals to operate in "a function that goes forward." He clarified that AGDC is not asking for "a great deal of personnel coming in," but for - "if this goes" - the money needed to bring on experts necessary "to finish the specific function that's being laid out, with the appropriation requests and the timeframes being allocated to get us to that place," as well as the capability to make the front end engineering and design (FEED) decision.

REPRESENTATIVE JOSEPHSON said Mr. Lee had stated emphatically that if this appropriation does not occur - if SB 138 dies - AK LNG would "wrap up." He asked Mr. Fauske if he agrees.

MR. FAUSKE answered that within the appropriation under SB 138 is funding for the work program & budget (WP&B), which would have to be decided on December 4, [2015]. He offered his understanding that Mr. Lee was saying that if that is funded, the project would potentially die, because under the current system, "we'd have 30 days, maybe a little bit more, to wrap it down and stand down the various entities that are working." He emphasized the criticalness of that budget to the project moving forward.

[8:53:07 AM](#)

REPRESENTATIVE SEATON referenced the aforementioned issue of "may" and "shall" on slide 5, and he said he is hearing that there are problems. He asked if AGDC does not have the ability to use [transferred] employees or to enter into contract on projects where employees are transferred from both agencies, whether from DOR, DNR, or other entities.

[8:53:49 AM](#)

MR. DUBLER responded that AGDC does have the ability to second employees into the project. He explained the reason none of its current employees are currently [transferred] in to the project is because when [AGDC] began the project in July 2014, it was going full speed on ASAP and trying to wrap up the feed effort there, so all its people were working on that project, which has since been curtailed. Those assets have been freed up to be applied to the AK LNG project. He stated that to the extent there are vacancies in the future, AGDC would certainly be able to second employees into that project, and some of those vacancies could be from "an exit of TransCanada employees."

REPRESENTATIVE SEATON noted that engineering, gas balancing, and marketing had been discussed. He referred again to slide 5, where it states that AGDC "may enter into contracts," and he asked if it is AGDC's wish that the legislature micromanage who is in charge of which projects and who will head which functions within the state gasline team or within the sponsor group.

[8:56:05 AM](#)

MR. FAUSKE responded that he is not advocating for micromanagement, but he wants clear discussion as to what is expected of AGDC in order to get a job done. He advocated working with AGDC's colleagues and the Office of the Governor - a key player in this endeavor. He further advocated for AGDC managing itself in a manner to get the task done. He said he does not think it is necessary for the legislature to designate specific functions, which he said are already in place, in terms of the role and various aspects of DNR and DOR. He opined that [the agencies] need to come together to move the process forward. He reiterated the need for clear definitions, keeping people in their "lanes," and outlining timeframes for efficiency, without "mirroring the activities of others," and hiring experts. He said he thinks the governor is fully capable of assigning people within divisions. He talked about allowing for clear messages from the legislature and the people of the state, as to what they expect. He acknowledged that money is

"tight," and said he thinks that is "a mandate all of us understand." He said he has heard "a thousand times" about Alaskans' hesitancy in government involvement, and he said he has to remind people that AGDC is advocating possible oversight of the people that would be [working on the project]. He said he thinks government money spent wisely and efficiently in this endeavor benefits everyone.

8:59:11 AM

REPRESENTATIVE SEATON said he does not understand how the legislature would accomplish what Mr. Fauske is talking about, unless it assigns to AGDC or another entity the specific control of aspects of this project. He said the aforementioned statute, shown on slide 5, states that AGDC "shall assist DNR & DOR" in certain efforts and "may" enter into contract. He said he does not see how the legislature would accomplish "the alignment beyond where we get with the sponsor's group, the state team group, [and] your authorities here." He asked Mr. Fauske what language he suggests the legislature create that would not be about "going in and managing" who is going to be in charge of each specific detail," while maintaining the flexibility to react to things. He said there is a gasline team that is supposed to be making those decisions. He said he thinks it would be an inappropriate role for AGDC to be in charge of gas balancing contracts, but asked how, for example, the legislature would give that assignment to AGDC without "making things rigid that are not going to be able to change with the project in legislation." He said he hears that it would nice if everyone was cooperating, but wants to hear from Mr. Fauske what changes to law the legislature could proposed to accomplish that.

9:01:03 AM

MR. FAUSKE asked for some time to formulate an answer.

REPRESENTATIVE SEATON told Co-Chair Nageak that would be fine with him.

9:01:54 AM

REPRESENTATIVE HAWKER commended Representative Seaton for bringing up points he had wanted to make. Regarding the purpose of the third special session, he stated that under statutes previously passed, the legislature gave the executive branch the authority to terminate the relationship with TC; therefore, the decision whether or not to carry out that termination is not one

for the legislature to make. The decision was made solely by the governor, and given that he has, the legislature must appropriate the money the state needs to "go it alone." He said the state must pay off its obligations to TC, but most importantly, must come up with the money to pay the people running the project and direct those people to go forward. He said the question to ask is whether Alaska is prepared to handle the project on its own.

REPRESENTATIVE HAWKER offered his understanding that Mr. Fauske had expressed a lot of frustration that the state lacks the efficiency to move the project forward. He emphasized that that gives him a great deal of concern, because the smallest check that would be written for this project is \$150 million; therefore, it is critical that the state gets it right. He surmised that Mr. Fauske may have negative feedback from people "for even talking about this with us." He said he sees a fight for control among AGDC, which is doing what the legislature instructed it to do; the attorney general, to which the legislature gave a specific, minimal role, but whom Representative Hawker said he hears sometimes is "running the whole show"; DNR, which he said he heard has hired engineers in duplication of the work of AGDC; and the role of Mr. Boikin, which is referred to but not defined. He asked Mr. Fauske if these competing interests should be cause for his concern.

[9:05:13 AM](#)

MR. FAUSKE said Representative Hawker is "hitting the nail on the head." He indicated that Mr. Boikin may be a mystery, but said he has enjoyed working with him. He said there had been an organizational chart, which he was asked to speak about, without first having been given the chance to see it and offer input on it, and he said that was frustrating. He remarked that events like that are what cause people to question who is charge.

[9:06:12 AM](#)

REPRESENTATIVE HAWKER read the first bullet point on slide 5, as follows: "AGDC has primary responsibility for developing [an] Alaska LNG project on the state's behalf." He said it sounds like AGDC is, in fact, not being vested with that primary responsibility.

MR. FAUSKE responded, "That is clear."

[9:06:49 AM](#)

CO-CHAIR NAGEAK said, "... It seems like everybody's got their hand in the pie." He emphasized the need to ensure that AGDC maintains the leadership role given to it by the legislature, and all other entities should "stand in line" and state how they can help the process. He noted that the committee meeting had reached an hour thus far, during which the members of the committee had expressed their frustration. He stated the need to "go forward" and let AGDC do its job.

9:08:24 AM

REPRESENTATIVE JOSEPHSON said he hears Mr. Fauske's frustration and concern. He opined that the request for an organizational chart is valid. He continued as follows:

... I'm not here to defend Mr. Boikin - I don't know him very well - but I think even these gentlemen would agree that there was going to be a negotiator for these deals from the governor's office, and it's reasonable that there would be an individual call for chief negotiator. Representative Hawker said we're not sure what his role is. That was clarified at the September hearing in Palmer: he's the chief negotiator.

The other thing is: I agree that the statute isn't all that clear. For example - I'm not saying it needs to change; I'm not making that point - but it says that there will be consultation in subsection (24) of .080 with the commissioners of Revenue and Natural Resources, about the fundamental parts of everything AK LNG is supposed to do. I don't know what that means. Does that mean they have a cup of coffee? Does it mean that DNR and DOR can ... provide, sort of, input that's obligatory or mandatory? It's not clear, but ... consultation's a pretty ... serious word.

So, I agree that some of this needs to be ironed out, but I guess I mostly wanted to make those comments...

9:10:16 AM

CO-CHAIR NAGEAK interjected that "all of us" have been involved with organizational business for a long time and know how it works. He said when someone is in charge, there are people at

the top in other agencies that will be brought in for council. He opined that in this case, AGDC takes the role of the entity in charge.

REPRESENTATIVE JOSEPHSON responded that in a sense, this issue gets down to something as fundamental as the formation of the country. He explained that "we" want one entity to be the decider, because that is streamlining - it is efficient - but the fear that is ever present is that there needs to be some "check" on that given power. Without that, there is no balance. He said, "I think that's the delicacy we're trying to deal with to some degree."

[9:11:48 AM](#)

MR. DUBLER continued with the PowerPoint presentation. He brought attention to slide 6: "AGDC's Role in Alaska LNG." He said AGDC is a signatory to the Joint Venture Agreement (JVA) governing the AK LNG Project. He said that is the agreement for the venture in the Pre-FEED phase of the project. He said the corporation also holds the state's 25 percent equity interest in the LNG facility - the downstream component - of the project. He said AGDC is a member of the sponsor group, on which Mr. Fauske sits; ManCom, on which he, himself, sits; and PSC, on which Fritz Krusen, the vice president of AGDC sits. Through those committees, AGDC participates in integrated end segment decisions, for example, the work program and budget decisions for the year. He said AGDC, with the assistance of outside counsel, also participates in commercial negotiations for governance and commercial issues related to the project. He said the assistant attorney general has been assigned to the corporation. Mr. Dubler said AGDC has planned and developed off-takes for in-state gas deliveries. The [PSC] has done the technical work, while the commercial group has done analysis related to the communities along the route, and the anticipated cost would be to get gas to "a given size community."

[9:13:51 AM](#)

REPRESENTATIVE TARR suggested the fact that AGDC is the signatory to the JVA clarifies, at least in the case of the Pre-FEED stage, each organization's role. She said it gives her some comfort to know that in some areas, things are still being worked out, but "here, it's very clear ... how we can successfully participate in this phase of the project, and so long as we can get our ducks in a row." She asked Mr. Dubler if that sounds like a fair assessment, that there is some

infrastructure and legally binding, agreed-upon set of parameters that are used for the Pre-FEED phase.

MR. DUBLER answered in the affirmative, but added, "It's not as straightforward as you would think." He explained as follows:

In the case of the state's role in the project, ... the state's interest is 25 percent; it's represented by AGDC in the downstream and TransCanada in the midstream. And so, the voting is ... very clear on segment issues, where ... if it's related only to the LNG project, AGDC would have the vote on that. If it's ... related to the pipeline or the ... gas treatment plant, TransCanada would have the vote on that. It's on an integrated vote that effects the entire project ... that can lead to a ... misalignment, I guess is the best word, between the parties. If TransCanada - and this hasn't occurred yet, but the potential down the road is for this to happen - if TransCanada disagrees with the state on a vote, how that vote gets cast ... for the state's 25 percent interest still hasn't been resolved. ... And we've been working on it; it's a very difficult issue for both entities, because the state, of course, believes - ... and in my opinion, rightfully so - that it's their 25 percent, so their vote should be the one that counts. And, you know, from TransCanada's standpoint - and ... I will not speak for TransCanada - but my understanding is they're putting equity into this project, as well, and they want their vote to count. And ... they have just as much right to that as the state does, and so, that's the ... tug of war that ... could go on in the future, if TransCanada remains in the project. And one of the issues that the administration is trying to fix by buying out TransCanada is ... the governance issue.

[9:16:28 AM](#)

REPRESENTATIVE HAWKER stated that [slide 6] is about the infrastructure project, which he said is very different from the supply and management of the gas for the project. He asked who the [signatories] are to the JVA.

[9:16:56 AM](#)

MR. DUBLER answered that they are the following five parent companies, which he called, "co-venturers": ExxonMobil Corporation, BP, ConocoPhillips Alaska, Inc., TransCanada, and AGDC.

REPRESENTATIVE HAWKER asked Mr. Dubler to confirm that AGDC is the only state agency representing Alaska on the project.

MR. DUBLER answered that is correct. He added that there is a mechanism in place that allows AGDC to request access to data for the state gas team. He said AGDC uses this data frequently to ensure that the rest of the gas team is kept up to date on the project.

REPRESENTATIVE HAWKER emphasized the importance of this information as the crux of how the legislature established AGDC and to what purpose. He said, "There's a reason why DNR is not a [signatory] to building a pipeline project: they're a regulator; ... they have the responsibility for maximizing the value of Alaska's gas." He said AGDC is responsible for "building a pipe project." He said the state has important separate relationships, which he said he envisioned as a contractor and client relationship; one agency would contract with another and there would be mandated information sharing and cooperation for maximum efficiency. He said while AGDC is clearly the entity in charge, it seems like there is overreach by other agencies. For example, he questioned why DNR, as a regulator, has project engineers duplicating the work of AGDC.

MR. DUBLER said there is some necessary crossover between DNR and AGDC. For instance, he explained, DNR will be the owner of the gas if it elects to take royalty in kind instead of royalty in value. Furthermore, DNR would also take DOR's tax gas, if the producers elect to pay their taxes as gas instead of in value. Mr. Dubler stated that as the owner of the gas, [DNR] must participate in the gas balancing discussions, which bleed into a lot of the commercial agreements. He emphasized that because of DNR's distinct responsibilities, it is necessary to "have them at the table."

REPRESENTATIVE HAWKER responded that that is DNR's lane, in which it should be in control, while AGDC "should be staying off there in yours." He said under statute, AGDC has full authority to market, but in a client relationship with DNR - the entity that has the gas. He encouraged the lane lines to be repainted.

[9:22:11 AM](#)

MR. DUBLER returned to the PowerPoint presentation, to slide 7: "Alaska LNG Project Participation," which shows that the resource owners are ConocoPhillips Alaska, Inc., BP, ExxonMobil Corporation - the three producers - [and the State of Alaska]. The slide also shows that if the state elects to take royalty in kind and the producers elect to pay their tax gas, the state would own 25 percent of the resource that would be pledged to the project. He said that resource ownership "moves over into project interest," because they are aligned. He explained, "The same resource that you own is the same percentage of the project that you own and the same percentage of the equity that you put into the project." He said the state's interest is currently held by TC, in the gas treatment plant (GTP) and the pipeline, and AGDC holds the state interest in the AK LNG facility.

MR DUBLER directed attention to slide 8: "Governance Related Issues," which addresses equity alignment, an important concept for the resolution of the TC issue, which Alaska's administration is attempting to fix. He said, "In the future, we'll assume that we've taken royalty in kind ... and that the producers are paying their [tax] gas." He said the state would own 25 percent of the gas going through the project. He stated that with TC representing 25 percent in the midstream and AGDC representing the downstream, the state's equity in the integrative project would be left at approximately 12.5 percent, which is a misalignment in the project between the gas that is going through the line and the ownership that the state has in that project. Regarding voting rights, Mr. Dubler said the state does not have full voting participation in all project decisions: the state, through AGDC, votes on downstream issues, while TC votes on mid-stream issues. Regarding integrative project decisions, Mr. Dubler said, "We still haven't resolved how that vote's going to work."

[9:24:37 AM](#)

REPRESENTATIVE HERRON noted that yesterday a question regarding the upcoming vote on the plan and budget, scheduled for 12/4/15, had been asked, and Mr. Lee had said that until full payment is made, it is probably not in [TC's] best interest to vote or [is in TC's best interest] to vote "no." He ventured that would put "a hiccup in the whole process." He asked if the state would have a full vote if it pays off TC.

MR. DUBLER answered yes, but clarified that the state now has a full vote, because it takes a unanimous vote to move forward on

a work program and budget. If the state, through AGDC, decided to vote "no," then that would stop the plan.

REPRESENTATIVE HERRON said he is grateful for that clarification. He offered his understanding that some legislators had misunderstood Mr. Lee's response to mean that unless [TC] gets full payment, "they're probably going to vote no, unless they're forced to because of the default." He said it is not in [TC's] interest to lose that money. He asked whether Mr. Dubler thinks the state should pay off TC by December 4.

MR. DUBLER answered that AGDC "has the exact same issue." He said AGDC needs an additional appropriation in order to vote yes. As to whether or not to pay off TC, he said [the state] has a contract with TC, and that contract is subject to appropriation, so that is a question to be answered by [the lawmakers of the state]. He proffered that his professional answer to the question is yes. He said it would send a bad message to the credit world if the State of Alaska did not hold up its contractual obligations.

REPRESENTATIVE HERRON ventured, then, that the clock is against the state. He offered his understanding that TC would prepare an invoice, the State of Alaska would review it, and then the state would have to pay either by the seventieth or ninetieth day. He reiterated that the clock is against the state, because "everybody wants to do due diligence."

MR. DUBLER responded that although he has heard people talk about 90 days, he cannot answer the question, because he is not privy to the TC agreement with DNR.

REPRESENTATIVE HERRON commented that part of the issue he has with the whole process is that there is an amended agreement to the PA and "it was shelved by someone." He opined that the exit strategy, which explained all this, should have been explained to every Alaskan.

[9:28:53 AM](#)

REPRESENTATIVE HAWKER referred again to the governor's decision to remove TC from the equation and reclaim that equity portion of the project, and he asked if it is the administration's intent to place that equity ownership in AGDC's possession.

MR. DUBLER answered that is his understanding.

REPRESENTATIVE HAWKER asked if, hypothetically, it could be possible for the administration to assign that equity ownership to another entity other than AGDC.

MR. DUBLER suggested that question may be better answered by the Office of the Attorney General. He said he is not familiar with the statutory authorizations any other entities have with the state other than AGDC.

REPRESENTATIVE HAWKER said recently the redacted [participating area] (PA) agreement was made available to the legislature. He offered his understanding that that was the agreement that really defined Alaska's initial role and relationship with TC, pending further definition, if the state ever got around to negotiating a firm transportation services agreement. He offered his understanding that Mr. Dubler had nodded yes to that.

[MR. DUBLER] said yes.

REPRESENTATIVE HAWKER said the PA had a provision such that if the state took back ownership of TC, it would go back to DNR or its designee. He asked Mr. Dubler if he was aware of that provision and whether he had had any conversations with people within DNR regarding their intent to designate AGDC as the recipient of that equity.

MR. DUBLER answered he was neither aware of the provision nor had held discussions with DNR specifically to it.

REPRESENTATIVE HAWKER said the other governing agreement is the JVA. He related that he had never dealt with a PA, but has dealt with a lot of JVAs, which are agreements between parties. He said parties must always anticipate the inevitability of someone wanting to leave an agreement. He said, "I would imagine that this relationship would be better spelled out in the joint venture agreement between folks." He asked if he was correct in his understanding that "that still remains a confidential agreement" to which [the legislature] does not have access.

MR. DUBLER answered that is correct.

REPRESENTATIVE HAWKER asked if there was any assurance the legislature could have that the equity will go to AGDC or does

the administration have plans to do "something else with this equity."

MR. DUBLER answered he does not believe AGDC can give the legislature that assurance, because it is DNR that has the agreement with TC; however, he offered his understanding that AGDC has not been told "anything to the contrary." He deferred to Mr. Fauske.

[9:33:22 AM](#)

MR. FAUSKE said Mr. Dubler answered that question well.

REPRESENTATIVE HAWKER opined that this is a concern that the legislature needs resolved. He said AGDC is supposed to hold the primary responsibility for the State of Alaska in negotiating the North Slope Gas Pipeline Project. He said Governor Walker, in his opening of the special session, spoke of the potential "de-bundling" of the integrated project - the separation of ownership of the pieces and new cash partners, who might "buy into this" and also be "LNG buyers." He asked if AGDC had heard the governor's statements.

MR. DUBLER answered that he had not heard the opening ceremony statements made by the governor; however, he said he is familiar with the concept.

REPRESENTATIVE HAWKER asked, "So, do you have any knowledge of the governor's intent to de-bundle the integrated project that we think we're dealing with?"

MR. DUBLER answered, "I have not been involved in any ... of those discussions personally, no."

REPRESENTATIVE HAWKER remarked that Mr. Dubler had offered "a very careful answer." He then asked, "I heard that you are not personally involved in any of those discussions. Are you aware of any of those discussions going on with other folks?"

MR. DUBLER answered, "I am not."

[9:35:03 AM](#)

MR. DUBLER returned to the PowerPoint presentation, to slide 9: "Project Governance." He said the left box on the slide shows the sponsor group comprising [seven] entities, including AGDC, DOR, and DNR. He said the sponsor group handles the big

decisions. He said DOR's presence in the group is helpful during discussions of fiscal terms, while DNR has an important role during discussion of gas balancing, for example. The next group shown on the slide is ManCom, on which he sits for AGDC, Mr. Lee sits for TC, and other representatives from BP, ConocoPhillips Alaska, Inc., and ExxonMobil Corporation take part, as well. He said ManCom is more technical in nature; it delves into and votes on the work program and budget. He said there are also more minor decisions made by ManCom.

[9:36:51 AM](#)

REPRESENTATIVE SEATON asked if there is already "a perceived change in authority" in terms of [who would be given the authority currently held by TC], within each of the groups listed, when TC withdraws.

MR. DUBLER responded as follows:

This go back to ... the misalignment on votes that I spoke to earlier. Technically the state has really only one vote ... in these committees, and it's currently being represented by both groups. So, to the extent that TransCanada was no longer in the project, AGDC would just carry that full 25 percent.

MR. DUBLER said the short answer to the question is that it would be an easy transition.

REPRESENTATIVE SEATON asked if the assumption of what Mr. Dubler said is that TC's 25 percent in the midstream would be transferred to AGDC.

MR. DUBLER answered yes.

[9:38:36 AM](#)

REPRESENTATIVE HAWKER said everything the legislature is doing during special session is predicated on that assumption - that the equity would be transferred to AGDC. He said, "That is one big assumption." He asked Co-Chair Nageak to request from DNR a formal document stating that the equity in TC would be conveyed to AGDC and not to any other entity. He said that is something he would like to know before making a vote on the governor's request.

CO-CHAIR NAGEAK said, "Yes, we will."

[9:39:37 AM](#)

REPRESENTATIVE HERRON requested of Co-Chair Nageak that he ask the assistant attorney general to address that question during the current hearing.

CO-CHAIR NAGEAK said, "We will."

[9:40:11 AM](#)

REPRESENTATIVE OLSON said he would like to hear the response directly from the attorney general.

CO-CHAIR NAGEAK said he feels the same.

REPRESENTATIVE HERRON said that is fine, but suggested that the assistant attorney general available via teleconference could offer a preliminary response.

[9:40:56 AM](#)

REPRESENTATIVE SEATON recapped that several members would like a document assuring that AGDC will be the entity that will hold the state's 25 percent of the midstream of the project upon TC's exit.

[9:41:56 AM](#)

JERRY JUDAY, Assistant Attorney General, Labor and State Affairs Section, Civil Division (Anchorage), Department of Law, stated that he is not aware of such a document currently in existence. He offered his understanding that [SB 138] would appropriate the funds for the buyout to AGDC. He added, "So, they're spending the money; [therefore,] they would be acquiring the interest."

REPRESENTATIVE SEATON indicated that there was a need for assurance that the midstream 25 percent would be transferred to AGDC, instead of, for example, DNR, in order to "align all the voting interests in the project."

[9:43:25 AM](#)

REPRESENTATIVE OLSON stated, "On that point, I think I'd like to still see one from the attorney general just for purposes of clarity and so there's no misunderstandings."

[9:43:41 AM](#)

REPRESENTATIVE TARR referred back to the sponsor group and [ManCom], as shown on slide 9, and said that the legal relationship is created through the JVA. She asked:

As far as having any equity in the project, ... it seems to me, then, it has to be AGDC, because the others are not signatories to that JVA, and that creates the legal relationship that would allow for equity in the project, while the physical resource would still clearly be the property of the state, right?

REPRESENTATIVE TARR, in response to Mr. Dubler, confirmed that by "physical resource," she means the gas.

[9:44:31 AM](#)

MR. DUBLER confirmed that [the physical resource and the equity] are different.

[9:44:52 AM](#)

MR. DUBLER returned to the PowerPoint presentation, to the third box on slide 9, which shows the PSC, which is the technical committee that oversees the Project Management Team (PMT). He noted that Mr. Krusen of AGDC sits on that committee and provides guidance to Mr. Dubler, himself, regarding technical issues that come to a vote, attends all the ManCom meetings with Mr. Dubler, briefs Mr. Dubler on every meeting of the PSC, and produces a report for everyone updating them on the technical side of the project. Mr. Dubler related that the PMT, as shown on the far right of the slide, is composed of four parties: BP, ExxonMobil Corporation, ConocoPhillips Alaska, Inc., and TransCanada. He said they provide the oversight of the day-to-day work by contractors that are designing the project and doing most of the work. He said, "And that's the 128 bodies that I think Representative Tarr referred to earlier."

[9:46:13 AM](#)

MR. RICHARDS introduced slides 10-12 of the PowerPoint, regarding: "Project Management Team (PMT)." He said the organizational chart on slide 10 shows that the senior project manager for AK LNG is Steve Butt; his direct reports represent the leadership team within the project management. One of those

[positions], he said, is currently held by a TC employee. The next group down on the chart shows "discipline leads" for each of the major sub-projects. Mr. Richards said under the box labeled "Pipeline" is another TC employee, who is leading the Facilities Engineering Team. He indicated that the chart shows where TC fits within the PMT structure; it is in leadership roles related to the technical aspects of the project. He said the chain is made up of co-venture owner representatives that have the overall responsibility of managing the workflow - the technical aspects primarily being done by contractors.

[9:47:42 AM](#)

REPRESENTATIVE HAWKER pointed out that slide 10 is a good example of what the legislature wants: the name of the person in charge is provided in the top box on the chart.

[9:48:14 AM](#)

MR. RICHARDS, regarding slide 11, said the PMT is made up of co-venture employees that are seconded or placed into the position by their owner companies, but paid for by the project. They work for the project to manage the skill sets for which they are responsible. Through the JVA, there is a nomination process followed to fill those roles, with the major driving force being to find the most qualified individual to fill each role. As vacancies are identified, all the players are requested to submit nominations. Then the PMT makes the selection. He indicated there is a management committee that makes final decisions about the management team.

MR. RICHARDS stated that "when SB 138 came about," AGDC did not have the responsibility for the AK LNG Project. So, at that time, when AGDC's role was primarily the LNG portion of the project, AGDC hired Mr. Krusen "to fill that role for us." He said AGDC did not have the opportunity to second employees into the project management team (PMT), because it was completing its FEED effort for the ASAP Project. He stated that with the completion of that major project, AGDC now has key senior credentialed employees - individuals that could meet the roles as they are vacated on the PMT.

MR. RICHARDS noted that slide 12 represents the assignment by the parent company into the PMT. He explained the initials found on the slide as follows: EM is ExxonMobil Corporation; CP is ConocoPhillips Alaska, Inc.; TC is TransCanada; and BP [was formerly referred to as] British Petroleum. He said the PMT was

"stood up after concept selection," the JVA was signed, and the roles were filled by co-venture organizations. Mr. French pointed out that the chart on slide 12 shows there are a total of 12 positions from TC, but noted that Mr. Lee yesterday identified that there are actually 15. He explained that [the three other] positions are administrative, and the positions shown on the chart are more technical in nature. Mr. French said that if the decision is made to buy out TC, an offer has been made for those TC employees on the PMT to remain in place through a transition time, which would be to the end of May 2016. This would provide continuity and consistency in finishing the pre-FEED effort for the project.

[9:51:29 AM](#)

REPRESENTATIVE JOSEPHSON asked why ExxonMobil Corporation's human representation is so disproportionate. He observed that the ExxonMobil Corporation's number is 400 percent larger than that of ConocoPhillips Alaska, Inc.

[9:52:01 AM](#)

MR. DUBLER explained the intention was for the number of staff each entity has on the project to be approximately the same as the entity's equity ownership. He said the hiring process is like that of any other: a position opens and the [companies] submit candidates if they wish to do so. He said the companies have the ability to "put employees in there up to approximately their ownership percentage." He said some entities did not put forth as many names as others; ExxonMobil Corporation was aggressive with its submissions and a lot of its employees were selected. He reemphasized that the goal is to find the best people available. He indicated that an employee that is under par would not be selected just because there may be no other employees available at the time for a position. He concluded, "So, we picked the best that we could get for every job that came open."

REPRESENTATIVE JOSEPHSON said he understands that it is a joint venture, [where] everyone will be vigilant about being fair and finding balance, so that everyone will make money. Nevertheless, even though these are not voting interests, he said if he was ConocoPhillips Alaska, Inc. or BP, for example, he would be "a little nervous to see my crew outnumbered in that way."

[9:54:20 AM](#)

REPRESENTATIVE HAWKER, regarding the offer to keep on employees from TC during the transition, asked for confirmation that Mr. Dubler had said those employees would stick around through the Pre-FEED phase until AGDC would "find something else to do with it" or another way to replace them.

MR. DUBLER offered his understanding that that was the original intent; however, since the pre-FEED end date has been pushed out, the time has been extended until the end of May [2016].

REPRESENTATIVE HAWKER asked if the committee could presume that there is a scheduled end to the Pre-FEED and beginning of FEED at the end of May 2016.

MR. DUBLER answered no. He explained, "That was the earlier date; that was ... what I like to call ... the hopeful date that we had over the last year." The current proposal, which has not been approved yet, is to push the FEED decision to approximately June 2017, which is "the original date in the documents."

REPRESENTATIVE HAWKER asked which documents?

MR. DUBLER answered the JVA. He added that to the extent that [TC] employees are retained by the project and then leave, they would be replaced in the same manner as any other attrition of employees.

REPRESENTATIVE HAWKER said he appreciated hearing that the Pre-FEED is in accordance to the JVA, which he reiterated the legislature cannot access. He repeated the mid-year 2017 date.

MR. DUBLER confirmed that is correct.

[9:56:57 AM](#)

The committee took an at-ease from 9:57 a.m. to 10:14 a.m.

[10:14:41 AM](#)

MR. RICHARDS continued with slide 12 of the PowerPoint presentation. He said the slide shows that there are a total of 135 people currently within the PMT, and as work efforts are concluded for the Pre-FEED phase, the number would likely decrease.

[10:15:17 AM](#)

REPRESENTATIVE SEATON offered his understanding that Mr. Richards had said the 135 number would decrease under Pre-FEED. He asked, "Under FEED, would the project expect to have more or would those all be contracted?"

MR. RICHARDS answered that the development of the FEED organization and its representation is currently under consideration by the PMT. He indicated that considerations include areas of expertise, functions, roles, and the number of people needed. He deferred to Mr. Krusen to provide further clarity to the response.

[10:16:28 AM](#)

FRITZ KRUSEN, Vice President, Alaska LNG, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community & Economic Development (DCCED), estimated that the numbers would probably increase "by a factor of" 3-5 for the FEED effort. He said just as the 135 positions represent the "key influencing spots that the project management team would like to have, that trend would continue once we're in FEED." He said expenditures would increase 3-5 times. The staffing levels would increase by at least that much, maybe a little bit more, because there likely would be more geographical diversity during FEED. He explained that during Pre-FEED, all the engineering was done within the U.S., but there is a pretty good chance that in FEED, some of the engineering would be done internationally.

REPRESENTATIVE SEATON concluded that the PMT would get larger; it is not just that the numbers of hired contractors would get more money.

MR. RICHARDS answered that is correct. He said currently the major subcontracting groups - whether the pipeline, gas treatment plant, or LNG plant - are co-located in the cities where the contractors perform many of the Pre-FEED work activities. He continued:

So, for instance, pipeline is being taken in Calgary, by Willy Parsons; and then for the gas treatment plant, it's being undertaken in Denver, with the company called, AECOM (ph); and then, lastly, the liquefied natural gas plant is being designed in Houston, with Chiota (ph) and CPNI (ph).

MR. RICHARDS said that as Mr. Krusen indicated regarding FEED organizations, depending on where contractors are, there would be a need for organizations to manage those contractors in those locations.

[10:19:10 AM](#)

MR. RICHARDS directed attention to slides 13 and 14: "TransCanada's Role Alaska LNG." He said the committee had heard about [TC] holding the state's [25 percent] interest in the mid-stream and covering the cash calls associated with the state's mid-stream interest. He listed other positions within the PMT: one within Environmental, Regulatory, & Land (ERL); one person within the Gas Treatment Plant sub-project; a majority within the project's pipeline sub-project group; and three additional holding administrative functions within the PMT. He said that totals 15 within AK LNG.

MR. RICHARDS, as shown on slide 14, said TC is not expected to build the pipeline; that will be led by ExxonMobil Corporation and other co-venture owners. He said the project will seek contractors who will actually do the construction of the three main subprojects: the gas treatment facility, the pipeline, and the LNG plant. He said TC held that role, "as an owner and on the project management team," making sure both their interest and that of the state was being overseen correctly. He reiterated that TC has offered for its seconded employees to remain during the transition period through May 2016, and when vacancies become available, AGDC would have the right - as a co-venture partner - to nominate employees to fill the vacated positions - not only those currently held by TC, but also those vacancies that become available by other co-venture employees. He reemphasized the level of expertise that have "just come off the ... front-end engineering design effort for the Alaska standalone pipeline project." He added, "So we have Alaskan-based knowledge that has just conducted a major engineering effort and cost ... estimate for pipeline and gas treatment facilities."

[10:21:51 AM](#)

MR. RICHARDS showed slide 15: "AGDC Technical Team - Skills." He talked about AGDC's staff of senior credentialed professionals. He continued, as follows:

We had a project management team very similar, in terms of scope to what you've seen by the AK LNG

Project, for the completion of the Alaska Stand Alone Pipeline Project. We were extremely lucky to be able to attract folks to come and work on that ... project who had, as Dan indicated, 30- to 35-plus years of not only Arctic, but major project experience, in terms of development, construction, and project management of ... major facilities, not only in Alaska, but around the world.

MR. RICHARDS emphasized that there have been so many different innovations, and many of the individuals that have come to work on the project worked on those previous iterations and want the opportunity to be able to complete a project. He said AGDC's staff includes individuals with knowledge in the technical realm, as well as a group of people with knowledge of regulatory issues. The latter group is advancing AGDC's environmental and supplemental impact statement. He said AGDC feels it has tremendous resources upon which to draw.

[10:23:16 AM](#)

MR. RICHARDS directed attention to slide 16: "AGDC Technical Team - Results." He said AGDC completed development of the ASAP, including completion of the Pre-FEED and FEED for the [North Slope] gas treatment facility, a 733-mile mainline, and [a 30-mile Fairbanks lateral pipeline]. He said the culmination of that work, which began in 2013 and ended at the finish of 2014, was a Class 3 cost estimate and project execution plan. He said AGDC followed industry standards and delivered on time and under budget. He said the core technical team is still available to assist AGDC.

[10:24:28 AM](#)

CO-CHAIR TALERICO asked for an explanation of a Class 3 cost estimate.

MR. RICHARDS answered that it is an industry standard that follows the American Association of Cost Estimators to define the level of "assurity" on a cost estimate. He explained that when a project begins, there may be a "back-of-the-napkin, simplified estimate." As the work is defined through engineering and "regulatory," risks are considered and the uncertainties are removed. For the FEED effort, AGDC hired civil contractors and pipeline contractors, "went to modular fabrication yards in Asia," and were able to get bid-level estimates. He said the contingency was at an appropriate level,

based on the engineering. He stated, "At the stage-gate process that we'd been following, a Class 3 estimate is a well-defined estimate, and ... our original goal was to take that estimate into an open season where the shippers would see that they had confidence in the work product that we had done to that ... state."

10:25:59 AM

REPRESENTATIVE HAWKER thanked AGDC for the work it accomplished on the ASAP Project, which he said AGDC carried out exactly as directed by legislature. He said the corporation completed the project on time and under budget, while always being available to answer the legislature's questions.

MR. RICHARDS responded that AGDC is proud of that effort. He said that with the scrutiny that would be placed on the corporation, AGDC wanted to adhere to industry practice, which is why the Class 3 estimate exists and there is now a project execution plan that clearly defines how, if charged to do so, AGDC would execute a project from this point forward.

10:27:10 AM

REPRESENTATIVE SEATON asked if AGDC would be the designated holder of the state's equity in that project.

MR. RICHARDS answered that the concept of overall ownership of the project had not yet been decided. He said AGDC was considering the concept of bringing on an owner/builder/operator (OBO) and was charged by the legislature to advance the project at the least possible cost.

REPRESENTATIVE SEATON said he is trying to figure out whether AGDC has the authority to hold the equity and who would be "owning the project."

MR. RICHARDS responded that the authorities granted to AGDC by the legislature to plan, own, finance, construct, and operate a pipeline were clear.

10:28:37 AM

MR. FAUSKE added that "ASAP and the project is 100 percent owned by the State of Alaska." He said that has proven to be a valuable asset "in reference to materials and/or information that we are selling and ... working with AK LNG project." He

said AGDC had gone through the OBO scenario and had negotiated a relationship with "Enbridge." Mr. Fauske noted that "this project" had been "slowed to some degree" because of advancements related to the AK LNG Project, but stated that AGDC had begun negotiations with [Enbridge] as to how it would come in to the corporation with its people, seconding some of AGDC's people possibly, and take over management as an OBO of that project. He stated, "We had not determined at what level, but we did have an absolute interest by them to function in that capacity." He said he thinks that is significant information for the legislature. He said Enbridge is a fine firm.

MR. RICHARDS continued to slide 17: "AGDC Ability to Assume TC's Role." He said AGDC currently holds the state's interest in the LNG facility - a complex and expensive component in the integrated project that represents nearly 50 percent of the cost. He said AGDC was able to secure the expertise of Mr. Krusen, from ConocoPhillips Alaska, Inc. Going forward, if provided the charge to take on the mid-stream gas treatment plant and pipeline portion of the project, AGDC would utilize the resources available, both in-house and through contract, to take on the role to represent the state's interest in that effort. He said AGDC assumed TC's role in coordinating the Federal [Energy] Regulatory Commission's (FERC's) National Environmental Policy Act of 1969 (NEPA), known as the Environmental Impact Statement. He said AGDC has a person coordinating the effort of the co-venture partners; it is a role that it took over from TC. He said AGDC has been asked to engage in the midstream effort, because it had just concluded the ASAP Project and had the expertise and technical information valuable in helping to advance AK LNG. He related that AGDC was asked to come in as co-venture representatives, to oversee the work of the PMT and contractors and ask questions to ensure the efficiency and economy of the project. He emphasized AGDC's commitment to continue in this manner.

[10:32:28 AM](#)

REPRESENTATIVE JOHNSON asked if TC is involved with anything else regarding FERC that Alaska would need to assume, and whether that would slow down the process.

[10:32:57 AM](#)

MR. DUBLER offered his understanding that most of the permits are in the name of the project and not in the name of the individual participants. One export license acquired by the

project was in name of the three producer parties only - not TC or the State of Alaska. He added, "And that's one of the things that we're ... working on to get into that, but I don't believe that would cause any delay at all in ... the project."

[10:33:31 AM](#)

MR. KRUSEN stated that the pipeline project team has a FERC contact - a person from ExxonMobil Corporation. He said AGDC also has a relationship with that person on pipeline matters.

REPRESENTATIVE JOHNSON said he wants to ensure that if Alaska takes over the role of TC, the project would not be slowed down through FERC.

[10:34:34 AM](#)

MR. RICHARDS stated his belief that AGDC is keenly aware of all the transactions being taken with TC. He mentioned technical work being done and interaction with the Pipeline Hazzard Materials Safety Administration for stream-based design. He said, "We are working ... diligently and cooperatively between the two projects."

[10:35:05 AM](#)

MR. RICHARDS mentioned the [House] Finance [Standing] Committee and the purpose of the slide presentation as a status update on the individual funds that have been granted to AGDC to manage - in this particular case, the AK LNG fund. He said, "So, we wanted to give representation of the status of the fund and the expenditures out of that fund." He asked that Mr. Tangeman or Mr. Baker be invited to "give this update."

[10:35:33 AM](#)

BRUCE TANGEMAN, Vice President, Administration & Finance, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community & Economic Development (DCCED), directed attention to slide 18: "Alaska LNG Fund Status." He said the slide outlines the AK LNG fund when it was capitalized under SB 138, and it shows the expenditures to date. He said the original fiscal note included \$67.265 million, as well as \$2.5 million to DOR for the [project financing options] report and \$70,000 to Department of Transportation & Public Facilities (DOT&PF) for infrastructure studies, for a total of \$69.835 million. He said the bottom portion of the slide shows spending through fiscal

year 2016 (FY 16). He said reimbursable services agreements (RSAs) were executed with DOR and DOT&PF; the AK LNG Project cash calls under the original work plan and budget were estimated to be \$51.392 million. He said the RSA originally had approximately \$57 million as the placeholder estimate. He said the AGDC corporate operating component spent approximately \$4.5 million to date; external contractual support paid to SME is approximately \$5.2 million, of which he said Mr. Richards could speak to how some of that work is reimbursable, which he explained is why there are statutorily designated program receipts in the current appropriation bill. He said the \$5.9 million shown for additional contractual work for TC pickup is to cover work that AGDC will be inheriting if the buyout takes place. It would be for continued work from the corporate perspective to get through Pre-FEED. He stated that the total estimated outflow of \$66.7 million leaves a balance in the fund of approximately \$3.1 million, and AGDC is showing that amount as "a placeholder" with which to enter FY 17. He said AGDC is currently going through the budget process; it did not think it appropriate to show a FEED budget for the legislature; that will be addressed later. Mr. Tangeman explained that the information [on slide 18] shows that it is possible to enter FY 17 with the current fund balance; however, he said everyone should understand that AGDC would be back before the legislature requesting a larger appropriation to "pick up the speed" and "bring FEED to conclusion."

[10:38:37 AM](#)

SENATOR OLSON asked where he could find information related to the expenditure on the 42- to 48-inch pipeline study.

MR. TANGEMAN deferred to Mr. Richards and Mr. Dubler.

MR. RICHARDS indicated that that information is included on [slide 22]. In response to a follow-up question from Representative Olson, he said the work effort for the 48-inch pipeline review had just been undertaken the beginning of the current month.

REPRESENTATIVE OLSON said he had been under the impression that it had been going on for four or five months.

[10:39:41 AM](#)

MR. KRUSEN explained that the studies for the 42-inch pipeline are the whole basis for the project and have been going on

throughout Pre-FEED, whereas the actual expenditures for "48-inch up to the same level" just began. He proffered, "I'll just throw out a rough number of about \$2 million thus far, and then ... maybe that will become \$3 million by the end of 2015."

REPRESENTATIVE OLSON asked when the study would be completed.

MR. KRUSEN offered his understanding that the result related to the 48-inch pipe would be presented "a bit before April 1," and then "the decision point is expected to be April 1."

REPRESENTATIVE OLSON said he had heard that the approximate difference in volume between the two is about 1.1 "b." He asked if that is accurate.

MR. KRUSEN answered that it depends on the comparison: the 42-inch pipe with 8 compressors and the 48-inch pipe with 4 compressors are able to feed 3 LNG plants, plus the in-state demand. He said if more compressors are added to the 42-inch, it would be possible to feed another LNG plant. He indicated the same would be true regarding the 48-inch pipe. He said in round numbers the amount would be 1 "billion standard cubic foot." He said that is where the 42-inch pipe capability ends, whereas the 48-inch pipe has another step above that "of round numbers - another billion."

REPRESENTATIVE OLSON noted that 1.1 "b" is approximately the offtake at Pt. Thompson that was approved by the Alaska Oil and Gas Conservation Commission (AOGCC) a couple days ago; therefore, he ventured "we have to find another Point Thompson to fill it."

[AN UNIDENTIFIED SPEAKER] answered that is correct.

[10:42:42 AM](#)

REPRESENTATIVE HERRON asked where the jobs are located for those who build 42-inch pipe.

MR. RICHARDS answered that the 42-inch mainline pipe can be made in Florida. He offered his understanding that there are plans for another facility to be built in the Southeast part of the U.S. He said the capability for the stream-based design portion is either in Europe or Asia.

REPRESENTATIVE HERRON asked where the jobs to [manufacture] 48-inch pipe would be.

MR. RICHARDS said he does not know of any place in U.S. where 48-inch longitudinal weld pipe is manufactured.

REPRESENTATIVE HERRON concluded that if Alaska chose the 48-inch pipe, it would be driving potential jobs overseas.

[10:44:11 AM](#)

REPRESENTATIVE HAWKER asked if it is fair to say that the purpose of the 42-inch to 48-inch pipe study is to look at costs and alternatives from a project engineering standpoint.

[10:44:42 AM](#)

MR. RICHARDS responded that the work that has just commenced regarding the 48-inch pipe is "to essentially do the Pre-FEED level effort commensurate to what has previously been done for the 42." He explained that this is necessary in order to have the best understanding when making the platform decision.

REPRESENTATIVE HAWKER asked for confirmation that the work that is being done is engineering.

MR. RICHARDS answered that is correct.

REPRESENTATIVE HAWKER said the committee had just heard that in order to utilize a 48-inch pipe to its capacity, it is necessary to identify another source of gas the equivalent of Point Thompson, along with bringing up the level of engineering to "the same place you got the 42-inch project." He asked if AGDC is conducting a probability study or any other way of determining that there actually exists gas that could be brought to this project in the necessary timeframe, from locations that could be economic, by competent producers, and with the necessary funds to make it happen. He clarified that he wants to know if economic feasibility is being considered in addition to physical properties.

[10:46:23 AM](#)

MR. DUBLER responded, "None of those studies are being done at AGDC."

REPRESENTATIVE HAWKER asked Mr. Dubler if he is aware of any such consideration being done anywhere else within the project structure. He recollected previous testimony indicating that

even though AGDC has been given primary responsibility, apparently it does not have it.

MR. DUBLER offered his understanding that DNR has done those studies, but he said he has not seen them.

REPRESENTATIVE HAWKER said he hopes the committee has the opportunity to question DOR.

[10:47:02 AM](#)

REPRESENTATIVE JOHNSON indicated a desire to return to discussion of [slide 18].

[10:47:17 AM](#)

REPRESENTATIVE TARR directed attention to the positive balance shown on slide 18 for FY 17. She indicated that [SB 138] would give [AGDC] \$5 million in receipts, and she said she is trying to figure out why that is not reflected on slide 18. She asked, "Should that be on the reimbursement line ... that's at \$2,750 [million]?"

[10:47:54 AM](#)

MR. RICHARDS answered that the line titled, "Reimbursement Due AGDC for AK LNG Project Work" shows an estimate of \$2,750 million. The next slide addresses the need for \$5 million of receipt authority. He explained the difference is AGDC has two fund sources: the in-state natural gas pipeline fund and the AK LNG fund. The corporation performed work for the AK LNG project, essentially acting as contractor, and that work is nearly \$3 million. So, AGDC will need to have that receipt authority in order for the money to flow back to AGDC and, in this case, into the AK LNG fund. He said AGDC also had work that the AK LNG project wanted that was work effort that had been funded by the in-state natural gas pipeline; therefore, AGDC will be using that receipt authority to reimburse the in-state natural gas pipeline fund as well. He concluded, "So, that's why it's not represented on this particular slide."

[10:49:21 AM](#)

REPRESENTATIVE JOHNSON, regarding slide 18, noted that he saw RSAs to DOR and DOT&PF, but nothing to DOL. He offered his understanding that there were 11 people from DOL listed on the aforementioned Integrated State Gas Team chart, and he asked Mr.

Tangeman why DOL was not listed [as an expense category] on slide 18.

[10:49:44 AM](#)

MR. TANGEMAN answered that the original fiscal note did not include any RSA work with DOL. He said, "We do have an unbudgeted RSA for approximately \$1 million that is coming to conclusion for that amount that we have used over the last fiscal year." He said the current funding under SB 138 does not address the needs that are being requested at this time by DOL.

REPRESENTATIVE JOHNSON asked if the RSAs are billed in actual time or are "marked up." He said, "I've heard some departments that have gotten some RSAs that are being charged more than the actual cost. Are we watching that closely? And ... the Department of Law is the one that ... I've heard has been doing that. That's the reason I asked the question about the RSA." He asked for clarification regarding billing and the work done by DOL.

[10:51:10 AM](#)

MR. TANGEMAN answered that the \$1 million unbudgeted RSA is a monthly bill that would be received and reviewed by DOL, sent back for AGDC's review, then resent to DOL. He said AGDC kept tight control of the fund source. He said the RSA process with DOR involved two bills: an invoice to kick off the study and a second one when it came to conclusion. He offered his understanding that a one-bill RSA was used for DOT&PF.

[10:52:08 AM](#)

MR. DUBLER added that the majority of the bills received from DOL are third-party billings from outside counsel. He said outside counsel is assigned to AGDC for commercial negotiations. He continued as follows:

They submit a bill every month; send it to us to review for the hours; it goes to law to review for contractual compliance, because the contract is actually with the Department of Law; and then they ... pay that bill and ... we reimburse them through the RSA.

[10:52:55 AM](#)

REPRESENTATIVE JOHNSON asked if, of the 11 DOL people listed on the aforementioned chart, some are "contract people."

MR. DUBLER confirmed he has seen the chart, and he said both DOL lawyers and outside counsel are represented on it. He listed some firms named on the chart.

REPRESENTATIVE JOHNSON suggested he had further questions, but not for the representatives from AGDC.

[10:54:10 AM](#)

REPRESENTATIVE TARR noted that a Section 5 was added to SB 138, which states that the corporation may not charge a fee for the service in an amount greater than the amount necessary to reimburse the corporation for the cost of the service. She said at least that serves as a protection when AGDC "is providing a service and charging." She asked if the expectation is that that is a reciprocated relationship so that the situation described by Representative Johnson wouldn't happen. She asked, "How does that relationship work?"

MR. DUBLER said Section 5 does relate to services for both transporting and liquefying the state's natural gas. He said in other words, AGDC would charge DNR for those services. He said he is not aware of any overhead or any allocation charge that DOL has to AGDC's external counsel bills. He deferred to Mr. Tangeman.

[10:55:34 AM](#)

MR. TANGEMAN responded that he is not aware of any overhead charges for the unbudgeted RSA activity.

REPRESENTATIVE TARR pointed out that statute specifies it would apply and asked whether the expectation is then that that would not happen.

MR. TANGEMAN answered yes.

[10:56:16 AM](#)

CO-CHAIR NAGEAK acknowledged there was further discussion to be had at a future meeting. He reissued the invitation for the attorney general to come speak to the committee.

[10:56:57 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 10:57 a.m.