

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

October 30, 2015

8:01 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 Paul Seaton
Representative Andy Josephson
Representative Geran Tarr

MEMBERS ABSENT

Representative Kurt Olson

OTHER LEGISLATORS PRESENT

Representative Mike Chenault

COMMITTEE CALENDAR

OVERVIEW: ALASKA GASLINE DEVELOPMENT CORPORATION

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Continued the PowerPoint presentation entitled, "Alaska LNG Project Participation," and dated 10/29/15, which was initially presented at the hearing on 10/29/15, and answered questions.

FRANK RICHARDS, PE, Vice President
Engineering & Program Management

Alaska Gasline Development Corporation
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: During the continuation of the PowerPoint presentation entitled, "Alaska LNG Project Participation," and dated 10/29/15, which was initially presented at the hearing on 10/29/15, answered questions.

KEN VASSER, General Counsel
Alaska Gasline Development Corporation
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: During the continuation of the PowerPoint presentation entitled, "Alaska LNG Project Participation," and dated 10/29/15, which was initially presented at the hearing on 10/29/15, answered a question.

JOHN BURNS, Chair, Board of Directors
Alaska Gasline Development Corporation
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: During the continuation of the PowerPoint presentation entitled, "Alaska LNG Project Participation," and dated 10/29/15, which was initially presented at the hearing on 10/29/15, answered questions.

FRITZ KRUSEN, Vice President Alaska LNG
Alaska Gasline Development Corporation
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: During the continuation of the PowerPoint presentation entitled, "Alaska LNG Project Participation," and dated 10/29/15, which was initially presented at the hearing on 10/29/15, answered questions.

DAN FAUSKE, President
Alaska Gasline Development Corporation
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: During the continuation of the PowerPoint presentation entitled, "Alaska LNG Project Participation," and dated 10/29/15, which was initially presented at the hearing on 10/29/15, answered questions.

ACTION NARRATIVE

[8:01:27 AM](#)

CO-CHAIR BENJAMIN NAGEAK called the House Resources Standing Committee meeting to order at 8:01 a.m. Representatives Johnson, Seaton, Josephson, Tarr, Herron, Talerico, and Nageak were present at the call to order. Representative Hawker arrived as the meeting was in progress.

Overview: Alaska Gasline Development Corporation

[8:02:28 AM](#)

CO-CHAIR NAGEAK announced that the only order of business would be the continuation of an overview from the Alaska Gasline Development Corporation initially presented at the hearing on 10/29/15.

[8:04:38 AM](#)

JOE DUBLER, Vice President Commercial Operations, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community & Economic Development (DCCED), continued the presentation by AGDC on the liquefied natural gas project (Alaska LNG). He displayed slide 19, entitled, "AGDC Special Session Appropriations," which was a summary of the appropriations requested by AGDC during the [Third Special Session of the Twenty-Ninth Alaska State Legislature], and informed the committee the capital appropriation totals \$144.045 million, which is composed of \$68.445 million to reimburse TransCanada for its costs to date on the Alaska LNG project and to buy out its midstream interest, and \$75.6 million to fund the state's full 25 percent share of the remaining pre-front-end engineering and design (pre-FEED) phase of the project. An additional component of the request is receipt authority to allow AGDC to be reimbursed for geotechnical, geophysical, and regulatory work that it has performed for the Alaska LNG project. Reimbursements range from 80 percent to 100 percent, depending on the data acquired. Mr. Dubler explained that the statutory designated-program receipt authority would allow AGDC to return the reimbursements to its Alaska LNG fund, and continue its participation in the project. A further description of the disposition of the appropriations request was displayed on slide 20, which showed the original request of \$106.8 million was increased by additional appropriations that were required for AGDC to complete the pre-FEED phase of the project, such as scope changes, and aspects of the project that will be done in pre-FEED that were not originally anticipated.

[8:07:52 AM](#)

FRANK RICHARDS, PE, Vice President Engineering & Program Management, AGDC, DCCED, said the pre-FEED scope will increase by \$182 million - from the original estimate - to \$694 million, of which the state's portion is approximately \$173 million: \$66 million for the liquefaction plant and \$107 million for the gas treatment plant (GTP) and the pipeline. This work will advance the pre-FEED portion of the project, and will provide information and advanced-work activities that assist in the "environmental process." He said this is critical in order to have the best information available and thus be aware of risks, and to provide robust information for the environmental impact statement (EIS). Mr. Richards said the project is maturing through the stage-gate process, and the aforementioned changes will move some activities from the front-end engineering and design (FEED) stage of the project into the pre-FEED stage for better design and decision-making [slide 21].

[8:09:38 AM](#)

REPRESENTATIVE TARR expressed her understanding that the project has stayed on budget during pre-FEED, with the exception of the 48-inch pipe scope study, and the pre-FEED period is being extended beyond the second quarter of 2016, which was previously the point at which the project was scheduled to advance to FEED.

MR. RICHARDS said correct. He added that the work items that will be completed are shown on slide 22. The changes are designed to prove the economics, improve the outcome of environmental permitting, and provide better information for the decision to move to the FEED phase. The first scope change is to design optimization at the component level to lower costs, and thereby improve the project economics. Also, additional geotechnical and geohazard work at GTP and the liquefaction plants will reveal a better understanding of the underlying ground conditions. He advised that the increase in regulatory and pre-bid work on FEED contracting helps to ensure the environmental process is defensible, and also will complete field work delayed by weather. Finally, this work is necessary to bring 48-inch pipeline engineering and design up to the level of that prepared for a 42-inch pipeline. Mr. Richards recalled that House Bill 4 [passed in the Twenty-Eighth Alaska State Legislature] tasked AGDC with developing pipelines and other mechanisms for delivering natural gas and other non-liquid hydrocarbons to the state. In this regard, AGDC has forecast in-state natural gas demand, completed preliminary cost

estimates for gas off-take facilities, and sought to develop a framework that will assist the legislature in evaluating the cost of in-state gas deliveries [slide 23].

[8:14:07 AM](#)

CO-CHAIR TALERICO asked whether the locations of gas off-take facilities have been identified.

MR. RICHARDS responded that a slide later in the presentation will provide the actual cost of the off-take kits, and will address the interconnection points that will allow for gas deliveries in the state. He returned attention to slide 23, and pointed out the AGDC board of directors authorized the formation of a subsidiary capable of aggregating in-state gas demand. The subsidiary would act as a state aggregator for small communities, in order to negotiate with gas producers and with the Department of Natural Resources (DNR), rather than having individual small communities do so; in fact, producers would likely prefer to work with one aggregating company regarding sales agreements.

MR. DUBLER added that the greatest advantage to having an aggregator negotiate with the producers and DNR is to attain a larger volume delivery, thereby lowering costs. The advantage to the producers is to avoid coming under the regulation of the Regulatory Commission of Alaska (RCA), as the project is already regulated under the Federal Energy Regulatory Commission (FERC), and there would be duplicate regulation.

[8:17:32 AM](#)

REPRESENTATIVE JOHNSON asked to delve into AGDC subsidiaries.

MR. DUBLER said AGDC has created two subsidiaries, one of which is intended to act as an intermediary between the smaller utilities, producer parties, and DNR, and the second is an asset-holding company created to hold the Alaska LNG assets that are owned by AGDC. He explained that most corporations that have different business ventures, separate the ventures into separate subsidiaries, so that an impact to one venture does not affect the corporation.

REPRESENTATIVE JOHNSON questioned whether one of the subsidiaries can acquire new assets, such as buying gas at the wellhead.

MR. DUBLER said to his knowledge, there is no intention to buy gas at the wellhead, except for the aggregator to provide gas to in-state communities.

REPRESENTATIVE JOHNSON pointed out there are withdrawal agreements in which AGDC is the only entity that can sign contracts for gas for more than two years.

MR. DUBLER advised that if the withdrawal agreements are executed, AGDC most certainly would be back before the legislature to request an appropriation, because the cost would be very high. In further response to Representative Johnson, he deferred to legal counsel regarding whether one of the AGDC subsidiaries has the statutory authority to do so.

[8:19:51 AM](#)

KEN VASSER, General Counsel, AGDC, DCCED, informed the committee the legal authority is the same for AGDC and its subsidiaries. He advised that as a literal reading of the statute, AGDC does have the power to acquire natural gas, however, there is "room for interpretation of statutes" and any sellers of a large quantity of natural gas would want assurance that AGDC does have that power before entering into a contract. For example, an appropriation from the legislature for such a purchase would be a clear indication that the legislature intended for AGDC to have that power under the present language of its statutes.

REPRESENTATIVE JOHNSON surmised that AGDC could purchase gas.

MR. VASSER said, "Most likely."

REPRESENTATIVE JOHNSON asked about any other plans or discussion by AGDC's [board of directors] regarding forming additional subsidiaries.

[8:22:45 AM](#)

JOHN BURNS, Chair, Board of Directors, AGDC, DCCED, answered no. He explained that AGDC formed two subsidiaries, each with a specific purpose, to advance the Alaska LNG project. At this juncture, the board is not contemplating creating any other subsidiaries.

REPRESENTATIVE SEATON returned attention to the AGDC subsidiary formed to hold the assets of the state in the Alaska LNG project, and questioned whether said subsidiary would hold

midstream assets if the requested appropriation is approved. and TransCanada's interest is terminated.

MR. DUBLER expressed his belief that AGDC's intention is to hold the assets in same subsidiary. He returned attention to the presentation, noting that the committee previously inquired how AGDC determines in-state gas demand and supply. To do so, AGDC analyzed historical natural gas production and consumption, identified existing and potential demand segments, including future use, developed a range of demand assumptions from low case, mid case used as the default, to high case, and identified the most likely scenarios through 2040 [slide 24]. Slide 25 was a graphical depiction of the anticipated demand and the components thereof, which are mainly represented by the demand of ENSTAR Natural Gas and the Southcentral power utilities, including Matanuska Electric Association, Chugach Electric Association, Anchorage Municipal Light & Power, and Homer Electric Association. Also shown was the demand by the Fairbanks utilities, which greatly increases beginning in 2017. Another possible demand would be created by the mines along the route of the pipeline. He explained that the black line on the graph indicated the shortfall, which is the difference between the demand for natural gas and the amount projected to be produced in Cook Inlet. Beginning in 2020, the shortfall grows to approximately 270 million standard cubic feet per day (MMSCF/D) by 2040, based on a daily average. Slide 26 was a tabular chart that illustrated ENSTAR's existing base case demand, and the projected base case demand of about 333 MMSCF/D in 2040. Mr. Dubler stated the reason for the projection to 2040 is to ensure there is sufficient capacity to provide energy resources to Alaskans for the life of the project. The high case 2040 demand of approximately 422 MMSCF/D includes supplying natural gas to mining and other industrial users, and the existing demand which is projected to be 243 MMSCF/D [slide 26].

[8:28:52 AM](#)

REPRESENTATIVE TARR returned attention to slide 25 and asked whether the storage category indicated on the graph represents Cook Inlet storage capacity.

MR. DUBLER explained that an integrated LNG project seeks to have the maximum amount of storage so, in winter, when the demand is highest, the seasonal fluctuations are eased. Gas is put into storage during summer when demand is lower, and is drawn out in winter. The demand forecast assumes there will be storage at Cook Inlet Natural Gas Storage Alaska (CINGSA) which

injects gas into an empty gas well in Kenai for storage. In fact, AGDC anticipates an expanded storage system of this type within the Alaska LNG project, and assumes that there will be storage in Fairbanks as well.

REPRESENTATIVE SEATON recalled that a new LNG plant with a facility in the Matanuska-Susitna valley has been announced, and he asked whether the aforementioned demand projection anticipates an additional export facility.

MR. DUBLER responded that AGDC did not include the proposed project in the demand forecast as there were no definite plans. On the graph [slide 25], the dark green section representing LNG export demand is for the plant at Kenai currently operated by ConocoPhillips Alaska, Inc.

REPRESENTATIVE HAWKER asked for the source of the supply estimates shown by the graph on slide 25.

MR. DUBLER said the estimates were derived from public sources and not from confidential information, and deferred to AGDC executives for further information.

[8:33:06 AM](#)

FRITZ KRUSEN, Vice President Alaska LNG, AGDC, DCCED, answered that the supply projections for Cook Inlet were obtained from a DNR report that was released to the public.

REPRESENTATIVE HAWKER requested the date of the report, suggesting that the report may be an understatement after the recent announcements of successes due to the Cook Inlet Recovery Act [passed in the Twenty-Sixth Alaska State Legislature].

MR. KRUSEN was unsure of the details of the DNR report; however, he said the report did consider several other projects, and was updated late last year or early this year. He deferred to DNR.

MR. DUBLER offered to provide the report to the committee.

REPRESENTATIVE JOSEPHSON returned attention to slide 26, and asked whether the projected increase in Interior heating and power utilities was a reflection of the expected increase in customers.

MR. DUBLER answered that the projection was based on the Alaska Energy Authority's (AEA), DCCED, plan to build-out the natural

gas distribution system in the medium- and high-density areas of Fairbanks. He returned to the presentation and advised that the Alaska LNG project has the ability to provide Alaskans along its route with a reliable, long-term supply of natural gas. He cautioned that a financial commitment is necessary as the costs to do so are significant; in fact, it may not make economic sense to run a spur line to benefit smaller communities that are miles away from the pipeline. The spur line to Fairbanks is 33 miles, but the population of Fairbanks can support the cost. Off-take plans involve engineering, commercial, financial, and policy considerations such as the responsibility to pay for the infrastructure that is needed to deliver natural gas to communities. Furthermore, AGDC and DNR are developing a framework to assist policymakers in evaluating the options for the delivery of gas [slide 27]. Developing a framework began under the Alaska Stand Alone Pipeline (ASAP) project, which identified the existing demand from the Fairbanks, Anchorage, Matanuska-Susitna, Kenai, and Nikiski areas, all of which have distribution infrastructure in place. Other communities along the route, Cantwell for example, would require a new local distribution system to deliver gas within the community, and would require that AGDC build a skid and a two-mile spur pipeline off of the main pipeline. Working with AEA, AGDC is evaluating alternative means of delivery - such as propane - to communities that are unlikely to have direct access [slide 28]. Slide 29 illustrated a gas off-take system, and Mr. Dubler reviewed the Alaska LNG project's responsibility to build the Prudhoe Bay Unit (PBU) and the Point Thomson Unit (PTU) transmission lines, the GTP, the main pipeline, and the LNG facility. The non-project costs of an off-take system are the off-take facility, which is required to depressurize, heat, and odorize the gas for safety, and the lateral pipeline to the local utility and customers.

[8:41:30 AM](#)

REPRESENTATIVE JOSEPHSON asked if Senate Bill 138 [passed in the Twenty-Eighth Alaska State Legislature] provided an agreement to share the extra costs of the off-take facilities.

MR. DUBLER answered:

... no, there has not been. The, the [Alaska LNG] project's responsibility ends at the flange that they put in. We're debating whether ... the project would put in the metering stations to determine how much gas was taken off, or whether we put that metering station

in ... but ... basically, at the flange, anything downstream of the flange is, is not their responsibility.

REPRESENTATIVE JOSEPHSON surmised that the state would be entirely responsible for the costs of the off-takes, spurs, and the build-out.

MR. DUBLER clarified that whether the state government is responsible is a policy decision to be made by the governor and the legislature. As an example, ENSTAR built its system and was reimbursed through tariffs charged to its customers; however, he opined that smaller communities would not have the ability to do so. In further response to Representative Josephson, he said cost estimates for certain communities will be discussed in slide 30.

CO-CHAIR NAGEAK recalled discussion last year about off-take points on the pipeline, and the possibility of shipping LNG to coastal communities and to communities along the Yukon River by barge. He asked about the ability to ship LNG by barge.

MR. DUBLER advised that, due to the cost of LNG facilities, building a second facility would not be cost-effective; he suggested LNG from the Nikiski facility could be loaded onto tankers.

MR. KRUSEN clarified that the Alaska LNG project plant is intended to process LNG for export use only; AGDC and others will explore the possibility of LNG manufacture for in-state use, but that would not be part of the main LNG plant at Nikiski. He offered that some alternatives are propane, compressed natural gas, and LNG.

MR. RICHARDS added that under Senate Bill 138, AGDC and AEA, in consultation with DNR, are charged with reviewing alternative methods to deliver hydrocarbons to communities within Alaska, and this is being undertaken at this time.

[8:47:07 AM](#)

CO-CHAIR NAGEAK further asked whether liquefaction [facilities] in Prudhoe Bay and in Fairbanks are still under discussion.

MR. DUBLER said the trucking option from the North Slope to Fairbanks is still a possibility; furthermore, AGDC has a statutory direction to explore all of the options once

construction begins on the Alaska LNG project. In further response to Co-Chair Nageak, he said currently there is no liquefaction plant in Prudhoe Bay.

[8:47:58 AM](#)

REPRESENTATIVE HAWKER returned attention to AGDC's subsidiaries. He expressed his understanding of the legal format that vests a subsidiary with the authority provided by the legislature in AS 31.25.120, and of AGDC's stated intent, and the purpose and powers outlined in its articles of incorporation. He asked whether the powers given to the subsidiary are so broad that AGDC may be exposing itself to "mischief with the subsidiary." For example, the subsidiary is empowered to acquire gas from the North Slope for certain activities or for export. The limiting factor, as heard during previous testimony, is that the legislature must appropriate money to enable the subsidiary to do so; however, the statute reads as follows [in part]:

A subsidiary created under this section may borrow money and issue bonds as evidence of that borrowing

REPRESENTATIVE HAWKER surmised the foregoing language would allow the subsidiary to buy massive amounts of gas for export by going to the capital market, without a general obligation (GO) bond, "and suddenly you have a subsidiary that has just taken one of our producers out of the picture, and if I was our producers, I'd be a little nervous about us having given you this power."

[8:51:32 AM](#)

DAN FAUSKE, President, AGDC, DCCED, answered that AGDC created subsidiaries at the request of the administration, one of which was to act as an aggregator for "small, in-state use." He stressed that there was never a discussion in regard to the magnitude suggested by Representative Hawker. Mr. Fauske said AGDC's board of directors discussed the issue, and decided it would be a good asset to create two subsidiaries, but gave clear instructions that AGDC was not to name officers or take action. He remarked:

I can't speak to the intentions or what could possibly happen, I can only speak to what I know took place ... and I don't have a clear answer for what could happen. I just want to be clear, that was never the intention of the meeting

REPRESENTATIVE HAWKER said he believed the board of directors acted in good faith, but he remained seriously concerned with the unclear lines of authority and responsibilities, the fact that there is no coordinator of the entire project, and the possibility of "ulterior motives by people that can read these laws as clearly as I can and see that you have opened up a facility here that we could drive a gas pipeline project through."

[8:54:27 AM](#)

MR. BURNS agreed with Representative Hawker in that the breadth of the authority given in the statute is very broad, as is intended, because any corporation needs full flexibility to act in the best interests of the corporation to achieve its objective. He assured the committee the board of directors' decision regarding the two subsidiaries was limited to the purposes indicated by Mr. Dubler in previous testimony. Mr. Burns said the biggest concern is one of trust. The AGDC board has a fiduciary responsibility to the state of Alaska, and it respects that responsibility. He cautioned against limiting authority because of concerns about what might happen in the future, and urged that the broad authority remain. He restated that the AGDC board of directors is judicious in its exercise of its responsibilities.

REPRESENTATIVE HAWKER observed that a significant lack of trust has developed between some members of the legislature and whomever is in charge of this project plan. In contrast, he pointed out that the ASAP project was executed and communicated - with the legislature - in manner of trust, which has now been violated and lost.

MR. BURNS, speaking as board chair, expressed his concern about the lack of a clear command and control structure. He opined part of the problem is that Senate Bill 138 gave AGDC the primary responsibility for developing natural gas pipelines, the Alaska LNG project, other transportation mechanisms, and more. However, the same statute provides broad authority which directs that the commissioners of DNR and DOR are in charge of the activities of each their departments. He said that leaves one wondering about the command structure. Mr. Burns returned attention to slide 10, which illustrated the project management team (PMT), and remarked:

That's what everybody expects. You, you have a very clear organizational structure, you do not have that in this situation. I think that's evidenced by the organizational chart that was presented, I think, by DNR. And you are left with wondering who is making those decisions.

MR. BURNS cautioned that the state cannot allow the project to fail, if it makes economic sense, but unless decisions are made competently, with a coordinated effort, and are consistent, the project cannot succeed. There must be an organizational structure with clear coordination of efforts. He relayed a recent conversation with Mr. Fauske informing him that, subject to confidentiality agreements, and speaking as the board chair, AGDC will provide the legislature with complete information and access to its employees as needed. Finally, Mr. Burns expressed his belief that the attorney general does not have the time or ability to be the head of the project status, and he advised that the statute, as drafted, leaves many questions unanswered, leading to turf warfare within the corporate structure.

[9:02:36 AM](#)

REPRESENTATIVE HAWKER acknowledged that Mr. Burns was speaking from an element of frustration, however, he pointed out that the House Resources Standing Committee contributed significantly to the crafting of Senate Bill 138, and; therefore, has a strong grasp of the intent and purpose of the bill. Although AGDC is the "prime mover here" the fact that DOR and DNR have prime responsibilities was very intentional, because DNR and DOR have strong custodial responsibilities for specific tasks and activities, such as regulatory authority, which cannot be assigned to AGDC. The legislature created AGDC as a corporate entity to work in a contractor and client relationship to execute the state's constitutional responsibilities as it develops its resources. Representative Hawker stressed that DNR and DOR have clear and unalienable responsibilities. If it so chooses, DNR may contract through AGDC for the sale and marketing of gas. He said turf wars are a big problem and are not unusual in corporations large and small. During the process of crafting the enabling legislation for the heads of agreement (HOA) and memorandum of understanding (MOU) documents, the legislature envisioned that someone in the executive branch of government would be responsible for managing the separate elements and adjudicating responsibilities between the entities. He expressed his hope that AGDC would help find a senior manager and a clear line of authority to be in charge of the project.

He remarked, "But no matter how well we craft the statute, John, we cannot legislate leadership"

[9:08:54 AM](#)

REPRESENTATIVE JOHNSON expressed his belief that since the administration has replaced AGDC board members, it could do so again. It is incumbent on the legislature to search for leadership and he said, "If you don't know who your leader is, there is no leader."

REPRESENTATIVE JOSEPHSON shared the perspective of those who have testified regarding a lack of clear command and control structure, or demarcation of authority; on the other hand, he questioned the inference that Mr. Fauske or Mr. Burns "gamed the board," and that the legislature feels trust has been violated or lost. He said he did not feel that way, although he agreed with Representative Hawker that there should be a designated statutory authority at "the top of the pyramid." He stated that he sees a good gas team, and he applauded work of Senate Bill 138, but some reform is necessary to make the legislation work more smoothly.

REPRESENTATIVE HAWKER strongly clarified that he in no way impugned or suggested that Mr. Fauske or Mr. Burns had gamed the board. He repeated his question, "Has the board been gamed by someone with an ulterior motive?" There was no suggestion that Mr. Burns or Mr. Fauske in any way were part or party to anything inappropriate.

[9:12:57 AM](#)

REPRESENTATIVE HERRON asked whether there should be a formal document that guarantees that TransCanada's assets will cleanly go all the way to the subsidiary.

MR. BURNS said he was unaware of such a document. There is no doubt in his mind of the intent that if the legislature purchases TransCanada's assets, said assets are best held in the subsidiary AGDC has formed for that purpose, and a document is not necessary. However, this matter is to be determined by the legislature. He observed that the administration, the legislature, and AGDC all want Alaska LNG to succeed, and AGDC has proven its competency, but there remains a lack of trust, which may stem from the lack of a clear demarcation that one person - or a coordinated effort - is ultimately making decisions. Mr. Burns opined that House Bill 4 and Senate Bill

138 are phenomenal statutes of unprecedented authority that are focused on a specific objective. He noted that he did not take Representative Hawker's comments personally, and added "... nobody was gamed and nobody gamed anybody in the formation of those two corporations, or subsidiary corporations. They were very thought-through, it was a very deliberative process that the full board participated in, and there was no gamesmanship in any way."

[9:17:29 AM](#)

REPRESENTATIVE HERRON recalled that AGDC has done a great job presenting testimony, but there is a lack of leadership, although some "vagueness" may be desired by some. He expressed his belief that House Bill 4 and Senate Bill 138 statutes are not being utilized, due to a disappointing lack of leadership from the administration, and buying the assets of TransCanada has become a relatively small factor in the debate.

REPRESENTATIVE TARR noted Mr. Burns' longevity on the AGDC board, having served during two administrations. She recalled that AGDC and legislators worked primarily with Mr. Balash and Mr. Pawlowski on Senate Bill 138 to develop the infrastructure needed to advance an LNG project. She asked how Mr. Burns would compare of that work to the project structure now, because there was not one single person in charge then, pointing out that Mr. Balash presented on resource issues, and Mr. Pawlowski presented financial issues on behalf of DOR. This was a team effort, as compared to that of a single person.

MR. BURNS said, "What you've described is precisely what, what should happen and, I think, can happen." He stressed that AGDC, under no circumstances, should be vested with the authorities that reside within DNR and DOR. What needs to happen, is that the parties must work collaboratively and cooperatively to achieve the collective goal. Further, those decisions cannot be made in a vacuum because impacts on the project are great. Mr. Burns suggested AGDC could encourage a collaborative effort by convening regular meetings with the commissioners and the various teams, and said he was unsure whether there is value in creating another body or position. The problem is now known, and the testimony during this legislative session has been an embarrassment.

[9:24:02 AM](#)

REPRESENTATIVE TARR asked whether it is possible to communicate all of the parties' needs and desires to the administration and receive an update in January [2016] that addresses the legislature's concerns.

MR. BURNS assured the committee that as a result of the testimony heard, AGDC and its board will be actively participating in ensuring that concerns will be addressed to the legislature's satisfaction; however, if concerns are not addressed, he urged that the legislature consider modifying Senate Bill 138 during the [Second Session of the Twenty-Ninth Alaska State Legislature].

[9:25:20 AM](#)

The committee took an at ease from 9:25 a.m. to 9:40 a.m.

[9:41:18 AM](#)

CO-CHAIR TALERICO expressed his appreciation to Mr. Burns for testifying before the committee.

CO-CHAIR NAGEAK noted the value of the discussion.

REPRESENTATIVE SEATON asked whether further information is needed by the committee to understand the progress of the project, or any impediments to the timeframe.

MR. BURNS said the presentation has shown that the project is moving well and once there is a coordinated effort, it will continue to advance. At this time there have been no big surprises, and the competency level of the AGDC team is tremendous.

[9:44:05 AM](#)

MR. DUBLER directed attention to slide 30, which illustrated off-take facility cost estimates. Preliminary engineering was designed for four different sizes of off-take to accommodate the different sizes of the communities along the route of the pipeline. The largest is a macro sled sized to process a volume of gas from 80-330 MMSCF/D, and estimated to cost \$38 million, and the smallest is a nano sled sized to process a volume of gas from 0.04-0.25 MMSCF/D, and estimated to cost \$14 million. He restated that this equipment, on a per capita basis, is very expensive, and how it will be paid for is unknown.

CO-CHAIR NAGEAK informed the committee that AGDC provided the committee a document entitled, "FY2016 Organizational Chart Alaska Gasline Development Corporation (AGDC) & Alaska LNG Participation (combined)," and dated 10/29/2015.

REPRESENTATIVE SEATON observed that there is an existing integrated pipeline system throughout the Kenai Peninsula and Anchorage Matanuska-Susitna; he asked whether AGDC has considered not having a separate off-take plant, but accessing gas at the LNG plant for this area.

MR. DUBLER stated that South Cook Inlet off-take would come directly from the LNG plant. The ENSTAR system is a loop, and AGDC has designed one off-take at each end of the loop so that the system is not compromised "if there's a disruption in the middle."

MR. DUBLER turned to the progress AGDC has made to date. As an aside, he noted a future presentation at the next meeting of the board of directors will reveal AGDC's plan for the communities along the route of the pipeline, and subsequent to that meeting, the plan will be available to the public and the committee. Approximately 20 potential interconnection points - capable of taking off or adding gas to the pipeline - have been identified along the pipeline corridor. Some communities, such as Fairbanks would require an off-take and a lateral line, as engineered in the ASAP project. He pointed out that the conceptual cost estimates for off-take facilities do not include local distribution or consumer appliance conversion costs. Again, the preliminary analysis highlights significant economic challenges for small communities on a per capita basis [slide 31].

[9:48:44 AM](#)

CO-CHAIR TALERICO questioned whether Denali National Park and Preserve, National Park Service, U.S. Department of the Interior, an entity that has the wherewithal to establish a distribution system within the park, has been engaged in the project.

MR. DUBLER responded that AGDC has had discussions with the National Park Service about Denali National Park and Preserve; in fact, the National Park Service is interested in a gas supply to its buildings, and in converting its buses from diesel to compressed natural gas (CNG).

CO-CHAIR TALERICO mentioned that Nenana, although a small community, has rail, river, and roads, all of which are transportation corridors.

MR. DUBLER agreed, adding that Anderson is also well-suited for a distribution system. He summarized, restating that no final decisions have been made on the location of off-takes, and no public money has been appropriated for in-state off-take facilities or for distribution systems beyond preliminary analysis. The state's plan will evolve as the project matures, policymakers weigh in, funding sources - beyond user fees and tax assessments - are addressed, and a phased approach is considered [slide 32].

[9:52:02 AM](#)

MR. RICHARDS provided a status update on the ASAP project. He recalled that ASAP was the initial project, with which AGDC was tasked by the legislature, for the purpose of providing energy relief for Alaskans in response to the decline of the Cook Inlet natural gas reserves for home heating and power generation. Referred to as the back-up plan for the Alaska LNG project, AGDC concluded ASAP FEED in December 2014, which culminated in a Class 3 estimate; a Class 3 estimate incorporates engineering design advanced to the 25 percent level and a high level of confidence. The \$10 billion estimate is for GTP and a pipeline to deliver North Slope gas to Fairbanks and Southcentral Alaska. With the Class 3 estimate, the next phase would have been completing a recourse tariff, filing to RCA, and open season, but AGDC has withheld the process awaiting the outcome of the Alaska LNG project. However, AGDC is currently advancing the U.S. Army Corps of Engineers Supplemental EIS to secure federal permits and the right-of-way across federal land. The right-of-way across state lands has been provided, and when both state and federal right-of-way leases are secured, AGDC will hold leases representing approximately 85 percent of the pipeline route from Prudhoe Bay to Southcentral Alaska [slide 34].

[9:54:55 AM](#)

REPRESENTATIVE SEATON asked whether the ASAP supplemental EIS is also applicable to the Alaska LNG project.

MR. RICHARDS responded that the lead federal agency for ASAP is the U.S. Army Corps of Engineers because wetlands are affected, and there is no liquefaction plant associated with ASAP; conversely, the Alaska LNG project, because it is an LNG

project, falls under the purview of FERC, which is acting as its lead federal agency. However, the data gleaned for the ASAP EIS is of keen value to the Alaska LNG project because of their common route and common alignment.

MR. RICHARDS then directed attention to slide 35, which illustrated the status of the In-State Natural Gas Pipeline Fund capitalized in House Bill 4 [passed in the Twenty-Eighth Alaska State Legislature]. The original appropriation was \$355 million, which was estimated to be the cost to advance the in-state pipeline project through pre-FEED, FEED, and open season, to a final investment or sanctioning decision. Spending to date by major category is as follows [all amounts are approximate]:

- AGDC corporate operating and ASAP project development: \$135 million
- 2015 legislative re-appropriation to the public education fund: \$157 million
- DNR North Slope gas commercialization component fiscal year 2016 (FY 16): \$9 million
- Estimated outflow as of October 2015: \$301 million
- Current balance: \$54 million
- Maintaining ASAP project viability and readiness: \$12 million
- Contractual and FY 16 operating component: \$10 million
- Estimated available balance as of FY 17 budget cycle: \$32 million

[9:59:11 AM](#)

REPRESENTATIVE JOSEPHSON asked about the circumstances of the re-appropriation and its effect on the advancement of the ASAP project.

MR. FAUSKE expressed his understanding that the money was removed from the fund and re-appropriated to education during the [Second Special Session of the Twenty-Ninth Alaska State Legislature].

REPRESENTATIVE JOSEPHSON further questioned why AGDC originally needed the \$157 million that was re-appropriated.

MR. RICHARDS explained the fund was established to provide AGDC with the necessary funds to advance the ASAP project through to a sanctioning decision, which includes open season, subsequent

negotiations, and the redesign of the project to shippers' requirements.

REPRESENTATIVE HAWKER expressed his appreciation for Mr. Dubler's participation. He said his perception is that his frustration is shared with AGDC, state agencies, and business partners, regarding a lack of leadership and clear lines of authority. Representative Hawker stressed that his remarks should not be misinterpreted, as he has the upmost respect for state agencies, in particular DNR, which is the state agency tasked with the duty of obtaining the maximum value of resource wealth for the benefit of all Alaskans. Recalling his long working relationship with DNR, he said the discussion is not about agency versus agency, but that all parties need to come together for this project, as it is critical to the economic security of the state in the future. He restated his deepest respect for DNR and its employees.

[10:05:30 AM](#)

REPRESENTATIVE SEATON reminded AGDC of his request for a document that officially and clearly defines that if the state buys out TransCanada, its ownership percentage would go to them.

[10:07:10 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 10:07 a.m.