

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

January 29, 2016

1:02 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Bob Herron
Representative Craig Johnson

COMMITTEE CALENDAR

PRESENTATION(S): ALASKA LIQUEFIED NATURAL GAS PROJECT BY STATE
OF ALASKA GAS TEAM

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

FRITZ KRUSEN, Interim President
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community and Economic Development
(DCCED)
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation on
organization, coordination, and decision making for the Alaska
Liquefied Natural Gas (AK LNG) State Gas Team (SGT).

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

POSITION STATEMENT: Provided a PowerPoint presentation on organization, coordination, and decision making for the Alaska Liquefied Natural Gas (AK LNG) State Gas Team (SGT).

CRAIG RICHARDS, Attorney General
Department of Law (DOL)
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation on organization, coordination, and decision making for the Alaska Liquefied Natural Gas (AK LNG) State Gas Team (SGT).

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

POSITION STATEMENT: Provided a PowerPoint presentation on organization, coordination, and decision making for the Alaska Liquefied Natural Gas (AK LNG) State Gas Team (SGT).

ACTION NARRATIVE

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CO-CHAIR BENJAMIN NAGEAK called the House Resources Standing Committee meeting to order at 1:02 p.m. Representatives Nageak, Talerico, Tarr, Josephson, Seaton, Olson, and Hawker were present at the call to order.

PRESENTATION(S): Alaska Liquefied Natural Gas Project by State of Alaska Gas Team

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CO-CHAIR NAGEAK announced that the only order of business would be a presentation on the Alaska Liquefied Natural Gas (AK LNG) Project by the State of Alaska Gas Team. He asked the presenters to introduce themselves.

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FRITZ KRUSEN, Interim President, Alaska Gasline Development Corporation (AGDC), at the request of Representative Hawker, introduced himself as a newcomer before the committee and the public. He said he is an electrical engineer with 38 years of experience in the oil and gas industry. He said he has worked in the continental United States with natural gas gathering, processing, and transmission lines. He told the committee he was hired on with AGDC as the Vice President of the Alaska

Liquefied Natural Gas (AK LNG) Project and works with the Project Steering Committee, which is the technical guiding group for the AK LNG Project. Mr. Krusen commented that he hopes when people see him they see not him personally, but AGDC. He thanked the committee for allowing him to speak today.

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MARTY RUTHERFORD, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources (DNR), instructed the committee to turn to slide 2 of the PowerPoint presentation where she outlined what the team will be discussing. She stated the summary would include the statutory authorities within each agency, their roles with the decision-making process for AK LNG actions within each authority, the state team organizational structure, and the coordination involved between agencies and AK LNG. She listed the included agencies as the Department of Natural Resources (DNR), the Department of Revenue (DOR), the Department of Law (DOL), and the Alaska Gasline Development Corporation (AGDC). She concluded that time willing, an update would be given on the status of the TransCanada (TC) buyout and the AGDC presidential search.

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CRAIG RICHARDS, Attorney General, Department of Law (DOL), moved to slide 3, "Senate Bill 138 Summary," and reviewed the provisions of Senate Bill 138 [passed and signed into law in 2014]. One of the things Senate Bill 138 did was to provide the relative authority for the different governmental authorities, particularly DNR and DOR. He stated Senate Bill 138 also reworked production tax so the State of Alaska (SOA) would have the option to take production taxes in actual gas as opposed to money. He added AGDC was created to be the entity in charge of the state-owned infrastructure for the project. He concluded by saying Senate Bill 138 created the Municipal Advisory Gas Project Review Board (MAGPRB), which is the municipal entity Commissioner Hoffbeck works with to develop a property tax framework that is acceptable and works for the varying state municipalities.

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REPRESENTATIVE SEATON requested clarification of Mr. Richards's statement about taking production Tax-As-Gas (TAG) and asked if that would decrease the state's monetary participation in the project.

MR. RICHARDS replied it would provide the option, if ultimately selected by the producers and upon approval of the legislature, for production taxes to be taken at the wellhead in gas as opposed to money. He further clarified that TAG decreases the amount of cash at the point of production the state receives while increasing Alaska's commercial participation in the infrastructure, marketing, delivery, and sale of gas.

REPRESENTATIVE SEATON said he wanted to make sure that the state's participation in this would not decrease Alaska's monetary share.

MR. RICHARDS explained Alaska's royalty share of 12.5 percent interest without the provision would increase to 25 percent with the TAG provision. He reiterated that fact by noting it puts the state at a quarter, versus an eighth, commodity participant for its own gas.

REPRESENTATIVE SEATON offered his understanding that it wasn't a decrease in money in the project so much as it was in the upstream value and how that was derived.

MR. RICHARDS answered yes.

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MR. RICHARDS said slide 4, "Overview of State Authorities," would be better left for each individual agency to explain.

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MS. RUTHERFORD stated that slide 5, "Department of Natural Resources (DNR) Authority for AK LNG Project," names which negotiations the DNR commissioner is authorized to make. These include commercial agreements, modification of some lease terms, and marketing volumes of Royalty-In-Kind (RIK) and TAG for the state. She explained that under Alaska Statute (AS) 38.05, DNR, in consultation with DOR, is allowed to manage the sale of gases acquired when companies decide to pay their production taxes in gas versus money. She said DNR also negotiates the "very foundational" threshold agreement referred to as the Upstream Gas Supply and Balancing Agreement.

MS. RUTHERFORD expressed the importance of understanding the 25 percent ownership position. She said AS 38.05 allowed the State of Alaska to determine if AK LNG progresses and producers to

choose to pay their production taxes in gas at a 13 percent gross payment in addition to 12.5 percent royalties received as a landowner, as well as what the payment should be out of the Point Thomson Unit. Ms. Rutherford said, "Right now there are a number of what's called net profit share leases and sliding scale leases and ... we are in the process of negotiating fixed royalty shares on those and it is the combination of the three pieces that will determine exactly what our total gas share will be." She estimated the amount to be between 24 and 25 percent, but stressed that 25 percent is not a guarantee. Once negotiations are finalized over the next few months the percentage will become more precise.

MS. RUTHERFORD related that the DNR commissioner may make certain modifications to AK LNG Project leases for the initial project term (IPT). She explained IPT to mean whatever term the legislature and executive branch determine the initial life of the project to be.

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REPRESENTATIVE HAWKER commented on the quality of the working document the presenters brought forth today. He asked if there were many times where there was a discrepancy among agencies that required a higher level to figure out roles and responsibilities of the various agencies.

MS. RUTHERFORD replied, "Not specifically," but indicated there were some areas needing clarification, such as "elements that fell within certain issues." She told the committee that in-state gas supply has a demand and a supply side that would be seen later in the responsible, accountable, consulted, and informed (RACI) chart showing specific work stream responsibilities.

REPRESENTATIVE HAWKER said the "lack of granularity" had been one of the biggest issues with the legislature in the past. He stated the importance of knowing who the legislature was working with, which role each entity played, and where the responsibility rested. He asked how long this granularity had been sorted out.

MS. RUTHERFORD responded it depends on which person was asked. She offered her feelings it was not fully captured until the last week and a half, but there was a good understanding of it within the teams.

REPRESENTATIVE HAWKER surmised that that would explain the governor's public comments of last Saturday [1/23/16] explaining how everyone was on the same page and details had all been sorted out.

MS. RUTHERFORD answered that was correct. She noted everything had to be written down and in black and white to dismiss any misconceptions.

REPRESENTATIVE HAWKER expressed his appreciation for getting issues sorted out.

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REPRESENTATIVE JOSEPHSON inquired whether the TAG percentage of between 12.5 and 13 percent was about the same for other LNG projects around the world. He further questioned why that number was chosen and not, for example, 20 percent.

MS. RUTHERFORD replied she would think of it slightly differently. The Prudhoe Bay leases were signed and fixed at 12.5 percent as "deal one leases" back when the first Prudhoe Bay lease sale occurred. Those leases are the bulk of the leases that set the royalty amounts. Some of the new form leases for Point Thomson have different royalty percentages, net profit share, and sliding scale, and agencies are working to fix those so there can be a well understood lease to determine actual royalty amounts. The legislature determined that the producers had the ability to convert their payment of production tax to gas by fixing it at 13 percent. She stated she was not involved in the discussions but understood that the range that was considered by the legislature was 8-13 percent, and the legislature chose the higher number. She reported it is the 13 percent gross that is added to the actual royalty percentages of leases at both Prudhoe Bay and Point Thomson. She informed the committee that is where the 24-25 percent comes from and the actual rate will be set once negotiations are complete and will be applied to all leases for the volume offtake. That rate will not be fixed by the legislature, but instead by the offtake determination that will be initially made for both Prudhoe Bay and Point Thomson, and will set the equity share for the rest of the project.

REPRESENTATIVE JOSEPHSON asked whether the legislature had targeted that properly when it looked at the 8-13 percent range, and chose 13 percent, or if the legislature had cheated current

and future generations [of Alaskans] out of a "more reasonable share of the value of production."

MS. RUTHERFORD allowed that she had not researched that.

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REPRESENTATIVE SEATON shared his interpretation that whatever the RIK and TAG percentage is going to be, the participation percentage will be as well.

MS. RUTHERFORD confirmed that is correct.

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MS. RUTHERFORD instructed the committee to turn to slide 6, "Department of Natural Resources (DNR) Roles/Focus Areas for AK LNG Project." She said this slide further articulates DNR's statutory responsibilities for the AK LNG Project. She explained some of the main roles of DNR are to negotiate commercial agreements, hold the best interest of the state in its hands, and move forward the main policy objectives of the state. The department is charged with the task of managing some of the risks associated with entering the project as a commercial player and not as the "normal sovereignty." Ms. Rutherford explained a "normal sovereignty" relationship is established by royalty and taxing, such as property tax and production tax. She stressed the fact this will be a "totally new ball game" for the state as an "equity player." She illustrated DNR will have two roles, marketing of in-state natural gas and delivery of domestic gas supply to AGDC. She added that AGDC will also function as the shipper for the AK LNG Project. Ms. Rutherford advised the committee the gas will come off of the two units, down the pipelines, into the gas treatment plant (GTP), into an LNG facility in Nikiski, and, at that point, come off the marine system and enter the export market. At various flanges along the way the gas may come off as natural gas, which AGDC will either aggregate or facilitate the sale of directly to the in-state market. She stressed that the main goal is protecting the best interest of the state.

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REPRESENTATIVE HAWKER shared his interpretation of how the 25 percent of state ownership is determined. He referenced discussions from a previous House Resources Standing Committee meeting [1/27/16] explaining the project is progressing. He

mentioned once the state gets through Pre-Front End Engineering and Design (Pre-FEED) then the discussion could move on to Front End Engineering and Design (FEED). He pondered a situation where the DNR commissioner felt RIK was not in the best interest of the state and decided not to make that choice. Representative Hawker inquired whether capital costs remain the full 25 percent if equity ownership is reduced to 13 percent in the pipe.

MS. RUTHERFORD replied it is a little different than that. If a determination cannot be made to prompt RIK verses Royalty-In-Value (RIV), it wouldn't give producers the option to even pay their production taxes in gas. The State Gas Team (SGT) is presuming it can get to an RIK decision. She explained this is done by minimizing the state's risk and costs while maximizing revenue options. She further responded to Representative Hawker's question by drawing attention to the second half of the slide. She explained that by ensuring the state has the appropriate gas lifting rights and access to fundamental information, it will have the right tools to deal with potential buyers. This will make the state what producers call a "synthetic working interest owner," which is needed to convince buyers it actually has the gas to sell. Upstream costs such as field costs out of the units and also carbon dioxide (CO₂) disposal costs from the GTP will need to be determined. With an adequate market structure to minimize transportation and development costs while advancing the revenue stream, the state will be "situated very much like a producer." She ended by explaining the importance of protecting the state's acquisition and sale of gas just like [producers] do, because it is those upstream revenues that will be the state's source of new revenues.

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REPRESENTATIVE HAWKER clarified by offering his understanding that should the state elect not to take RIK, the state's interest in the project will not be lowered. He reiterated his question if, at that point, the state would still be responsible for paying the full 25 percent for project costs. He stated that was the scenario he previously offered that Ms. Rutherford responded to as "wasn't quite that way."

MS. RUTHERFORD clarified that it is [the state's] gas supply that "triggers our equity position within the entire AK LNG kit ... infrastructure, so we would be down to zero." She referenced [Senate Bill] 138 [passed in the Twenty-Eighth Alaska

State Legislature] and explained the structure of the bill, combined with the decision to take RIK, as being what triggers the producer's ability to initiate a TAG decision. She explained that a lease calculation determines the total volume of gas to come up with a percentage that is the total ownership percentage and is "solidified within the infrastructure. If we don't take RIK, it doesn't trigger TAG, we have zero portion of infrastructure."

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REPRESENTATIVE HAWKER offered his interpretation of a zero ownership scenario for the state where value is extracted using alternate mechanisms by taking it at the wellhead and the "industry basically carrying the gas."

MS. RUTHERFORD acknowledged Representative Hawker's statement by saying, "That could certainly be the alternative approach." She stressed that is why SGT is presuming it can get an RIK decision. She explained in order to do that the commercial arrangements will have to be locked to ensure risks and rewards can be properly calculated. The state will then be able to weigh those factors as a decision moves forward into a FEED decision and final investment decision (FID).

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MS. RUTHERFORD reviewed slide 7, "Department of Natural Resources (DNR) Functional Organization for AK LNG Project." She explained the chart showed the commissioner at the top, followed by herself, deputy commissioner, overseeing both the Division of Oil & Gas (DOG) and North Slope Gas Commercialization (NSG). She oversees subject matter upstream experts from DOG who have both resource and technical perspectives. The commercial lead is Antony Scott. The upstream lead is Steve Wright, Chevron retiree, who is on contract with NSG. Midstream Lead is David deGruyter. She stated NSG is currently trying to contract someone to fill the vacant marketing lead position who can help negotiate the marketing structure. There are numerous approaches to the structure such as: a four party joint venture; an individual market structure with each company; a fully independent equity organization where DNR sets up a unique structure to compete "head to head" with other companies; or, as allowed by Senate Bill 138, the department could enter into an agreement with individual companies where they would sell [the state's] gas on terms "functionally equal to however they sell their own gas."

She explained the position is currently being filled through a contractor while commercial terms are negotiated.

MS. RUTHERFORD described slide 8, "Department of Natural Resources (DNR) Decision-Making Process," as showing the process where the SGT, with the help of subject matter experts (SME), develops proposals, decisions and policy direction, then consults the Office of the Commissioner, which makes the final decision.

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REPRESENTATIVE JOSEPHSON shared his understanding that ExxonMobil Corporation will not enter a joint venture [with the state]; however the other two [BP and ConocoPhillips] would.

MS. RUTHERFORD answered she is not at liberty to talk about any party's position. She admitted that discussions are ongoing with all parties.

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RANDALL HOFFBECK, Commissioner, Department of Revenue (DOR), turned to slide 9, "Department of Revenue (DOR) Authority for AK LNG Project," and elected to skip reviewing the first part of the slide, because it had already been discussed. He said DOR is in charge of managing the revenue received for gas delivered to the state. He stated in relation to governance and commercial and fiscal agreements, DOR is continually monitoring those negotiations. The decision for the project [AK LNG] has not yet been made, because it is mostly guided by the structure of the contract.

COMMISSIONER HOFFBECK announced slide 10, "Department of Revenue (DOR) Roles/Focus Areas," and explained Lazard presented DOR preliminary reports to the legislature last year [2015] on a range of financing options. The department is in consultation with DNR on negotiations of various other contracts. Right now DOR's primary focus is identifying and recommending financing options and opportunities for co-investment by other entities within Alaska, including municipal and regional corporations and even individual Alaskans. He explained the analysis for all the options will be included in Lazard's final report. He pointed out that if the co-investment option is available, then participation decisions will not be made until later on. He noted this is because of the high risk involved in early

participation due to having money tied up for an extended period of time.

COMMISSIONER HOFFBECK relayed DOR is working directly with the Municipal Advisory Gas Project Review Board (MAGPRB) consulting on an appropriate tax structure for payment in lieu of taxes (PILT). He stated that DOR presented a draft report to the Senate Community and Regional Affairs Standing Committee yesterday [1/28/16] and a final report should be on the governor's desk by Tuesday or Wednesday [2/2/16 or 2/3/16].

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REPRESENTATIVE SEATON commented on property tax, especially in reference to the North Slope, which is being looked at in relation to oil taxes. He asked if this structure is similar to the current way municipalities and the state split revenue for property taxes.

COMMISSIONER HOFFBECK replied no, the structure on this will be very different than the current structure. Presently the bulk of the revenue flows to the jurisdiction where the asset resides. It has been made clear to MAGPRB the previous outcome would not be likely this time around and the state will be keeping significantly more of the revenue.

REPRESENTATIVE SEATON asked whether the MAGPRB report would include a general breakdown of what percentage goes to the state treasury versus to municipalities.

COMMISSIONER HOFFBECK responded no, the focus of this summer was determining the impact on the project. He stated they really honed in on how much the project would be paying in PILT during construction and throughout the life of the contracts. He declared that is key to moving the project forward. The second focal point would be the relationship of municipalities and the state: and how much flows through to the municipalities versus how much resides with the state. He informed the committee those would not hold the project back.

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REPRESENTATIVE SEATON noted that the net present value calculation is part of the decision-making process. He opined part of the problem is that unless the legislature has a good net present value (NPV) to this project, "it's going to be difficult to make that decision." He further elaborated it is

going to be critical to have that [NPV] as one of the fundamentals of what the state looks at when making a decision, because the portion the state treasury receives could be a significant portion of the value of the project.

COMMISSIONER HOFFBECK agreed and said when contracts come before the body they will include recommendations on what that split should be. He noted that MAGPRB has not identified a reasonable split on [the municipalities'] behalf. He also offered his assumption [DOR and the MAG group] will be in disagreement on what that split should be when the bill is brought to the legislature.

COMMISSIONER HOFFBECK explained a lot of the focus right now is analyzing the commercial agreements for the impact on state funding and making sure funding sources are not excluded. He also said DOR is engaged in the development of governance agreements.

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COMMISSIONER HOFFBECK returned to the PowerPoint presentation. He directed attention to slide 11, "Department of Revenue (DOR) Functional Organization for AK LNG Project," and said the chart shows DOR's role is much smaller than that of DNR. He communicated how everything in DOR, in relation to the AK LNG Project, is reported up through Deputy Commissioner Dona Keppers. He further relayed that DOR has primarily used its existing staff and has not "staffed up."

COMMISSIONER HOFFBECK addressed slide 12, "Department of Revenue (DOR) Decision-Making Process," where he noted DOR uses the same reporting format as DNR. He said his staff did all the "work on the floor" then reported back to him before any decisions were advanced to the higher level team.

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REPRESENTATIVE HAWKER pointed out the similarities in DNR and DOR summary slides. He stated his term for the three SGT executives sitting before the committee today [Commissioner Hoffbeck, Deputy Commissioner Rutherford, and Attorney General Richards] is "the administration's executive committee." He revealed that at the end of the day, he credits them for making all the big decisions. Representative Hawker questioned the relationship between "the administration's executive committee" and the contractors. He requested clarification on who was

physically at the negotiations table directing the strategy. He inquired if the state is vesting in the contractors' authority to make decisions on its behalf or if ["the administration's executive committee"] was actually at the table having information fed to it via the contractors.

MS. RUTHERFORD replied it is a matrix structure where each of the teams have various integrated groups within them. She elaborated that the particular issue determines which representatives from each agency will be involved. She used the upstream issue of gas balancing and supply as an example where full-time contractor Steve Wright heads a team which almost hourly consults with policy makers or more often if clarification is needed. She explained the daily negotiations are really about understanding each party's position and trying to come up with agreements that address everyone's issues.

MS. RUTHERFORD explained that the primary negotiators are Ken Minesinger with Greenburg Traurig and Manzer Ijaz with Milbank who both hold very different expertise. She stressed that neither of the negotiators are ever left alone at the negotiating table and are always supported by members of the team, such as (DNR) executive upstream manager Steve Wright.

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REPRESENTATIVE HAWKER said it was his understanding that the actual negotiations were taking place by the two hired consultants. He stated his appreciation for the clarification. He reiterated that these are not inexpensive consultants and questioned if the \$11 million being paid out was giving the state the most value.

MS. RUTHERFORD answered, "Absolutely we are. Yes. It is a world class project." She shared how all agencies are trying to do their best at cost-saving measures, such as doing things electronically and telephonically whenever they can, but she emphasized that the expertise of the negotiators is one expense well worth the value. She further stated that the guidance from [the Department of Law] and subject matter experts (SME) ensures the state is not at a disadvantage.

REPRESENTATIVE HAWKER asked Ms. Rutherford for assurance that "the [administration's] executive committee" has not vested the state's decision-making authority with these consultants, but rather that authority and the onus of policy making was still retained by the state's commissioners and attorney general.

MS. RUTHERFORD replied, "Absolutely."

REPRESENTATIVE HAWKER thanked Ms. Rutherford for the clarification and stated how important clarity was in how the AK LNG Project should be developed.

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MR. KRUSEN directed attention to slide 13, "Alaska Gasline Development Corp. (AGDC) Authority for AK LNG Project." He admitted slight embarrassment in having to come before the authority that created AGDC and telling it what its authorities are. He touched on the fact that AGDC is responsible for developing the project and for acquiring ownership rights to the pipeline and gas treatment and liquefaction plants. He acknowledged the appropriations set forth by the legislature for the taking of TC. He announced AGDC is now the full 25 percent representative on the facilities chain. As result of the legislative appropriations, AGDC is also in charge of payroll and makes "the cash calls." He finished by stating that AGDC works with DNR and DOR to maximize the value of Alaska's gas.

MR. KRUSEN introduced slide 14, "Alaska Gasline Development Corp. (AGDC) Roles/Focus Areas," and said that most of the information on this slide has already been addressed. He directed the committee's attention to the middle dot under the key project areas, which said AGDC functions as the transporter for Alaska's gas. He referenced Ms. Rutherford's previous explanation that the shippers' role belongs to whoever actually owns the molecules. He explained the shippers are the ones that move the molecules down the line and said the relationship is defined by the Federal Energy Regulatory Commission (FERC). He illustrated "We operate sort of in the sandbox called FERC section 3."

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MR. KRUSEN explained slide 15, "Alaska Gasline Development Corp. (AGDC) Functional Organization for AK LNG Project," as being an organizational chart. He said AGDC is a public corporation, so it has a board. He mentioned the president position as currently being filled by himself. Next he stated the External Affairs and Government Relations (EAGR) position as being filled by Miles Baker. He said AGDC, as a project organization, really embraces the contractor model. He told about the commercial side of the chart, with Lieza Wilcox as the vice president. He

talked about normal contract work where a person is hired for the duration of a job and then is done. He explained AGDC has an exception with Ms. Wilcox, which he calls "a hat position," where she actually wears the AGDC hat. He mentioned Bruce Tangeman, the finance and administrative vice president, who was in the audience. He further explained the program manager position, which Frank Richards, "the fellow who brought you ASAP [Alaska Stand Alone Pipeline]," fills.

MR. KRUSEN moved to slide 16, "Alaska Gasline Development Corp. (AGDC) Decision-Making Process." He explained that technical decision making is "pretty simple" because AK LNG has access to the same SME as ASAP. He articulated that when it comes to pipeline matters, Frank Richards and the SME get together, and for gas treatment or LNG plant matters, he and the SME get together. Mr. Krusen explained he sits on the Project Steering Committee and Frank Richards sits on the Management Committee. He stressed that decisions are not made in isolation. If a policy decision needs to be made, consultation ensues with others at the table. He said that "by delegation of authority" some decisions are made by the president and the board.

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MR. RICHARDS announced slide 17, "Department of Law (DOL) Functional Organization for AK LNG Project." He started by saying that as Attorney General, he oversees the DOL. He explained the main purpose of DOL in the AK LNG Project was to provide legal advice to all of the agencies. He said according to AS 42.08.220, AGDC has the right to maintain its own internal or outside counsel for matters concerning internal governance issues or litigation. The department is ultimately AGDC's counsel for commercial agreements and contracts.

REPRESENTATIVE OLSON inquired whether DOL currently has any outside counsel on retainer.

MR. RICHARDS confirmed DOL does have outside counsel under retainer. He elaborated that two large international law firms, Milbank and Greenburg Traurig are on retainer. Mr. Richards explained DOL received a "fairly substantial" supplemental appropriation [during a 2015] special session for the two firms to draft commercial agreements. He explained, "That money, we have not been burning it particularly heavy, the last month or two because the commercial negotiations aren't churning documents in most of the work streams at this point." He

offered his hope things will pick up over the next couple months.

MR. RICHARDS returned to slide 17 where he pointed out that Jerry Juday is AGDC's primary contact for DOL. He explained Martin Schultz and Elena Romerdahl are both assistant attorney generals with DOL's Natural Resources Section and they are able to attend virtually all meetings with their agency clients.

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REPRESENTATIVE HAWKER offered his understanding of using the two big law firms Milbank and Greenburg Traurig. He also offered his observation that negotiations have slowed down quite a bit at this point. He referenced the 1/18/16 letter from Governor Walker to oil and gas producers [ConocoPhillips, BP, and ExxonMobil] that declared eight deliverables by the end of this legislative session [April 2016]. He questioned why [the law firms] have not been used heavily in this critical time.

MR. RICHARDS replied it is important to differentiate the roles that outside counsel play. The two main lawyers hold the negotiating role and are at the negotiation tables almost daily. He disclosed that the expenses are not just being paid out for one big lawyer to do all the talking, but also for the behind-the-scenes work of drafting agreements and other documents. He explained these can often times be 100-page documents. He elaborated that most of the work streams are not at the document drafting stage yet.

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REPRESENTATIVE HAWKER asked whether it would be possible to give some benchmarks of the eight specific agreements that have to be negotiated by end of session. He requested a basic status update showing where negotiations are at this point. He also asked when the last negotiation session was held and if a timeline could be given.

MR. RICHARDS answered that it would "certainly be advisable" but unfortunately most of that information is confidential.

REPRESENTATIVE HAWKER questioned whether the scheduling of meetings was confidential.

MR. RICHARDS answered yes. He stressed he is not saying that is the way things should be, just that that is how they are currently structured.

REPRESENTATIVE HAWKER repeated his confidentiality question to Mr. Richards.

MR. RICHARDS confirmed that virtually all communications are confidential.

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MS. RUTHERFORD relayed that of the eight agreements Representative Hawker referenced, seven are currently in constant negotiations. She said there are weekly meetings for some and daily meetings for others. She explained there are a couple foundational agreements that are in the principle stage, so there have not been any draft agreements made yet.

REPRESENTATIVE HAWKER asked whether Ms. Rutherford wasn't breaking confidentiality by disclosing meeting frequencies.

MS. RUTHERFORD replied "I don't think so, because I didn't say which ones were happening when. I am picking my words very carefully here."

MS. RUTHERFORD further elucidated draft agreements cannot be developed on a couple of foundational agreements, because they are still in the principle stage. She assured the committee that with the exception of one, there are ongoing negotiations on all of them.

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REPRESENTATIVE HAWKER shared his understanding that besides the two prime negotiation groups, there are a number of additional contracted support people. He mentioned Mr. Audie Setters, whose contract was not renewed, and inquired what had been done to replace Mr. Setters. He also asked for clarification of the responsibilities of Rick Harper.

MS. RUTHERFORD related that time has been spent identifying a contractor to fill the special SME marketing position. She stated the prospective candidate has spent time negotiating as well as has experience in LNG marketing. She said [SGT] realizes these people are very expensive and is trying to utilize them "in as focused a fashion as possible." Ms.

Rutherford discussed the perspective contractor has not only "first chair position" experience but also has operational experience. In response to Representative Hawker's question about Mr. Harper, Ms. Rutherford said he and two gentleman from Lummus Consultants International were brought on to have a "cold eyes review" of the ASAP dataset to see if it was capable of expansion, to assess the quality of the data, and to give a timeline of bringing ASAP online. She stressed this was not done to facilitate an alternative project. She stated it was simply to make the information available, once analysis was complete, to not only the executive branch but to the legislature as well. Ms. Rutherford explained Mr. Harper and the two individuals from Lummus worked with a combination of data including that from Alaska Gasline Inducement Act (AGIA), Alaska Pipeline Project (APP), and both the confidential and non-confidential ASAP data. She advised that very few people outside AGDC have access to the confidential data, but Mr. Harper and the two gentlemen from Lummus took that and made it into something that can go public. She clarified the background data will not be public information now or in the future.

[2:14:24 PM](#)

REPRESENTATIVE HAWKER remarked that this testimony opened up a whole new line of questioning. He asked if the use of contractors to "scale up" the ASAP dataset was in any way contradictory to, or competing with, AK LNG. He further questioned if the "scaling up" was in response to Governor Walker's 1/18/16 letter to oil and gas producers where there was an "or else" provision at the end.

MS. RUTHERFORD answered, "Absolutely not." She stated this was in direct response to what the administration requested. The administration wanted a third party to look at possible alternatives, and it was not about moving away from AK LNG. She stressed that Governor Walker supports AK LNG. She said she thought it was appropriate to have this information in case, for some reason, the project doesn't make it to FEED. She explained the administration doesn't have access to the confidential ASAP dataset and wanted a third party opinion as to whether or not ASAP would even be a viable option in a worse-case scenario where all partners back out at the end of Pre-FEED.

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REPRESENTATIVE HAWKER commented that "this really takes us back to last legislative session" when it was stated there would be a

"race to the finish line" with ASAP and AK LNG. Representative Hawker noted had he known the "space race" was seemingly still ongoing, he might have characterized his response a little differently. He also asked who Lummus is and said he was not familiar with the company.

MS. RUTHERFORD replied she would get that information to the committee. She assured the committee that the administration is in no way pursuing an alternative project. She reiterated that this is about securing Alaska's options in the worst case scenario if the AK LNG Project could not be developed.

REPRESENTATIVE HAWKER said his concern still stands.

2:19:30 PM

MS. RUTHERFORD returned to the PowerPoint presentation and moved to slide 18, "State AK LNG Organization Structure," to outline the structure for decision makers/policy advisors and the SGT. She emphasized the SGT and all of its agency representation are the people who are working the AK LNG issues on a daily basis. She explained they are represented by DOR internal SME and outside consultants. She added the same can be said for DNR. Ms. Rutherford articulated AGDC, SME, and consultants, supported by DOL and the outside counsel, are the ones who are working within the teams every single day; they bring analysis, options, and questions to those next up the line such as the attorney general and department commissioners. She elaborated that these are the people who determine major policy issues, unless there is no resolution, at which time the governor would get involved.

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MR. KRUSEN discussed slide 19, "AK LNG Project Value Chain Model," stating that the SGT decided to use a block diagram to explain the project. He reported that the two anchor fields, Point Thomson Unit (PTU) and Prudhoe Bay Unit (PBU), and Alaska's gas molecules, once acquired, are owned by DNR. He explained the AK LNG "kit" comprises: a transmission line from PTU about sixty miles, a transmission line one mile out of PBU, a large gas treatment plant (GTP) primarily to remove carbon dioxide (CO₂) from the natural gas, an eight hundred mile pipeline, then an LNG plant in Nikiski. Mr. Krusen explained that "kit" is what AGDC oversees. Once LNG is made it goes back to DNR for sale. Mr. Krusen reported that in a previous presentation [House Resources Standing Committee, on 1/25/16], Mr. Butt explained "a ten to one ratio of natural gas that flows

into LNG versus that which is available for in-state use." He informed the committee the smaller amount of the natural gas is still DNR molecules, and once they "turn the corner," they are in the AGDC aggregator function. He advised that AGDC will be the responsible party for aggregator functions, which will give small communities a voice at the table. He said AGDC's management of aggregator functions will also ensure lessened impacts on the LNG plant when gas is removed for seasonal, weekly, and daily swings.

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MS. RUTHERFORD introduced slide 20, "SOA AK LNG Work Streams," as more on functionality. She reported the lower tier of workers on the SGT are managing around 20 work streams that can be broken into two main categories, commercial and technical. She explained the commercial work streams are required to develop the actual commercial agreements, whereas the technical work streams deal with the upstream functions such as access to the molecules. She noted the importance of these duties in order for a synthetic owner to maintain the same functionality of a working interest owner. She noted this is how Alaska's gas is assured protection.

MS. RUTHERFORD discussed slide 21, "SOA AK LNG Organizational Framework," noting that the SGT is designed around a multidiscipline matrix that supports both the technical and commercial needs. She explained each state team is led by either DNR, DOR, or AGDC, and they all support one another. She noted that within the teams, work is done both internally and externally. She explained that for every hour of negotiation time, seven should be spent doing development work. She elaborated that general practice is to ensure whatever issue is on the table is fully understood, and she said the state's position can be clearly articulated. She concluded by saying that policy guidance is also used to elevate issues to the policy makers.

MS. RUTHERFORD shared slide 22, "AGDC, DNR and DOR Coordination," explaining AGDC, DNR, and DOR, supported by DOL, are working in jointly integrated processes. She opined the processes have given them a better understanding and appreciation for their statutory responsibilities. She noted the importance of knowing when and where coordination is needed and making sure efforts are not duplicated. She reported that the full gas team meets weekly and AGDC and DOR meet biweekly.

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MR. KRUSEN moved to slide 23, "RACI Definitions," and explained "R" stands for who is responsible, "A" stands for who is accountable, "C" stands for who is consulted, and "I" stands for who is informed. He elaborated upon the definitions.

MR. KRUSEN addressed slide 24, "Functional RACI Matrix," and reported it as a broad functional overview of how the agencies have come together. He drew attention to the first two columns which show who is responsible and accountable for which functions as follows: for resource ownership of the molecules, Ms. Rutherford is responsible and Mr. Myers is accountable; for sovereign taxation, Dona Keppers is responsible and Mr. Hoffbeck is accountable; for project ownership and governance of the kit, Frank Richards is responsible and Mr. Krusen is accountable; for project financing, Ms. Keppers is responsible and Mr. Hoffbeck is accountable; for LNG marketing, Ms. Rutherford is responsible and Mr. Myers is accountable; for in-state gas delivery in the kit complex, Brad Chastain is responsible and Mr. Krusen is accountable; and for the FEED decision support package, Ms. Rutherford is responsible and Governor Walker is accountable. He explained the FEED decision support package is a very, very complicated matter where a lot of people have to give input. He stated AGDC will support the kit input and DOR will provide the money input.

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REPRESENTATIVE SEATON directed attention to slide 24 and asked Mr. Krusen, as the person accountable for in-state gas delivery, how a competitive model with in-state gas is worked out. He opined there is an LNG plant currently in Nikiski that is liquefying gas at \$6 for 1,000 cubic feet (1 Mcf) and Cook Inlet might be less than that. He expressed his concern about in-state gas supply [from the North Slope] being more expensive gas and would be coming down to supply Fairbanks when there is cheaper gas that could come up from a small diameter supply line from Cook Inlet. He asked Mr. Krusen how that aggregation will be worked out and set up. He wanted to know if aggregation will be competitive or if demand will be aggregated from just the one supply regardless of higher cost.

MR. KRUSEN replied that the gas aggregator function and in-state gas sales are in early stages. He stated little has been done so far because the aggregator corporation was just recently established late last year [2015]. He said the aggregation

corporation will be "kicking off in a big way in February." Mr. Krusen told the committee he can't really answer Representative Seaton's question, but he acknowledged Representative Seaton had raised some good points. He stated there will be gas coming down from the North Slope and gas in Cook Inlet, and he offered his assumption that the market will sort that out on its own. He explained it is AGDC's prerogative to detour from doing anything that will distort the market.

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REPRESENTATIVE SEATON clarified he wanted to know what the policy decision is for the aggregator. He amplified his question by asking if the aggregator is setting the demand to come from one pipeline because that is the project or if the aggregator will be looking for the cheapest supply out of each place from where there is demand.

MR. KRUSEN answered it is still in the pre-mature stage and he doesn't have the answer. He mentioned they will be going to their board and giving them suggested parameters. He restated he didn't know the answer other than they don't want to distort the market.

REPRESENTATIVE SEATON expressed concern that in-state supply has been a major concentration area. He shared his hope that when it comes time for the policy questions regarding function - whether it be cost, making sure there is supply, or deciding whether to subsidize supply - AGDC comes back to the legislature and consults for advice. He further expressed his hope that AGDC will keep the legislature apprised of policies being developed.

MR. KRUSEN agreed that is achievable. He said it could be done ad hoc or at the AK LNG Project update required every four months.

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MS. RUTHERFORD returned to the PowerPoint presentation and explained that slide 25, "State Gas Team Primary Gas Commercialization Functions," is just a block reference of what was shown on slide 24. She elaborated that it shows who is actually responsible for doing the work and who is responsible for making decisions.

MR. KRUSEN directed attention to slides 26 and 27, regarding tasks that were compiled last Saturday [1/23/16]. He explained DOR, DOL, DNR, and AGDC will work through the major tasks of turning Alaska North Slope natural gas into profit through the AK LNG Project.

[2:37:54 PM](#)

REPRESENTATIVE JOSEPHSON asked who was most responsible for preparing the PowerPoint presented today.

MS. RUTHERFORD answered Lynn Kent from the gas line team was the responsible member for developing the packets. It was also Ms. Kent's task to gather everyone's input. Ms. Rutherford shared that the actual RACI chart was filled out in real time at a work session attended by all agency heads and support staff.

REPRESENTATIVE JOSEPHSON questioned the confidence the legislature should have for the remaining three years of the administration that even as people come and go this is the operating understanding of the departments.

MS. RUTHERFORD replied she absolutely believes yes.

MR. KRUSEN concurred and added that there may be some growth.

[2:40:28 PM](#)

REPRESENTATIVE HAWKER said the structure of RACI is "masterful" and asked who came up with it and what its origins were.

MR. KRUSEN replied it is a standard industry tool.

MS. RUTHERFORD said another version of it is called (LACTI). LACTI stands for L-leads a task, A-approves task work product, C-consulted on task, T-tasked to do the work, I-informed of the work product. She suggested a big thanks be given to AGDC Chair Dave Cruz for being the primary author for the process suggestion.

REPRESENTATIVE HAWKER inquired whether this approach was homegrown or whether someone was technical helping the group.

MR. KRUSEN responded that it is a tool everyone is comfortable with. He mentioned that Brad Chastain, the lead for the in-state function, is the person who facilitated the functional overview, and Steve Wright helped with the more detailed aspects

and task orientation of the charts. Mr. Krusen offered his understanding that the origin of the RACI model was with the United States military but that he would have to go on a "Google quest" to confirm.

REPRESENTATIVE HAWKER offered kudos to the facilitators and remarked that they seem to have "gotten the behemoth under control here."

MS. RUTHERFORD added to Mr. Krusen's previous statement that there will be increasing granularity with use of the RACI charts by noting that utilization of RACI will create an additional subset of tasks, which will offer a more detailed understanding of the work exercises.

REPRESENTATIVE HAWKER noted he liked the disclaimer on slides 26 and 27, which states, "Target Date is dependent upon alignment of all AK LNG Parties, which is outside of state control."

[2:43:27 PM](#)

MS. RUTHERFORD returned to the presentation and noted slide 28 was an overview of slides 29-42 so she would not be going over each slide, as they provided additional detail on the work stream teams including: fiscal, property tax, expansion and third party access, midstream system use, upstream, marketing, finance, and governance. The slides cover identification of who is lead on each of the work streams, what the duties are, and who the team members are.

MR. KRUSEN directed attention to slide 43, "Update on TransCanada Buyout," reporting that, as authorized by the legislature, the state acquired TC's equity interest in AK LNG on 11/24/15 for \$64.6 million. The information and functions have moved over from TC to AGDC, with the exception of some minor bookkeeping, to dissolve the TC Alaska "midstream limited partnership vehicle." One aspect of TC that still remains is the "good work" of the roughly 13 project team members TC left on contract through mid-May, who are mostly on the pipeline in Calgary. Mr. Krusen stated the project is almost over the hump on pre-FEED and the project team will start winding down. He said TC has submitted its final cost report, which is still being audited, but it looks like they might have to write Alaska a check for a couple hundred thousand dollars. Mr. Krusen said, "We all had very high respect for TransCanada." He added, "We all have stepped up and taken their role to represent the State of Alaska throughout the AK LNG Project."

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REPRESENTATIVE TARR related one of the concerns about the buyout was regarding some of the more technical work that was done early on that would be beneficial to the project as it moved forward. She inquired whether that highly valued product from the early work became part of the AK LNG Project and whether that process happened smoothly.

MR. KRUSEN answered yes. He offered his assumption that Representative Tarr was referring to work done related to the Alaska Pipeline Project (APP). He said it either has recently been moved over or is still in transit to the AGDC document management system. He assured the committee that firewalls had been set up for Alaska Stand Alone Pipeline (ASAP) data, AK LNG data, and APP data.

REPRESENTATIVE TARR shared her understanding that APP data became an asset of the state and, should it become useful, the state will have the option to gain back some of the value that was paid for it.

MR. KRUSEN confirmed it is "absolutely a state asset" and is now being looked after by the state pipeline company on behalf of the state.

[2:49:23 PM](#)

MR. KRUSEN said slide 44 was an update on the AGDC presidential search. He discussed B+R of Houston, Texas, as being the executive search firm that was hired in November. The search firm fees and expenses were not to exceed \$170,000. He said AGDC was advised it could take between 120 and 180 days, although he is pleased to report that he doesn't think it will take 120 days because there is such a high volume of interest. He described the ideal candidate as someone who is a leader, has a good technical and project foundation, knows gas pipeline and/or LNG, and knows the commercial, the regulatory, and the permitting world. He said B+R is an industry leader and thus is not cheap. He also stated that the high volume of interest in the position was more than anticipated.

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REPRESENTATIVE JOSEPHSON inquired whether Mr. Krusen would be applying for the AGDC presidential position.

MR. KRUSEN replied no.

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REPRESENTATIVE TARR weighed the options available for what the state can offer versus private sector employment. She expressed her concern about appearing to have downgraded the salary for this position. She questioned Mr. Krusen on whether [AGDC] would have some of those same issues.

MR. KRUSEN confirmed the issue is complicated. He stressed that that level of employment comes with certain expectations, such as stock and bonuses, which are not often available to state or public employees. He stated his realization that if they get "too outside the box," AGDC will have to come back to the legislature for approval to do whatever it takes to secure the talent.

REPRESENTATIVE TARR requested that the legislature be kept in the loop on this. She said she felt it's the sort of thing that would require a lot of background information before a decision was made and she wouldn't want to see a delay in the hiring of an excellent candidate.

MR. KRUSEN explained it is the board, not staff, who does the hiring. He reiterated that whoever is hired will have to be able to work well with the legislature.

[2:53:56 PM](#)

MR. KRUSEN resumed the presentation and that noted that slide 45, "AGDC: In-State Gas Aggregator," reiterates much of what had already been discussed. He explained that some of the technical functions of the aggregator are addressed on this slide, but Representative Seaton's points regarding commercial aspects are not covered and shows that AGDC has a lot more work to do.

[2:54:31 PM](#)

REPRESENTATIVE JOSEPHSON offered his understanding that Mr. Krusen had previously said AGDC is responsible for cash calls. He also recalled Commissioner Hoffbeck's earlier statement about financing options. Representative Josephson also shared his understanding of a possible \$600-\$800 million in 2017 that would not be financed. He offered his assumption that the state would

essentially be writing a check for that portion of FEED. He further questioned whether that should be subtracted in the reckoning when looking at the \$7 billion in the constitutional budget reserve (CBR) and the \$7 billion in the earnings reserve.

COMMISSIONER HOFFBECK answered there has not been a final decision made whether to bond or write a check. He explained that if the decision is to pay for it out of assets, then it would most likely be a CBR withdrawal.

REPRESENTATIVE JOSEPHSON explained that in the fall special session in 2015 there was quite a bit of criticism surrounding leadership roles, and he congratulated the SGT for doing such a great job of clarifying.

MS. RUTHERFORD said SGT would be happy to hear of Representative Josephson's gratitude. She explained that slides 47-49 include a reiteration of the various details from earlier in the presentation and is a guide to the numerous acronyms used.

[2:57:15 PM](#)

MS. RUTHERFORD reviewed DNR's 1/27/16 letter to the House and Senate Resources Standing Committees. She stated it simply showed the money used to pay TC for its work on the project before the November 24, 2015, buyout date when the state took over TC's share of the project. She explained the total costs to amount to \$64.59 million which is broken down into \$62.09 million in AK LNG cash calls and TC development costs and \$2.5 million in carrying costs. She specified these amounts are subject to audit, and audit results will be reported back to the legislature upon completion.

MS. RUTHERFORD noted that included in the committee packet is an update of the agreements and/or issues to be negotiated. She said TC has been removed from the sheet on any post-buyout agreements. She said most importantly this updated list shows which agreements need legislative approval.

MS. RUTHERFORD concluded by stating that Representative Olson requested clarification of the word "sovereign" and there was an e-mail attachment in the packets explaining sovereign in relation to how it is used in the context of the AK LNG Project.

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CO-CHAIR NAGEAK thanked the presenters.

3:00:36 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:01 p.m.