SENATE FINANCE COMMITTEE
January 30, 2015
9:05 a.m.

9:05:23 AM

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Donny Olson

MEMBERS ABSENT

Senator Peter Micciche, Vice-Chair
Senator Lyman Hoffman

ALSO PRESENT

Frank Richards, Vice President of Engineering and Program Management, Alaska Gasline Development Corporation, Department of Commerce, Community and Economic Development; Joe Dubler, Vice President, Commercial Operations, Alaska Gasline Development Corporation, Department of Commerce, Community and Economic Development; Fritz Krusen, Vice President, Alaska Liquid Natural Gas, Alaska Gasline Development Corporation, Department of Commerce, Community and Economic Development.

SUMMARY

^PRESENTATION: AGDC PROJECTS UPDATE

9:06:12 AM

FRANK RICHARDS, VICE PRESIDENT OF ENGINEERING AND PROGRAM MANAGEMENT, ALASKA GASLINE DEVELOPMENT CORPORATION, (AGDC) introduced his team and noted that they were there to provide an update on the activities and work products that AGDC had undertaken during the preceding year. He made note

of the passage of SB 138 [legislation relating to commercial production of North Slope natural gas that passed the legislature in 2014] and AGDC's involvement in the Alaska Liquid Natural Gas (AKLNG) project. He summarized that he would speak to the assets that AGDC retained for the State of Alaska and characterized AGDC as the state's "pipeline company." He furthered that the work activities and work products developed by AGDC were assets owned by the state. He stated that he wanted to identify AGDC's corporate focus for the following year as well as provide an update on the Alaska Stand Alone project (ASAP) and speak to project funding status.

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Mr. Richards referred to slide 3, "AGDC Introduction," and related that AGDC was a legislatively-created public corporation that had a legal existence separate and independent from the state (AS 31.25.010). He explained that Alaska statute provided AGDC with the ability to represent the state in developing pipeline and transportation projects to provide energy for Alaskans. He recounted that the passage of HB 4 [2014 legislation relating to AGDC] gave the direction for AGDC to focus on an in-state natural gas pipeline to provide an energy transportation mechanism to meet the needs of Fairbanks and Southcentral Alaska. He spoke to the declining reserves in the Cook Inlet area and explained that the focus was originally to provide resources of the North Slope to Interior and Southcentral Alaska along the pipeline corridor; furthering that with the passage of SB 138, the focus of AGDC had expanded to include the representation of Alaska in the AKLNG project. He reiterated that the goals of the AGDC were to provide energy and maximization of natural resources and commercialization of the huge amounts of natural gas on the North Slope to help the state by providing an income stream into the future. He added that AGDC currently held the equity position for the liquefaction plant in the Alaska LNG project; it accounted for a 25 percent representation of the plant in one segment of the AKLNG project. He concluded that AGDC's focus was to provide a pipeline capable of delivering those mechanisms to Southcentral and other communities at the lowest possible cost.

Mr. Richards presented slide 4, "AGDC Objectives":

- Commercialize Alaska’s North Slope gas resource
- Secure a stable, affordable, long-term energy supply for Alaskans
- Generate revenue, jobs and economic growth
- Facilitate further oil and gas development
- Maximize overall benefit to Alaskans

Mr. Richards re-stated that part of the objectives given to AGDC by the legislature was to provide for a long-term affordable energy supply for Alaskans. He referred to the historically high cost of home heating fuel and diesel for residents of Fairbanks, Anchorage, and rural communities; and characterized AGDC objectives as providing energy relief to those communities.

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Mr. Richards gave an overview of slide 5, "Corporate Initiatives," and highlighted the two projects under AGDC's responsibility: the ASAP project, and the AKLNG project. He explained that the ASAP project, with the passage of HB 4, was to provide energy for Alaskans. He noted that the design concept was changed early in 2013 to include a pipeline that would deliver utility-grade gas that could go from the pipeline into existing distribution systems and then to the homeowner. Additionally, he explained, the gas could be utilized in power production with the existing turbine sets.

Mr. Richards furthered that the ASAP pipeline was a 727-mile, 36-inch diameter pipeline that was capped at 500 million standard cubic feet per day. He noted that this capping limitation was originally placed by the Alaska Gasline Inducement Act (AGIA) statute and by the agreement signed with TransCanada. With a more recent termination agreement, signed in July of 2014, AGDC was relieved of the cap; however, at that point the work had advanced to a degree that the change to the design cap would not have been beneficial. He mentioned the goal of finishing the work in order to get to a Class 3 estimate and identify the economics of that particular line. He specified that the estimate showed the cost to be approximately $10 billion. He reiterated that this cost covered for a gas treatment plant on the North Slope with a 727-mile pipeline, and a lateral line leading in to Fairbanks that would hopefully feed into a distribution system built out by others.

Mr. Richards referred to a 3.5-year construction window, and noted that with the passage of SB 138, AGDC had deferred the schedule due to policy, which determined that AKLNG would be the primary project for the State of Alaska. He further opined that it had not made sense to finish the ASAP project on the original schedule, due to doubts about the success of the project at that time. He discussed reasoning such as the need to seek commercial interests (producers) to ship on the ASAP pipeline while they were simultaneously designing and planning their own line. He specified the AGDC had deferred work activities and scheduling until 2024 for completion of the ASAP project.

Mr. Richards discussed the AKLNG project, stating that the focus was on commercialization of Alaska North Slope resources. He explained that the project was in the "Pre-FEED" stage, [pre front-end engineering and design effort]; as opposed to the ASAP project, which had just completed the FEED stage, and was able to come up with a Class 3 estimate. He highlighted the differences between the two projects, explaining that AKLNG would export LNG to the world market. He elaborated that the gas composition on the AKLNG line would be slightly different because the gas would be conditioned to an LNG-quality specification, by removing carbon dioxide (CO2) down to 50 parts per million as opposed to ASAP, where industry or utility-grade standards were met at approximately 3 percent CO2. He furthered that the design capacity of the two projects were slightly different.

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Senator Dunleavy asked if the difference in gas composition would affect the sale price.

JOE DUBLER, VICE PRESIDENT, COMMERCIAL OPERATIONS, ALASKA GASLINE DEVELOPMENT CORPORATION, answered that it would depend upon the customer. For example, ENSTAR, did not sell on a BTU (British thermal unit) basis, but rather on a volume metric basis. Conversely, a large customer utility would most like pay on a BTU basis, and would therefore pay a differential for gas with a higher-BTU content. Senator Dunleavy followed up to ask if the gas for export could be at a higher price. Mr. Dubler responded in the affirmative.

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Co-Chair MacKinnon asked Mr. Richards to restate the difference between the two projects and the quality of gas. Mr. Richards clarified that each project had a gas treatment facility on the North Slope with a pipeline leading to Southcentral Alaska. The ASAP project would terminate in the ENSTAR Beluga pipeline system, whereas the AKLNG pipeline would terminate at Nikiski with the new LNG plant. He explained that the gas composition was different due to the customers: the ASAP would provide utility-grade gas to serve utilities for homeowners using natural gas as a heating source, whereas AKLNG would provide LNG-quality gas. He went on to point out that one of the major differences in the two projects was the volume through-put: AKLNG started out at 3.3 billion cubic feet per day at the gas treatment plant, whereas the ASAP project would be 500 million. He added that AKLNG also has a large LNG facility in Nikiski.

FRITZ KRUSEN, VICE PRESIDENT, ALASKA LIQUID NATURAL GAS, ALASKA GASLINE DEVELOPMENT CORPORATION (AGDC) discussed the differences with utility grade gas and liquid natural gas. He echoed Mr. Richards's comments with regard to LNG having CO2 removed to a higher criteria in order to be utilized for home heating rather than industrial application. He articulated that perhaps such treatment makes the gas richer and more marketable to the Far East LNG markets that expect a richer grade of gas.

9:19:00 AM

Senator Bishop asked if LNG was a more valuable export product. Mr. Kruzen answered in the affirmative and noted that people in the Far East, Japan, and South Korea did not have natural gas and therefore paid for it based upon parity with oil.

Mr. Richards continued his presentation and discussed the scheduling of the two projects. He conveyed that the next major milestone for the ASAP project had aligned with the pre-FEED/FEED decision for AKLNG in the first quarter of 2016. He furthered that the ASAP project, considering the delay in filing with the Regulatory Commission of Alaska, would shift toward being on the same timeline with the AKLNG project for 2024-2025 completion and first gas production.

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Mr. Richards continued to say that the ASAP project schedule had been altered to align the next major milestone date with the AKLNG Pre-FEED/FEED decision in the first quarter of 2016. Until that time, he explained, there would be uncertainty as to whether the ASAP project was advancing; AGDC would utilize the ASAP project as a back-up project if AKLNG did not advance as planned.

Mr. Richards moved to slide 6, "Accumulated Corporate Assets," and expressed that AGDC wanted to identify the assets they had accumulated since the group's inception. He revealed that with the original passage of the bill, the legislature directed the Department of Natural Resources to grant AGDC a state right-of-way. He furthered that it was an unconditional and transferrable right-of-way, and was available for AGDC to use on the aforementioned projects.

Mr. Richards stated that AGDC had completed an environmental assessment statement on the original design concept, which was a smaller diameter, higher pressure pipeline containing more natural gas liquids. With a focus on cost efficiency, the design premise was changed to a lower pressure utility-grade gas and a larger diameter project. He pointed out that this change in the design necessitated re-initiation of a Supplemental Environmental Impact Statement (SEIS). He elaborated that the statement was required through the National Environmental Policy Act (NEPA), which was necessary to advance the project due to the impact on wetlands. He relayed that AGDC had revised the Plan of Development and completed the Environmental Evaluation Document which would as a draft for use by the Army Corps of Engineers to write the SEIS. He characterized the SEIS as a key asset for the state, as it identified all the mechanisms for design, construction, and environmental impacts associated with the project. He added that AGDC had done public scoping in 16 communities around the state and had received a very good outcome with vocal community support for the line going forward.

9:24:05 AM

Co-Chair MacKinnon asked Mr. Richards if there would be a change in volume under the SEIS after changing the diameter of the pipe. She followed up to ask if the EIS needed to be modified if the volume changed and AKLNG was not successful. Mr. Richards responded that the SEIS was initiated with a design through-put of 500 million standard cubic feet per day. He clarified that currently AGDC was not aware of the volumes that commercial interests may have for the ASAP project, and they would not be known until meaningful discussions with the commercial interests had taken place. He continued that AGDC was continuing the SEIS with the 500 million cubic feet per day quantity. He added that a decision in the first quarter of 2016 would be important; if AKLNG was not to proceed, AGDC would look to the market to see what volumes they would like from a pipeline. At that point, he surmised, AGDC would look and see how to accomplish that; through additional compression, or perhaps redesign of the gas treatment plant on the North Slope to accommodate the larger volumes. He reiterated the importance of knowing what the end market would be and where the terminus of the pipeline would be.

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Co-Chair MacKinnon asked whether AGDC would need to modify if the volume changed. She referred to the mention of a new treatment facility under construction and wondered if there was an expected timeline. Mr. Richards responded that it was dependent upon the volume through-put. For example, a through-put of 800 million standard cubic feet per day would require a plant re-design to optimize the conditioning of the gas and would most likely mean changing the train-set from 250 to 400. Additionally, to accommodate the 800 million they would need to add compressor stations along the line. He discussed contingency factors such as impact on wetlands and whether they would require an environmental assessment or if it would require an SEIS. Mr. Richards added that AGDC had indeed accommodated in the schedule for the eventuality of these adjustments to the ASAP project timeline. He clarified that they had built discussions with commercial interests, potential re-design, and environmental process into the forward schedule.

9:27:44 AM

Mr. Richards articulated that in slide 7, "Accumulated Corporate Assets," the list reflected assets that belonged

to the State of Alaska, and could be used by either project going forward.

- 400-plus geotechnical bore holes drilled
- 128 material source sites identified
- Air quality monitoring data and permit for Gas Conditioning Facility
- Purchased Strain Based Design (SBD) pipe for:
  - Small and medium scale material testing
  - Automatic weld procedure validation
- Line-pipe specifications
- Safety& operational stipulations with PHMSA
- Final biologic assessment report
- Final essential fish habitat report
- Project Execution Plan(PEP) including:
  - Construction execution plan
  - Project logistics plan

Mr. Richards relayed that AGDC was currently using the assets for the AKLNG project as well as the collaboration between the two projects, so as to advance them both. He discussed geotechnical boreholes and explained that AGDC had drilled them south of Livengood, Alaska. He recounted that AGDC had received a strong message from the legislature to avoid duplicate efforts while working on simultaneous projects, and detailed that they had worked with the AKLNG parties because they had significant geotechnical and geologic information north of Livengood. He specified that they had collaborated by sharing data from both projects in this area, and it had benefitted both projects.

Mr. Richards remarked that one of the primary issues that would be faced on any project was the identification of material sources; and opening access and availability of the material source to provide for general backfill, the workpad, and for the padding and bedding for the pipeline. He relayed that there had been a major effort underway that would benefit either project but would also benefit the State of Alaska through its needs with the Department of Transportation and Public Facilities for future highway and road construction. He noted that they had done air-quality monitoring on the North Slope and would be applying for an air-quality permit for the site of the gas conditioning facility. He revealed that the site was co-located with the gas treatment plant for the AKLNG project, so the air

quality data had value for both projects and would allow the permitting process for either project to proceed expeditiously.

Mr. Richards discussed geologic factors that would affect the ASAP project by inducing strain to the pipe itself. He elaborated that the Strain Based Design pipe was a subset of the pipeline that crossed discontinuous permafrost. He discussed the impacts of frost heave and thaw settlement, and the need to demonstrate federal regulators that the materials could handle the strains. To assure the federal regulators of the safety and operational stipulations required through the Pipeline and Hazardous Materials Safety Administration (PHMSA), AGDC developed and acquired pipeline materials to weld and test for validation. He noted that they were in the testing phase to verify that the design was sufficient for the gas volume.

9:30:50 AM

Co-Chair Kelly asked Mr. Richards to clarify the word he used before "permafrost." Mr. Richards explained that he was using the word "discontinuous," referring to areas of land where permafrost was not contiguous, but rather mixed with areas of non-permafrost. He elaborated that such ground composition created a freeze and thaw scenario that could be compared to frost heaves occurring on highways in Alaska.

Senator Bishop commented that when the Trans-Alaska Pipeline System (TAPS) was built almost 40 years prior, all of the work was done by hand and was commonly known in the industry as "poor-boyin." He recounted that the engineering that was done at the time was truly tested during a 7.6 magnitude earthquake at the Denali fault, which caused 400 feet of the pipe to jump out of the rack and onto the ground without structural failure. He offered kudos to the engineers of TAPS. Co-Chair Kelly expressed amazement at the speed at which workers could lay pipeline during that time.

Mr. Richards continued and noted that both projects crossed the Denali fault in the area south of Denali National Park. He referred to AGDC's paleo-seismologist who had also worked on TAPS; recounting that he predicted a rupture and large magnitude quake with 40 feet of pipeline displacement, as well as a prediction of similar type of

event during the lifetime of the AGDC project. He added that AGDC would utilize the same type of design used by TAPS, putting the pipeline on embedded I-beams knows as "sleepers," that allow the pipe to move during ground motion. He restated that AGDC was using proven technology.

Mr. Richards continued to discuss corporate assets, and stated that there were tremendous additional assets accompanying the work on ASAP, with the alignment sheets and march charts that were completed. He added that AGDC had an extremely robust geographic information system as well as having completed a Class 3 estimate.

Senator Bishop commented that he believed these projects to contain valuable saleable assets, and stated he would like to be provided with information about the value of the assets. Mr. Richards replied that they were indeed saleable assets owned by the State of Alaska, and furthered to reveal the keen interest and fiduciary responsibility with which AGDC held the assets.

9:35:02 AM

Mr. Richards moved to slide 8, "Approximate Pipeline Land Ownership," and again referred to the right-of-way granted by the state. He specified that the outcome of the SEIS and the record decision for the Army Corps of Engineers would allow the Bureau of Land Management (BLA), through its own record decision, to grant the federal right-of-way. He detailed that the decision would provide the ASAP line approximately 85 percent of the right-of-way available to build a project. He noted that when the point of decision was reached on the viability of the ASAP project, it would be an important time for negotiations with the land owners as listed on the slide. He clarified that AGDC had not yet entered into negotiations because it was too premature. He revealed that perhaps 5 percent of the line for the ASAP project would be held by AGDC.

Mr. Dubler presented slide 9, "Alaska LNG Project Participation," specifying that the important distinction between the ASAP project and the LNG project was that the state owned 100 percent of ASAP through its pipeline company AGDC; whereas the AKLNG project was a combination of owners based on resource ownership on the North Slope. He referenced the diagram on slide 9, depicting the Resource Owners and Project Interest parties, detailing

that the state owned gas through its royalty share and to the extent that the state made the determination to go with a taxes gas, it would own approximately 25 percent of the resource on the North Slope. He revealed that the 25 percent state interest was held by TransCanada, in the North Slope facilities and pipeline; and by AGDC in the LNG facility. He summarized that the state was represented by two corporations in its interest in the project.

9:37:20 AM

Mr. Kruzen presented slide 10, "Alaska LNG Recent Activity," and summarized the technical highlights from both a project perspective and the AGDC perspective. He recounted that the AGDC board recently approved a $39.8 million budget for calendar year 2015. He elaborated that the AGDC budget was based on project teams' work plan and budget (WPNB) which was aggregated to include consideration of deliverables from various sub-projects including the gas treatment plant, the pipeline, the marine terminal, the LNG plant, and permitting considerations. He recounted that AGDC was trying to spend money wisely by coordinating and using historical data to avoid duplications. He emphasized that AGDC tried to be effective in moving forward to avoid duplication of efforts for both projects. He mentioned communicating with land owners, agencies, or the public only one time and gathering information for both projects for maximum effectiveness.

Mr. Kruzen commented that although AKLNG was far away from sanction, or final investment decision (FID); as of the summer 2014 field season the project had over 250 people in the field in a variety of activities including geotechnical borehole drilling, marine surveying, and looking at pipeline corridor stream crossings. He detailed that of those 250 people, 80 percent were Alaskans. He contended that the AKLNG project and AGDC would continue to champion Alaska hire and utilization of Alaskan capabilities. He referred to a provision of the AKLNG website for interested parties to inquire after employment.

Mr. Kruzen discussed the magnitude of the engineering project, and reiterated that AGDC was in the Pre-FEED stage. He explained that prior to Pre-FEED was a stage known as "concept selection," which was done in-house and included ideas such as a gas treatment plant on the North Slope with three trains, a big pipeline, and an LNG plant

with three trains. He continued that the current Pre-FEED stage included engineering to specify and optimize what would be built. He elaborated that to accomplish the engineering, AGDC hired world-scale contractors through the competitive bidding process. He detailed the engineering contracts as listed on slide 10:

- Gas Treatment Plant: URS w/CBI and ASRC Energy Services (AES)
- Pipeline: Worley Parsons
- LNG Plant: CBI w/Chiyoda and ASRC Energy Services (AES)
- Marine Facilities: CH2M Hill

Mr. Kruzen continued on slide 10, remarking on the magnitude of the permitting scope of the AKLNG project. He summarized the "Regulatory" bullet on slide 10:

- Depart of Energy authorized LNG exports to Free Trade Agreement countries
- Federal Energy Regulatory Commission (FERC) approved Pre-Filing request on Sep 8
    - 60 public meetings already conducted to engage Alaskans
    - Resource reports provide baseline environmental and socio-economic data
    - First draft of resource reports targeted for 1Q15
    - FERC pre-scoping meetings and project open houses to take place 1st half 2015

Mr. Kruzen added that the US Department of Energy authorized our LNG exports to the amount of 20 million tons per year to Free Trade Agreement (FTA) countries, including South Korea and the Pacific Rim. He added that yet to come are the non-FTA approvals.

9:42:17 AM

Senator Dunleavy asked if the state's prospective customers were all within the FTA designation. Mr. Kruzen responded in the negative, and said to his knowledge South Korea was the only one, and deliberation was ongoing for the non-FTA approvals. Senator Dunleavy asked Mr. Kruzen to opine on the outcome of the deliberations. Mr. Kruzen stated that he did not know, but in general he had the impression that FERC was supportive of AGDC's efforts.

Mr. Kruzen referred back to slide 10, explaining that at some point AGDC would file an EIS through FERC, and was currently in what was called the "pre-filing" phase. He outlined that AGDC had agreed upon a strategy with FERC, whereby various resource reports describing aspects of the AKLNG project would be submitted. He specified that AGDC would be referencing the concept select information as well as the early Pre-FEED information and filing the first 12 resource reports with FERC. He estimated the target for delivery of the reports to be mid-February. He analyzed that this deliberate strategy would enable agencies to put their employees on the AKLNG project rather than other projects, and begin to cultivate public and agency input in time to direct summer and winter 2015 field programs. He concluded that the resultant field information, in combination with Pre-FEED engineering information, would be combined for re-submission of the second draft of the resource reports in approximately a year's time.

9:45:02 AM

Mr. Richards moved to slide 11, "Alaska LNG/ASAP Coordination," and re-articulated that AGDC had a role and responsibility within both projects that necessitated coordination and collaboration to advance the state's interest for both projects. He referenced the significant amount of historic baseline data and engineering from previous pipeline projects north of Livengood. He voiced the intention to utilize the wealth of information and announced that a cooperation agreement was in place under which historic data on the two projects had been exchanged, resulting in cost savings of tens of millions of dollars. He elaborated that savings occurred in areas of geotechnical information, civil works, and hydrology works. Additionally, the information sharing aided in meeting AKLNG's "very aggressive schedule" with regard to the first quarter FEED decision as well as transmitting information for resource reports. He stated that due to the JVA [Joint Venture Agreement] signed in July, and the necessity of finding contractors, the process was slowed somewhat. He furthered that the work efforts that AGDC had undertaken could help advance the AKLNG schedule in a beneficial way.

9:47:17 AM

Mr. Richards moved to slide 12, "ASAP Class 3 Cost Estimate," noting that it was the culmination of three years of work to advance the ASAP project to a 30 percent design-level estimate. He explained that Class 3 was an estimate level as defined by the American Association of Cost Estimators. He reviewed the rising estimated project cost, specifying that the cost went from approximately $7.7 billion in 2012 (adjusted for inflation to $8 billion); to a current estimate of $10 billion, updated to include detailed design of the gas treatment facility and pipeline. He added that the $10 billion included $900 million worth of contingency, and referred to a confidence-level analysis of P75 on the estimate. He detailed that in doing so, they had received bid-level work packages from contractors to aid in the estimate. He elaborated that the contractors, such as Peter Kiewit, Doyon Limited, Brice, and Alaska Interstate Construction; were all familiar with Arctic conditions. He continued to note that they received vendor quotes from process manufacturers as well as fabrication yards, and concluded that AGDC was confident that the estimate was a true representation of the cost of developing and producing the ASAP project.

Mr. Richards pointed out that the cost of the pipeline versus the gas conditioning facility on the North Slope was two-thirds to one-thirds ratio. He added that he would quickly discuss the tariffs in order to see what the outcomes would be to consumers in Alaska.

Mr. Dubler presented slide 13, "ASAP Estimated Tariffs," and pointed out the tariff rate for Fairbanks was estimated to be $5.50 to $6.75. He explained that tariff rates based on new cost estimates were shown in a range due to a degree of uncertainty in projections after using hundreds of estimates to calculate. He pointed out the Anchorage tariff rate of $8.00 to $9.75, with an accompanying "Burner Tip Cost" of $11.50 to $14.50. He mentioned the current cost at just under $10, and suggested that the advantage of the ASAP project was the vast amount of gas on the North Slope, with no risk of depleting in the near future even with a per day usage of 500 million cubic feet.

Mr. Dubler discussed the tariff model, highlighting the "Major Assumptions":

- 70/30 Debt to Equity
- 12 percent Return on Equity

- 5.7 percent construction financing cost
- 25 year depreciation

Mr. Dubler explained that the assumptions were all fairly conservative and that returns were somewhere between 11 and 14 percent (recently on the lower end of the spectrum). He specified that the financing cost was fairly high and a 25-year depreciation was fairly conservative as well.

9:51:06 AM

Senator Bishop asked if it was safe to say that it was imperative for the state to keep its AAA bond rating as it went forward with the projects, to ensure that the state was sending the right signals to the financial markets with regard to budgeting. He further inquired if the delta would move on the 5.7 percent construction cost financing if the state did not retain its AAA bond rating.

Mr. Dubler responded that a rating analysis on a project such as ASAP could take the state's rating into account, however the project would most likely be rated on the end-customers, which in the case of the in-state line would be whatever entity took over and sold gas in Fairbanks. He furthered that the state's rating could play an important role in the financing of the project.

Co-Chair MacKinnon considered the 70 to 30 debt to equity ratio and asked if the cash portion of the component could be carried inside of the rate tariff and transferred as a rate of return back to Alaskans. Mr. Dubler responded that it could be structured either way, but to be conservative AGDC assumed that the state's $400 million contribution achieved a 12 percent return on equity. He furthered that the 30 percent equity was made on the assumption that the state would not be building and owning the project. Rather, he clarified that the state had issued a request for proposal and had used a competitive process to select a pipeline company to build, own, and operate the project; the negotiation with the company would determine the debt to equity ratio and the return on equity the company was reimbursed for through the tariff.

Co-Chair MacKinnon asked what would happen if the demand for in-state gas settled at the 250 MMscf/d (million standard cubic feet per day) capacity that she had seen on some projections. She wondered if the state would try and

sell the other portion. Mr. Dubler responded that the assumption they had made is 500 MMscf/d, and to the extent that in-state users would not fully utilize up to 500, AGDC would look to sell to others through the open season process.

9:54:12 AM

Mr. Richards commented that slide 14, "ASAP Design Capacity" was merely a history of the $500 million limitation for the ASAP project, and more importantly wanted to address slide 15, "ASAP Revised Spend Plan." He directed the committee's attention to the orange line on the graph denoting the original spending plan that the legislature sanctioned. He referred to the passage of SB 138 and ASAP project benchmarks of Recourse Tariff Filing and Project Sanction, noting that the subsequent revised spending plan reduced the ASAP project total by approximately $90 million. He remarked that the figure represented a 60 percent reduction in spending; and AGDC would then complete the NEPA and EIS processes as well as fieldwork and material testing. He referred back to the 60 percent spending reduction and claimed it would keep the ASAP project viable while allowing AGDC to continue to do achievable and transferrable work between the AKLNG and ASAP projects.

Co-Chair MacKinnon referred to slide 10, and inquired about the resource reports listed as providing environmental and socio-economic data. She asked for clarification that the reports were available for scrutiny and public comment by individuals. Mr. Richards answered in the affirmative; the report would be an open public document with FERC once it was filed. After which, he clarified, there would be a "vigorous public scoping or meeting schedule" established for individuals as well as municipalities to review and comment.

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ADJOURNMENT
9:57:06 AM

The meeting was adjourned at 9:57 a.m.