

SENATE FINANCE COMMITTEE  
THIRD SPECIAL SESSION  
October 25, 2015  
9:01 a.m.

[9:01:13 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Pat Pitney, Director, Office of Management and Budget, Office of the Governor; Senator Cathy Giessel; Senator Berta Gardner; Senator Kevin Meyer; Representative Liz Vasquez; Representative Lora Reinbold.

PRESENT VIA TELECONFERENCE

Joe Dubler, Vice President and Chief Financial Officer, Alaska Gasline Development Corporation.

SUMMARY

SB 3001 APPROP: LNG PROJECT and FUND/AGDC/SUPP.

SB 3001 was HEARD and HELD in committee for further consideration.

#sb3001

SENATE BILL NO. 3001

"An Act making supplemental appropriations; making appropriations to capitalize funds; making appropriations to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) in accordance with sec. 12(c), ch. 1, SSSLA 2015; and providing for an effective date."

9:02:18 AM

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced the bill. She stated that Section 1 was the capitalization for the Alaska Liquefied Natural Gas (AKLNG) project. It allowed Alaska Gasline Development Corporation (AGDC) to pay TransCanada for their work completed to date; and to transition and provide all cash calls assigned to AGDC. She stated that Section 1(b) was a \$13.6 million request for the agencies in support of moving through the Pre-FEED stage through the end of FY 16. She stated that there was also a request from the Department of Natural Resources (DNR) for \$2 million; a request from Department of Law for \$10 million; and DOR for \$1.3 million. She recalled a request from DNR in the FY 16 budget request for the North Slope gas section for \$13 million. The final FY 16 budget appropriated only \$9 million. She stressed that the total funds were still below the original DNR request. She addressed Section 2, which provided AGDC to be reimbursed by the AKLNG project for fuel work to be deposited in the Liquefied Natural Gas fund. She explained that Section 3 did not allow for a lapse in the capitalization fund. She announced that Section 4 was a reminder that the FY 16 budget held a provision that allowed for supplemental budget requests up to \$500 million to fit within the Constitutional Budget Reserve (CBR) vote.

Co-Chair MacKinnon wondered whether the administration believed that the budget reserve fund was for supplemental appropriations or for the price per barrel continually lowering than anticipated. Ms. Pitney stated that it was the administration's interpretation that that the budget reserve was intended for the FY 16 budget plus \$500 million supplemental funding. She explained that the language outlined the intention to use the CBR to address any shortfall. She remarked that the price change in oil and the addition of the supplemental budget required more of the CBR than previously projected. She furthered that there

may be more than \$500 million required, because the price change showed a possible \$400 million difference.

[9:07:30 AM](#)

Senator Dunleavy articulated if the state was already anticipating being over-budget. He referred to prior discussions that had asserted that the project would be \$45 billion but then increased to \$65 billion. Ms. Pitney responded in the negative. A significant number of the scope changes were moving work expected to be done in the FEED stage into the pre-FEED stage of the project. She announced that the construction was slated to be between \$12 billion and \$16 billion. She detailed the scope changes, which were based on a work plan and budget plan for calendar year 2016.

Senator Dunleavy followed up to ask about a perceived increase in the budget by \$30 million. Ms. Pitney clarified that there was a \$30 million to bring the 48 inch pipe plan to the same level of the 42 inch pipe. She stated that the 48 inch pipe was always in the state's interest. She remarked that there was a possible return on investment in the 48 inch pipe, the due diligence would have a return on investment.

Co-Chair MacKinnon commented that there would be forthcoming presentations. She asked committee members to consider questions they might have for the later presenters.

Co-Chair MacKinnon asked if Ms. Pitney could share why the governor was asking for the buyout. Ms. Pitney addressed what would be covered in a later presentation.

[9:12:25 AM](#)

Ms. Pitney addressed slide 3, "SOA AKLNG Appropriations to Date":

Funding to Date \$90.5 M

SB138 General Fund to LNG Fund (FY14-FY15) \$69,835.0

- Capitalized the LNG Fund
- AGDC, AKLNG downstream cash calls, contractual service with agencies

General Fund Appropriations (FY15) \$11,762.0

- AEA in-state affordable energy study
- DNR North Slope Gas Commercialization
- DOR Tax Division

Appropriations (FY16) \$8,987.0

- DNR North Slope Gas Commercialization (in-state gas line fund)

Authorization from LNG Fund (FY16)

- Within original \$69,835.0 capitalization
- AGDC, DNR, DOTPF \$3,023.0

Ms. Pitney addressed slide 4, "State Gas Team--FY2016 Supplemental Summary":

Supplemental Request \$157.6 million plus \$5 million AGDC Statutorily Designated Program Receipts (SDPR):

Agency Operating Budgets \$13,607.0

DNR: \$2,126.0  
DOR: \$1,381.0  
DOL: \$10,100.0

AGDC: Capital Budget \$144,045.0

Reimburse TransCanada: \$68,445.0  
Fund State's remaining Pre-FEED share: \$75,600.0

AGDC: Receipt Authority \$5,000.0

AKLNG reimbursement for work performed

Vice-Chair Micciche wondered if the reimbursement to TransCanada included the 7.1 percent interest. Ms. Pitney replied in the affirmative.

[9:15:40 AM](#)

Senator Dunleavy asked about the Department of Labor and Workforce Development (DLWD) funds and wondered how the funds would be allocated. Ms. Pitney stated that it was

primarily for outside council and could provide more details later in her presentation.

Co-Chair MacKinnon referred to slide 4, and wondered whether the state's remaining pre-FEED share was based on the new project budget numbers were agreed to by the partners, or a first quarter update with the numbers continuing to change. Ms. Pitney responded that the money completed the total pre-FEED amount. The timing was based on the work plan and budget review. The plan was in the process of extending to December 4, which outlined the cash call schedule through the finish of pre-FEED.

Co-Chair MacKinnon announced that the bill outlined a stage gated process, which allowed for a period of time to continue to participate with the project. Ms. Pitney agreed.

Co-Chair MacKinnon shared that the partners had agreed to the budget, in order to reach the phase of construction. Ms. Pitney stated that that the money was for the pre-FEED, and FEED costs would bring the project into the construction phase.

Co-Chair MacKinnon asked if the partners were waiting on the legislature appropriation. Ms. Pitney replied in the affirmative.

Ms. Pitney presented slide 5, "Alaska Gasline Development Corporation State Gas Team":

Anticipated changes to the scope of pre-FEED:

- Pre-FEED scope and schedule increase the budget \$182 million to \$694 million
- State share of new total is \$173 million -- \$66 million liquefaction plant, \$107 million mid-stream (GTP and pipe)
- Moving work ahead into pre-FEED is important to have the best information available to complete internal review and make FEED decision
- A project of this magnitude matures through the stage-gate development process. Work activities

are often shifted between stages in order to facilitate better design and decision making

- Scope changes are designed to improve project economics, permitting outcomes and the quality of information available for FEED evaluation:

Component level optimization to lower costs and increase efficiency (\$57 million)

Accelerate regulatory and pre-bid work on FEED contracting (\$66 million)

Increase scope of geotechnical and geohazard work at GTP and LNG sites; complete weather delayed off-shore field work (\$29 million)

Bring 48" pipe deliverables up to 42" level of development (\$30 million)

[9:20:26 AM](#)

Co-Chair Kelly queried the \$182 million reference. Ms. Pitney clarified that the \$182 million included the change for all parties from the \$511 million to the \$694 million.

Co-Chair MacKinnon referred to a letter the legislature had received on October 23, which announced that the number was \$693 million. She wondered if the increase to \$694 million was on because of the rounding up. Ms. Pitney indicated yes.

Senator Bishop referred back to Senator Dunleavy's earlier question regarding the increase in pipe size from 42" to 48". He wondered if the aforementioned increase was due to a \$30 million component number. He wondered the intention of the \$30 million. Ms. Pitney detailed that there were four components to the proposed change: Component level optimization to lower costs and increase efficiency (\$57 million); Accelerate regulatory and pre-bid work on FEED contracting (\$66 million); Increase scope of geotechnical and geo hazard work at GTP and LNG sites; complete weather delayed off-shore field work (\$29 million); and Bring 48" pipe deliverables up to 42" level of development (\$30 million).

Vice-Chair Micciche assumed that all the costs were a 25 percent value, except for the \$30 million that the state would absorb. Ms. Pitney replied that all of the cost increases would be split into a 25 percent share.

Vice-Chair Micciche wondered if the \$30 million was added to the total cost of the project. Ms. Pitney replied in the affirmative.

Senator Dunleavy asked for clarification that the additional cost to the state would be split between the partners, and wondered if the other partners were also contributing to the cost of the pipe size study. Ms. Pitney detailed that the four component changes totaled \$173 million, which would be split between the partners.

Senator Dunleavy referred to the bottom of slide 5, wondering if the \$30 million was paid for by the state, or would it be divided between the partners. Ms. Pitney replied that the additional cost to the state would be \$30 million divided by four.

[9:25:36 AM](#)

Co-Chair MacKinnon wondered if the testimony was about four different voting parties, or equal distribution of funds. She explained that ExxonMobil owned 31 percent of the pipe, the state owned 25 percent with TransCanada's incurred interest, BP owned 22 percent, and ConocoPhillips owned 21 percent of the project. Ms. Pitney believed it was the proportional share of the project. The state's proportional share, currently including TransCanada was 25 percent.

Co-Chair MacKinnon stressed that AKLNG was an integrated project, where the percentage of ownership was equal to the percentage of any cost increases or project expenses. Ms. Pitney agreed. She remarked that the three producers had slightly different percentage shares.

Co-Chair MacKinnon announced that the vote to move forward was taken inside the project teams, equally between four members, to move incur the cost and benefit of increasing the size of the pipe. Ms. Pitney agreed.

Senator Dunleavy referred to an earlier question about the intended size of the pipe, and wondered if it was the belief that the pipe size would increase from 42 inches to

48 inches. He stressed that the committee may not have always assumed the increase in pipe size. Ms. Pitney deferred to Ms. Rutherford. She explained that the state's initial interest was a 48 inch pipe. She stressed that the state had not changed its perspective, but rather was catching up to the original interest.

Senator Hoffman referred to the additional \$30 million and wondered if it was assumed that the 48 inch pipe would be constructed, if there was a greater rate of return. Ms. Pitney deferred to AGDC.

Co-Chair Kelly queried further information about the assumption that the 48 inch pipe was originally intended from the inception of the project. Ms. Pitney stated that Ms. Rutherford was probably following the meeting online.

Co-Chair MacKinnon asked if the partners were exploring the costs and the benefit of the expansion from 42 inch to 48 inch. She wondered if that would be a vote in the partnership. Ms. Pitney replied in the affirmative.

Co-Chair MacKinnon wondered if there was discussion inside the partnership regarding pipe size expansion, and that the state would carry the entire cost if there was not benefit for all the partners. Ms. Pitney deferred to Ms. Rutherford and AGDC on the specifics of that decision point.

Co-Chair MacKinnon asked if there was speculation inside the partnership regarding who would be responsible for additional costs. Ms. Pitney replied that she could not speculate on that issue. She remarked that the project was a partnership, so the partnerships decision resulted in full shared cost.

[9:31:02 AM](#)

JOE DUBLER, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, ALASKA GASLINE DEVELOPMENT CORPORATION (via teleconference), addressed Co-Chair MacKinnon's question, stating that each partner had separate issues. The state wanted to open the North Slope to exploration, so wanted the pipe to be as large as possible. The producers preferred a lowest possible cost of service on the project, which may or may not result from a 48 inch pipe. He stated that one the analysis was complete, the partners would examine the results to make the best determination for

their particular entity. He stressed that the state may have the option to fund the work for the 48 inch pipe, should the other partners vote "no."

Co-Chair Kelly requested a source for the 48 inch pipe materials. He understood that there was only one 48 inch pipe manufacturer in the world.

Senator Dunleavy discussed alignment within the state and the partners. He referred to a joint meeting where the pipe size was discussed, and asserted that the information currently being presented was different than what was discussed. He thought that the 48 inch pipeline idea was initiated by the state and was concerned that there was a great deal of deviation from the initial plan.

9:35:16 AM

Vice-Chair Micciche remarked that the pipe diameter had been evaluated prior to this legislation, so he wanted to understand the quantified project delay associated with the pipe size evaluation. He also queried the legislative approvals required for the expansion.

Co-Chair MacKinnon thought Vice-Chair Micciche was referring to former legislation, SB 138 and the reference to the 42 inch pipe in statute. Vice-Chair Micciche agreed.

Ms. Pitney presented slide 6, "Pre-FEED Scope and Budget Changes", which addressed that 2016 work plan and budget as compared to the new Pre-FEED scope and budget change. She explained that the \$108 million for the TransCanada was recently refined to \$106.8 million. The components of the budget included the TransCanada buyout; and the remaining cash calls that TransCanada would have contributed, including the allowance for contingency totaling \$38 million. The scope change included the same buyout price and the remaining cash calls. The allowance for the scope changes included the administrative process, which was \$31 million worth of work by TransCanada for the state's behalf. The scope change also included \$15 million for AGDC in the downstream. She stated that the total for the scope and budget changes was \$144 million in Section 1(a).

Co-Chair MacKinnon announced that Ms. Pitney did not serve on the negotiation team. Ms. Pitney agreed.

Co-Chair MacKinnon wondered if there was a new marketing component in the proposed \$144 million. Ms. Pitney replied that the request was in the \$13.6 million request.

Ms. Pitney presented slide 7, "Department of Natural Resources State Gas Team":

DNR North Slope Gas Commercialization Office FY16 work scope, per SB138 and other legislation, includes these components:

- Fiscal stability commercial agreement negotiations with Producers
- Royalty In Kind (RIK)/Royalty In Value (RIV) analysis and decision
- In-state gas coordination and marketing of in-state gas, assuming RIK and Trans Alaska Gas (TAG)
- Marketing of LNG for export, assuming RIK and TAG
- Negotiate upstream agreements - gas supply and balancing
- Negotiate governance structure
- Negotiate midstream terms including system use; expansion capacity and use
- Lease modifications

Personal Services (\$646.0): Increase funding for existing Marketing Lead position to attract global LNG marketing expertise; assist the State in building successful gas marketing organization to remain competitive. Add a new Marketing Analyst to assist with negotiations and pre-marketing work (December-June).

Contractual (\$1,480.0): RSA to DNR (\$580.0) for Department resource support, primarily from the Division of Oil and Gas for upstream expertise and other commercial/lease support. Meet contractual needs (\$900.0) anticipated for FERC resource report reviews and drafting, facilities review for commercial aspects, commercial analysis and support, and TC Developmental Cost audit.

[9:41:36 AM](#)

Vice-Chair Micciche assumed that the state supported a joint marketing organization. He shared that the partnership was successful, because the state would be able to reap the benefit of the top LNG marketers. He wondered why the state would make a substantial investment in its own marketers, if the partners were able to market the gas on a prestigious level. Ms. Pitney deferred to Ms. Rutherford or Mr. Dubler. She shared that the state's investment in marketing ensured the state's interest in the partnership.

Co-Chair MacKinnon wondered if the employees for the project would be salaried or under contract. She remarked on the state's current unfunded liability, and felt that the salaried employees may draw a substantial amount of financial benefit to the state. She felt hiring a contracted individual would be more financially beneficial to the state. Ms. Pitney agreed that the position would require a high wage. She shared that the state's retirement system was currently a defined contribution, with no long-term liability, unless the employee remained in the system for ten years. She explained that the employer would pay 22 percent to offset the past service liability. She stressed that

Co-Chair MacKinnon stressed that she was hoping to see a long-term marketing position, if the state was marketing itself.

[9:45:40 AM](#)

Co-Chair MacKinnon remarked that the University was initially given one funding line that it could distribute to the campuses. Later, individual campuses began to desire further funds. Ms. Pitney related that there was a period of time that a single appropriation went to seven lines of appropriation, which allowed for more flexibility within the agency.

Co-Chair MacKinnon referred to AGDC as "the mothership" and wondered why the agencies were not getting direct appropriations. Ms. Pitney stated that the way the bill was structured dictated there was not a pass-through from AGDC.

Co-Chair MacKinnon wondered why DNR, DOL, and Department of Commerce, Community and Economic Development (DCCED) did not receive direct appropriations, versus filtering through

AGDC. Ms. Pitney responded that the bill was structured with \$13 million capitalized in the liquefied natural gas fund, and was then directly appropriated to DNR, DOL, and DOR. There was no pass through AGDC. The funds were passed through the liquefied natural gas fund in order to track all the funds for the project.

[9:49:16 AM](#)

AT EASE

[9:59:48 AM](#)

RECONVENED

Senator Dunleavy expressed a desire for the administration to do an overview of SB 138, in aid of clarifying the exact intent of the project.

Co-Chair MacKinnon asked if it was possible to put together a blueprint or presentation of the administration's outline of a successful project. She thought that if SB 138 was the process that had already been placed within state statute, then how the administration sees differently advancing the project. She wondered if additional legislation was required.

Senator Dunleavy felt that SB 138 was fairly prescriptive, and thought it would be helpful to outline SB 138.

Co-Chair MacKinnon asked Darwin Peterson [in the gallery] if he could outline the proposed plan.

[10:04:06 AM](#)

Ms. Pitney presented slide 8, "Department of Revenue State Gas Team":

DOR FY16 work scope, per SB138 and other legislation, includes these components:

- Identify and report range of state financing alternatives for Project
- Evaluate municipality, Native Corporation, resident investment options
- Identify impact and benefits of project on Alaskan communities
- Recommend changes to property tax statutes for Project infrastructure

- Negotiate property tax (Impact payments and Flow Related Property Tax)
- Coordinate Municipal Advisory Gas Project Review (MAGPR) Board and prepare reports to legislature
- Consult on fiscal stability negotiations
- Consult on commercial structure and governance
- Consult on upstream agreement negotiations
- State lead on Project Integrated Finance team and Project Tax team
- Co-State lead on Project Sponsor team and Venture Alignment Memorandum of Understanding (VAMOU) team
- Coordinate and implement FEED financing plan

Ms. Pitney addressed slide 9, "Department of Revenue State Gas Team":

Personal Services (\$794.0): Funding for work scope on fiscals, financing options, governance, production tax, federal tax implications; property tax, and revenue aspects of marketing; coordinate MAGPR Board activities; TC Development Cost audit services.

Travel and Supplies (\$87.0): Other related expenses and audit travel expenses performing work services for AKLNG.

Contractual Budget (\$500.0): Fund State of Alaska share of "bankability" review of Project financing options and commercial structure.

Senator Dunleavy wondered who would convey whether the state was meeting its timelines in the project process. Ms. Pitney responded that Black and Veatch and AGDC would address that question.

Co-Chair MacKinnon referred back to slide 8, and referred to an amendment to SB 138 involving opportunities for Alaskan's to participate in various aspects of the project. She wondered if the administration could address how the state could provide the opportunity for investing in the project. Ms. Pitney made a note of the request, and agreed to provide further information.

Vice-Chair Micciche wondered if there were any other expenditures that were authorized by the administration in

advance of an appropriation, such as the \$30 million pipeline diameter request. He stressed that it was important to work with the administration by having the appropriation discussion in advance of budget requests. Ms. Pitney responded in the negative, and stated that it was within the administration's purview to outline the required funding to meet the scope change.

Co-Chair MacKinnon surmised that the state took on a set of expenses which were presented to the partners for incorporation into an increased budget. Ms. Pitney deferred to Ms. Rutherford.

[10:10:32 AM](#)

Vice-Chair Micciche stated that the committee was in support of the AKLNG project, and reiterated the importance of alignment between the legislature and the administration.

Ms. Pitney outlined slide 10, "Department of Law State Gas Team":

DOL FY16 work scope:

- Represent the State's interest moving the process to a project
- Provide legal support to agencies and AGDC for all commercial agreements and other decisions

Contractual (\$10,100.0):

- Contract services with law firms for drafting, negotiating and reviewing AKLNG contracts with the Producers
- Contract services to provide regulatory and legal support for state participation in AKLNG project

Law firms under contract to DOL are:

- Greenberg Traurig
- Milbank, Tweed, Hadley and McCloy

Co-Chair MacKinnon shared that she was the former Chair of the Legislative Budget and Audit Committee (LB&A), where she observed that there were limited opportunities to contract. She wondered if there was a conflict of interest within the firms that we had not yet addressed. Ms. Pitney asserted that the firms were representing the state's interest and the state was working to ensure that there was no conflict of interest.

[10:15:40 AM](#)

Senator Dunleavy wondered if more funding was needed for contract services and legal support. Ms. Pitney replied that the state was taking a more aggressive role in contract negotiations and getting the project aligned with a more central approach.

Vice-Chair Micciche suggested that slide 10 was vague, and asked for additional detail with regard to the contractual services. Ms. Pitney agreed to provide the numbers later in the day. She furthered that the current allocation for FY 16 was in the supplemental request document.

Co-Chair MacKinnon wondered if the committee could have a copy of the supplemental request.

[10:18:02 AM](#)

AT EASE

[10:25:14 AM](#)

RECONVENED

Co-Chair MacKinnon referred to the document titled "FY 2016 Supplemental Request for State Agencies: \$13.6 million" (copy on file).

Vice-Chair Micciche expressed that the document answered his questions, which outlined the location of the cash payments.

Co-Chair MacKinnon expected to hear from DOL and DOR to support the document.

[10:27:41 AM](#)

Ms. Pitney addressed slide 11, "Alaska Gasline Development Corporation State Gas Team":

AGDC FY16 work scope, per SB138 and other legislation, includes these components:

- Manage State's equity participation in Alaska LNG project including LNG and Marine facilities in Nikiski, and if TC exits, the pipeline and Gas Treatment Plant
- Develop means for delivering North Slope natural gas in-state

AGDC Capital Budget (\$144,045.0):

- \$68,445.0 - Funds to reimburse TransCanada and "buy-out" their mid-stream interest
- \$75,600.0 - State's full 25 percent share of remaining pre-FEED

AGDC Receipt Authority (\$5,000.0): Statutory Designated Program Receipts (SDPR) will allow AGDC to be reimbursed for Alaska LNG related field work conducted on behalf of the project

Ms. Pitney referred back to slide 6, showing the 29, 31, and 15 percent cash calls associated with the project.

Ms. Pitney continued to discuss slide 11, detailing the remainder of funding for the pre-FEED. She discussed the final component of the bill, the ability for AGDC to be reimbursed for the field work done on the project.

[10:30:17 AM](#)

Senator Dunleavy queried TransCanada's involvement in the project, and the reason the buyout was considered. Ms. Pitney explained that TransCanada came to the project with two strengths: they came to the project with funding to satisfy cash calls.

Senator Dunleavy interjected that TransCanada would "bankroll" Alaska's portion of the project. Ms. Pitney responded that TransCanada would bankroll the portion, but provide the money upfront. She furthered that TransCanada had significant pipeline experience. She explained that

there was a "clear contractual off-ramp", which would be fairly civil if exercised immediately.

Senator Dunleavy summarized that TransCanada brought expertise and financing to the project. He asserted that TransCanada would have paid a higher interest rate in the market, and would have taken the risk in the financing. Ms. Pitney clarified that TransCanada was taking no risk in the financing; rather, the state was taking on the risk. She stressed that the state must pay the incurred cost to TransCanada.

Senator Dunleavy suggested that TransCanada would have incurred no risk, should they be the financing instrument for the state. Ms. Pitney agree.

Co-Chair Kelly stressed that TransCanada was engaging in risk with possible cost-overruns and increased finance costs. He remarked that increased rates would have resulted in increased costs to TransCanada. Ms. Pitney clarified that in the Pre-FEED and FEED stages there was no risk to TransCanada.

[10:34:14 AM](#)

Co-Chair MacKinnon stated that there was a difference of opinion with regard to the concept of "risk." She furthered that there could be downside or upside opportunity, but there was a guarantee for a rate return on investment.

Co-Chair MacKinnon asked if the administration would be discussing the TransCanada buyout as it related to the property taxes that TransCanada would have been required to pay. She stressed that PILT would be affected by \$800 million without TransCanada. She wondered if that concern had been evaluated by the administration. She specifically wondered how the municipalities felt about losing \$800 million, or the entire capital construction cost of \$16.5 billion. She specifically queried whether the Black and Veatch presentations would include those evaluations. Ms. Pitney responded that she would relay that question to the proper person, and that person would respond to the query.

Co-Chair MacKinnon asked about the AGDC Receipt Authority detailed on slide 11. She remarked that the administration's letter calling for the special session suggested new program receipt authority. She queried the

source of the program receipts. She queried the details of the project billing related to the project in the state's interested. Ms. Pitney replied that the cash calls funded the scope of work for the AKLNG project. She explained that AGDC had individuals assigned to perform a particular set of field work within the cash call. She specified the cash call must be accepted, then the reimbursement would occur for field work conducted on behalf of AKLNG.

Co-Chair MacKinnon surmised that the state would bill the partnership entity as a whole for project-specific information supplied by the state. Ms. Pitney explained that the reimbursement would be for field work.

Co-Chair MacKinnon wondered whether there were acceptable parameters around the limits of the project expenses. She explained that the state had accepted costs as a partner under TransCanada. She queried a list of criteria for expenses that could be charged to the project. Ms. Pitney deferred to Mr. Dubler.

Co-Chair MacKinnon asked if the state had charged any statutory designated program receipts, and whether the administration had that authority. Ms. Pitney stated that the work could be conducted, but the money receipts would be deposited into the general fund without statutory program receipt authority. The authority allowed the receipt of the funding to return to AGDC to offset the costs.

Co-Chair MacKinnon wondered if the state already had statutory authority for the receipt portion. Ms. Pitney responded in the negative, and clarified that the legislation included the request.

[10:40:36 AM](#)

Ms. Pitney addressed slide 12, "Remaining State Investment in AKLNG":

- GF Appropriation of \$157.6 M to acquire TransCanada's interest and complete pre-FEED
  
- Under success scenario, FEED would be initiated in FY2017 - SOA costs estimated at \$875M

- SOA's 25 percent share of project construction estimated at \$12-16 billion. These costs can largely be financed and secured with project revenue.

12

Senator Hoffman referred to slide 12, and asked if the funding components listed on the graph would appear as separate appropriation bills. Ms. Pitney related that the decision had not yet been made. She shared that the appropriation would take effect in FY 17, if the plan maintains the desired schedule. She relayed that the project may enter into the FEED phase as early as the end of FY 17, so a budget request would be required in a similar amount.

Senator Hoffman asserted that the current legislature would not make that decision. Ms. Pitney responded that it was possible that the current legislature would make that decision.

[10:45:41 AM](#)

Vice-Chair Micciche remarked that the schedule showed expenditures beginning in FY 17, which would require legislative action. Ms. Pitney replied that the AGDC budgets for FY 17 required legislative action. She shared that the legislative action was also essential for the completion on Pre-FEED and the FEED decision dates. She stressed that the current legislature may not be required to take swift action.

Vice-Chair Micciche surmised that the slide was a "rough illustration" of the potential scheduling. Ms. Pitney agreed.

Co-Chair MacKinnon asked if the partners believed that Alaska wanted the project. Ms. Pitney responded in the affirmative.

Co-Chair MacKinnon wondered if the administration's request for funds would set the state in a positive light. Ms. Pitney replied that it would be one possible advantage of putting in a placeholder earlier.

Co-Chair Kelly queried the state's share of the \$165 million, with the continued involvement of TransCanada. Ms. Pitney was unable to calculate the amount. She stated that

the midstream and downstream divide would be the same proportional split between TransCanada and AGDC.

Co-Chair Kelly thought he remembered that the state's share would have been \$250 million to \$255 million.

Senator Dunleavy wondered if the partners thought the state desired the current project, or did the state wanted any project. Ms. Pitney thought it was clear that the state wanted the AKLNG project.

Senator Bishop remarked that the governor had expressed his desire for the AKLNG project.

[10:50:04 AM](#)

Ms. Pitney presented slide 13, "In Conclusion - Moving From Process to Project":

The FY2016 Supplemental Budget Request reflects our collective focus on getting Alaska's gas to Alaskans and LNG to global markets to generate revenue and diversifying Alaska's economy

Vice-Chair Micciche stressed that he initially supported TransCanada's participation in the project. He thought one of the benefits of the buyout was gaining control of the project. He shared a concern that final decisions on the project would be in the hands of future administrations who could be "less credible." Ms. Pitney thought the legislation was intended to create institutionalization of the process. She furthered that there would be more concrete the deliverables the further along the FEED process was.

Vice-Chair Micciche felt there was a lack of institutionalization in the bill. He warned against moving forward on the bill, because of the lack of institutionalization.

Co-Chair MacKinnon echoed prior comments and referred to SB 138 as the current "law of the land." She stressed that the legislature's involvement was imperative in addressing any suggested changes from the administration.

Co-Chair MacKinnon queried the lead on the project for the state. Ms. Pitney responded that Governor Walker was the lead on the project for the state.

Co-Chair Kelly asked who the lead was "one down from Governor Walker."

Co-Chair MacKinnon related that Co-Chair Kelly's question was to be taken seriously. She remarked that there was considerable consternation attempting to identify who would lead the project on the bargaining agreement.

SB 3001 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:56:30 AM](#)

The meeting was adjourned at 10:56 a.m.