

SENATE FINANCE COMMITTEE  
THIRD SPECIAL SESSION  
October 30, 2015  
9:04 a.m.

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CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:04 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

Steve Butt, Project Manager, AKLNG Project; Senator Cathy Giessel; Senator Mia Costello; Senator Kevin Meyer; Senator John Coghill; Senator Gary Stevens; Senator Charlie Huggins; Representative Lora Reinbold; Representative Liz Vasquez; Representative Les Gara; Representative Andy Josephson.

SUMMARY

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

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

PRESENTATION: AKLNG PROJECT UPDATE

#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."

[9:05:37 AM](#)

STEVE BUTT, PROJECT MANAGER, AKLNG PROJECT, explained that he worked as the senior project manager for the Alaska's Liquefied Natural Gas (AKLNG) project. He specified that he worked for all the project partners to the AKLNG project, which was formed in June, 2014; and included the Alaska Gasline Development Corporation (AGDC), BP, ConocoPhillips, ExxonMobil, and TransCanada. He shared that he had been with ExxonMobil for just over 30 years, with most of his time spent in project and production roles; including 14 years in South America, West Africa, and Qatar working on gas and liquid natural gas (LNG) projects.

Mr. Butt explained that he wanted to show some slides and give a detailed quarterly update that was provided to the House and Senate Resources Committees in Palmer the previous September. He shared that he would be utilizing slides from the presentation in Palmer as well as other previously used slides. He added that he would be providing members with a book including all project updates that had been given starting in September, 2014.

^PRESENTATION: AKLNG PROJECT UPDATE

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Mr. Butt drew attention to the PowerPoint presentation "Alaska LNG, Fueling Alaska's Future: Project Update" (copy on file). He discussed slide 2, "Alaska LNG - Project Overview," which gave a high-level overview of the AKLNG project, showed photos of various project sites, and communicated the scope and breadth of the project. He stated the intent of the project was to commercialize between 32 and 35 trillion cubic feet of natural gas on the North Slope, primarily in Prudhoe Bay (75 percent) and Point Thomson (25 percent).

Mr. Butt drew attention to key elements of slide 2, such as the central gas facility in Prudhoe Bay, which provided the

gas to the project and had successfully operated the oil field for over 40 years by reinjecting gas to support additional oil production. He furthered that the intent of the project was, in the event of export, to take a portion of the gas (currently being reinjected) and put it into a treating facility to be cleaned, transported, and liquefied. He pointed out a photo of an oil rig at Point Thomson and shared that the facility hoped start up in early 2016, furthering that the combination of the Point Thomson and Prudhoe Bay resources were the "anchors" of the project.

Mr. Butt continued to discuss slide 2, and related that he would like to give project updates throughout the presentation. He shared that the Prudhoe Bay and Point Thomson operator had successfully worked with the Alaska Oil and Gas Conservation Commission (AOGCC) to secure permission for gas export for the first time. He furthered that a facet of the decision was permission to take CO2 coming out of the AKLNG project and reinject it back into the Prudhoe Bay field. He furthered that managing the CO2 had been a big risk that had been discussed since 2012, and the regulatory decision by AOGCC was an important milestone. He discussed the large amount of CO2 present in the Prudhoe Bay field, and compared it to other LNG project source fields, most of which had much less quantity. He described the process by which the gas could be returned to the ground, after an extraction process at a treatment facility (indicated in the photo "Gas Treatment Plant" on the slide); and noted that care was needed since CO2 could be a greenhouse gas. He anticipated that the project (extracting 12 percent from the Prudhoe Bay field and 4 percent from the Point Thomson field) would put roughly 450 million cubic feet of CO2 back into the ground every day, which would equate to 4.5 trillion cubic feet over the life of the project. The CO2 processing was an enormous undertaking which added to the expense of the gas treatment plant, and would cost the project \$10 billion to \$12 billion.

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Mr. Butt continued to speak to slide 2, and updated the committee on the continuing work on the pipeline, which went just over 800 miles from the Prudhoe Bay area to the terminus in Nikiski. He discussed the size of the pipeline and related that the project had focused on the 42-inch

pipeline after research indicated it was sufficient. The state had requested that the AKLNG project review a larger diameter (48-inch) pipeline. The project had received the 42-inch pipe materials for testing from a mill in the Lower 48, and the 48-inch pipe materials were ordered and expected to arrive in January 2016. Testing on both systems was expected to be done approximately by April 2016; along with the Pre-Front-End Engineering and Design (Pre-FEED) work.

Mr. Butt discussed continued work on the liquefaction facility in the Nikiski area; and detailed activities such as securing acreage, geophysical and geotechnical testing, and progress on the plant design. The work would inform resource reports for the Federal Energy Regulatory Commission (FERC), which would allow the project to obtain the needed permits. He estimated that the project had invested approximately \$430 million between the concept and Pre-FEED stages. The majority of the project funds went toward the cost of permits, which were needed to begin construction. The project submitted the first set of permit requests in January 2014; and in January 2015 the resource permits were submitted. In May 2015; FERC agreed to create a docket for an environmental impact statement (EIS), the second draft of which would be complete in the first quarter of 2016, leading to an EIS application in the fourth quarter of 2016.

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Co-Chair MacKinnon referred to past projects that had attempted to monetize Alaska's North Slope gas, using examples such as the Denali project, and wondered if more funds were being spent to forward the AKLNG project with the current partnership structure. Mr. Butt thought that every past project had a different element that made it unsuccessful or uneconomic to progress; including the Yukon Pacific project, the Denali Pipeline project, and the Alaska Pipeline Project (APP)[a joint effort between TransCanada Corporation and ExxonMobil Corporation to develop a natural gas pipeline under the Alaska Gasline Inducement Act (AGIA)]. He thought it was difficult to have a robust gas project, due to the tight profit margin and particularly when the gas needed treatment and transport. He furthered that most projects did not have their own pipeline, nor were most projects removing a commensurate amount of CO<sub>2</sub>. He discussed the plentitude of gas in the

Lower 48, which had been a detriment to past projects that were trying to move gas there.

Mr. Butt thought there were elements of AKLNG which were different than past projects; it was an integrated LNG project with a large volume of gas underpinned by foreign markets, which tried to make enough economy of scale to make the project viable. If the project were big enough and accessed enough market with LNG, it could be justified economically. He mused that a pipeline could only go from one fixed point to another, while liquefied gas could be moved anywhere and was much more flexible with broader markets and strengths to give it economy of scale. He considered the most important difference from past projects to be the fundamental intent of the project design; with the producers and the state working together to commercialize the resource.

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Mr. Butt furthered that the state had a derivative right to the revenues from the production of LNG from the leases. The state received royalty shares at Prudhoe Bay and Point Thomson, taxes, and different forms of tax structures; all of which the state would take in the form of a share of the gas. He discussed the favorable alignment of the four parties who had a claim on the gas, with a focus on driving down costs and finding buyers to drive up price to create a profit margin. He mentioned other projects in the state that were not necessarily as well aligned, and had experienced value transfer and value leakage. He summarized that AKLNG was designed to be more flexible and economic, and had tried to create alignment between the state and the producers, which put the state in a role of a project owner rather than merely a revenue receiver.

Vice-Chair Micciche inquired about a spend-comparison to past projects, as a way to see how far along the project had progressed, and asked for a total of expenditures of the AKLNG project to date. Mr. Butt estimated the spend to date to be approximately \$430 million to \$435 million total, with about \$110 million spent on concept design, about \$305 million spent through the end of September, with estimated monthly spending at about \$30 million. He thought that through the end of 2015 spending would be over \$500 million.

Mr. Butt considered total spending to be a good way to measure progress, however he thought milestones were a better way. He recalled that Yukon Pacific had received an EIS, which was a great achievement, and as of yet AKLNG had not attained one. He noted that the project had received (from the U.S. Department of Energy) the two export permits required to underpin export, and only a handful of current U.S. projects had achieved the same. He recounted that the AKLNG project had received authorization in under a year, after completing several hundred pages of documentation to support the permit request for both free trade and non-free trade countries. The project had also advanced the FERC EIS through the first set of resource reports and were close to the second set, none of which had been completed by past projects. He specified that there would be a later slide that addressed the larger process.

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Vice-Chair Micciche asked for the spending to date on Point Thomson. Mr. Butt relayed that the Point Thomson operator had publicly expressed that they had spent nearly \$4 billion to develop the resource.

Vice-Chair Micciche asked about the value of Point Thomson without the AKLNG export project. Mr. Butt discussed the size of Point Thomson, which had about 6 trillion to 8 trillion cubic feet of gas, a few hundred million barrels of oil; and the vast value of the resource was in the gas. ExxonMobil, in partnership with BP and ConocoPhillips, had put in \$4 billion dollars. The facility would make about 10,000 barrels per day of condensate, which did not constitute a wise investment. He stated that Point Thomson was designed for the export of gas; and the facilities were built, integrated, and intended to be used for the AKLNG project gas export. He detailed that the project worked very closely with the Point Thomson and Prudhoe Bay operators to keep the designs integrated. He discussed calibration of equipment in the high-pressure, high-volume system that was sensitive to even minute changes. He projected that the project could produce about 3.3 billion to 3.7 billion cubic feet of gas, with about 2.4 billion to 2.5 billion cubic feet per day of LNG, which was ten times what the state used; and as much gas as the country of Germany could use. He projected that, with a timely start, future AKLNG gas production could constitute more than five percent of the global LNG demand. He reiterated that it did

not make sense to spend \$4 billion to develop Point Thomson for only 10,000 barrels a day of condensate, but it would make sense as a part of the larger project. He referred to the Point Thomson Settlement [a 2012 settlement between the State of Alaska and leaseholders (ExxonMobil Corp and partners) regarding the development of Point Thomson] and the importance of being a stand-alone project.

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Vice-Chair Micciche asked if there was any potential for the Point Thomson project to have a positive value to the developer if it was unable to monetize the gas. Mr. Butt thought it depended upon the price of condensate, but at the current price it was not favorable.

Vice-Chair Micciche thought it was fair to combine the \$4 billion investment into the potential investment of the AKLNG project. Mr. Butt viewed the funds that had been expended toward the Point Thomson (as well as funds expended toward developing Prudhoe Bay) to be part of project development of AKLNG.

Vice-Chair Micciche stated that billions had been spent in preparation for AKLNG, and he thought such unprecedented level of investment demonstrated the states seriousness about the project.

Senator Hoffman asked Mr. Butt to discuss the previous comment that the project producers needed the state at the table. Mr. Butt discussed the importance of good relationships with the sovereign (State of Alaska) due to the complex and difficult nature of the project. He emphasized the importance in having confidence in the ability to work through challenges with the sovereign. He thought that the most successful LNG projects he had observed were ones in which the state had a clear role and in which there was a good working relationship.

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Senator Dunleavy discussed the aforementioned \$430 million spent on the project and wondered who had spent the funds. Mr. Butt explained that funds were spent by all the project participants, and the four parties had each spent 25 percent. He clarified that the spending on Point Thomson

was by the Point Thomson participants, which was a little different.

Senator Dunleavy referred to concern that the state was spending large amounts of money to no end, and thought that the project partners equivalent spending was a good sign.

Co-Chair MacKinnon explained that the committee represented the population of Alaska, and she hoped the project partners understood that the legislature and administration were responsible to the people. She expressed support for the project and support for the administration in being the head of state and leading the project to a successful conclusion.

Mr. Butt discussed slide 3, "Alaska LNG - Project Overview," and reviewed the spending and completion rates for various project stages. He relayed that the project had spent about \$303 million on the Pre-FEED stage, and \$110 million on the concept design that preceded the Pre-Feed stage. He thought that spending would begin to taper off. He discussed the design scope, specifying that it was about 83 percent completed and was sufficient to inform the resource reports and make decisions. He discussed the scope of the work within the Pre-FEED stage, and the goal of trying to "de-risk" the project in order to understand a detailed level of executable plans that included materials and expertise.

Mr. Butt reported that the summer field work was about 100 percent done, and had been comprised of approximately 250 people in Alaska, 80 percent of which were Alaskans. Most of the summer field workers were involved in testing the route to determine environmental impacts, including examination of historical and archeologically significant sites. He continued that Alaska Native historical sites had been found in proximity to the pipeline route, and after working with the Department of Natural Resources State Historic Preservation Office to document and protect the sites, the route was changed. He added that the project had worked with AGDC to complete and confirm the pipeline route, which also provided information for the resource reports. He expressed great appreciation that the field season was completed without a single safety incident.

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Mr. Butt discussed the 2016 work program and budget (WP&B), and explained that it had been completed and submitted to the project partners. He clarified for the committee that on December 4, 2015, all parties remaining in the project were required to make an affirmative election on the WP&B for 2016. In the event that any partner elected to not invest in the project and move forward, the project would go in to wind-down stage or would cease. He specified that the WP&B would define in great detail who would complete particular tasks to accomplish specific goals to advance the regulatory work, complete the project design, and attempt to drive down costs.

Co-Chair MacKinnon referred to increased funding being requested in the bill, and asked if the project partners had pre-approved the Pre-FEED expenses. She wondered if the project operated differently than the state with regard to needing ongoing approval for funding. Mr. Butt conveyed that traditionally partners (state or private enterprise) funded projects in phases, and furthered that he had a slide to illustrate the AKLNG project phases. He thought it very uncommon and problematic to fund on an annual basis, explaining that the uncertainty of such a method created risk. He furthered that normally all parties invested by phase that was not tied to a calendar. He asserted that the structure of the funding (a construct that was part of the Pre-FEED process) was unique and did not exist in most other ventures.

Co-Chair MacKinnon reminded Mr. Butt that the committee was new to the negotiation table and was doing its best to provide stability. She agreed to move the work plan forward as quickly as possible within the process.

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Mr. Butt referred to the aforementioned book that would be provided to all legislators, noting that there were key messages that had been consistent in every project review for the last three to four years. He emphasized that the integrated AKLNG project was much bigger and more complex than a pipeline. To have a product that could access world-wide markets, the gas must be liquefied and cleaned. The gas liquefaction and treatment facilities were major project components, and without them the pipeline (constituting only 20 percent of the project cost) would not make sense.

Mr. Butt suggested that because AKLNG was a FERC Section 3 regulated project, it was a different construct than traditional pipeline projects. In a traditional pipeline project, such as APP and Denali, FERC regulations dictated that the people who built the pipeline were unable to talk to the people who sourced the gas because it was considered an anti-competitive act. The regulatory concerns pertaining to anti-trust resulted in a lack of communication and idea-sharing. He referred back to the fundamental alignment between the state and the project partners, and revealed that under FERC Section 3 all parties in AKLNG were allowed to communicate, which allowed for beneficial project integration and extensive cost savings.

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Mr. Butt emphasized the importance of competing in a global market. He considered the single most important metric of the AKLNG project was to determine if LNG could be delivered to the global market for less than it cost to generate. He listed important factors for project success as alignment, risk reduction, and cost reduction.

Mr. Butt discussed the importance of alignment and how it related to the project. Rather than working on complex commercial challenges, it was important to streamline for maximum profitability and commensurate return to each partner.

[9:48:12 AM](#)

Senator Olson thought that the state was at a disadvantage by utilizing consultants rather than technically qualified in-house employees who shared the same philosophy and were part of the same team. He discussed the technical qualifications of the individuals who were working on the state's behalf, and wondered how Mr. Butt could allay his concerns. Mr. Butt thought that Senator Olson made a fair comment. He restated the importance of alignment, and thought that ideally the project would be structured so that all parties equally benefitted. He used the example of a comparably-structured LNG project in the South Pacific which had come in under budget and ahead of schedule, in which the sovereign had a 23 percent interest. He stated that the partner structure was not designed to create

commercial advantage or disadvantage; but rather intended to create a sense of trust and alignment.

Mr. Butt moved to slide 4, "Project Team", and highlighted a photograph of the project team, which he described as incredibly experienced. He acknowledged that there was a difference in background and experience, and understood Senator Olson's concern.

[9:52:07 AM](#)

Mr. Butt continued to discuss slide 4, noting that a new role had been added to the organizational chart. He described that there were about 135 people working in four different offices: an office in Anchorage managing regulatory issues and community affairs, an office in Calgary where the pipeline was being designed, an office in Houston where the LNG plant was being designed, and an office in Denver where the gas treatment plant was designed. He explained that the teams were in place in the chosen cities due to design and contracting expertise in place in each location.

Mr. Butt discussed the integration of the AKLNG team, and the process of how AKLNG jobs were staffed. He referred to the principle of "the best player plays", and elaborated that there were organizational charts with specific job descriptions with clear deliverables and resourcing requirements. He outlined the staffing process by which project roles were filled, where managers from each project partner constructed lists of qualified employees to potentially fill roles in the project. He discussed integration of employees from all the partners using balance and succession plans.

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Senator Hoffman referred to two positions on the organizational chart that were staffed by employees of TransCanada. He wondered how the positions would be addressed if TransCanada left the project. Mr. Butt outlined that TransCanada had committed to have employees in place through May 2015; and added that the pipeline deliverables were targeted to be completed by April 2015. He verified that there were 15 employees from TransCanada on the AKLNG project, 12 technical professionals and 3 support professionals. Between January 2016 and May 2016

the project would work with TransCanada and other partners to find a place where the employees could migrate back into productive roles in their parent corporation and then be replaced. The employees would transition from 15 to about 4 or 5 by the end of May 2015. TransCanada had also committed to ensuring all Pre-FEED deliverables were done, as well as making sure the employees were accessible through different contract structures such as secondment.

Mr. Butt discussed secondment agreements, under which a person from another company was contractually part of the lead party's organization. Under the Pre-FEED joint venture agreement (JVA), ExxonMobil was the lead party because it owned the largest share of gas between Prudhoe Bay and Point Thomson, which meant it had the obligation to use its systems in a way that drove down costs for everyone. He added that when individuals from other companies came in as secondees, they signed an agreement that they would be treated exactly like every other employee and have access to all information, but promised to treat the information in a confidential manner.

Mr. Butt continued discussing secondment agreements and used the example of AKLNG project manager Mike Britton, who had access to all the project information, but had agreed to protect information that was "lead party intellectual property" (such as how certain things were built). He elaborated that a trust relationship was fostered so there were no barriers within the team. He asserted that confidentiality to the project was about preserving competitiveness. He elucidated that a project team such as AKLNG would not want the information it created to be used by other project teams to get their cost of supply down to capture market share that AKLNG wanted to capture. He clarified that there were confidentiality structures to share information with all project participants and signatories so they could see everything. Additionally, the confidentiality structures were for companies AKLNG worked with - the company that built the large cryogenic heat exchangers had spent decades perfecting the technology and they wanted to protect it from their competitors. He summarized that the confidentiality structures were not intended to undermine the free flow of information; rather they were intended to ensure the project was as competitive as possible and could access the best suppliers.

[10:02:22 AM](#)

Co-Chair Kelly discussed confidentiality agreements, and referred to the hundreds of contractors that had been mentioned. He wondered how many confidentiality agreements were signed in the course of the project. He referred to heated debate regarding the agreements, and inquired about the problems that were created when an individual refused to sign a confidentiality agreement. Mr. Butt qualified that individuals signed agreements back to the corporations. He related that he had signed only one confidentiality agreement, indicating that as an employee of ExxonMobil, he would honor all confidentiality agreements of ExxonMobil. He explained that the confidentiality agreements of a company were binding to every individual in the company. He thought that AKLNG had a couple dozen suppliers with confidentiality/non-disclosure agreements currently in place, but would have hundreds by the end of the project.

Mr. Butt discussed some concerns pertaining to AGDC that were put into public record two weeks previously. He stressed the importance of creating simple structures to protect those that were partnering with the project, pointing out the difficulty and complexity of operating a successful project with some individuals having waived or foregone confidentiality agreements. He summarized that confidentiality structures reinforced the alignment and competitiveness that was necessary for a successful project; and helped ensure that groups such as the committee, the legislature, and broader participants in the state could have confidence that the state's investment was being used well.

[10:08:33 AM](#)

Co-Chair Kelly asked for a description of possible problems if a key decision-maker did not participate in a confidentiality agreement. Mr. Butt explained that in the event that an individual were to receive confidential information and chose not to keep it confidential, anyone who had provided the confidential information would have breached their confidentiality agreement. The confidentiality agreement was between the people that signed the agreement, and people outside the agreement were not bound by it. He related that there had been conversations with representatives from the state about making sure that regardless of a confidentiality agreement

in place (or not); they would honor the information as confidential and treat it as such, and all agreements on the information were going to be treated as confidential before it was transmitted.

Mr. Butt expressed that at some point he would be going beyond his area of expertise in project management and design if the committee was to discuss confidentiality agreements further. He reminded the committee that AKLNG had already signed multiple confidentiality agreements with key suppliers. He shared that the company that provided the chemical to separate the CO2 from the gas had one of the most strict confidentiality agreements that could be found, and explained the motivation for such a strict policy was the protection of their chemical formula. He furthered that AKLNG could not proceed without the supplier, and the supplier was aware of the fact.

Co-Chair Kelly asked if there was a key decision-maker who was not under a confidentiality agreement, was it true to say the individual could not make decisions in the best interest of the organization they represented. Mr. Butt was not sure if he was qualified to answer the question.

Vice-Chair Micciche stressed that all of the committee's discussion was in aid of ensuring that the state had an organization that could bring full value of the AKLNG project to the State of Alaska. He discussed the attorney general and confidentiality agreements. He used DOR and DNR as examples of state agencies that frequently utilized confidentiality as a matter of course. He related a personal story regarding a confidentiality concern while he was Mayor of Soldotna. He wondered how the legislature could balance the difference between the need for confidentiality and with the ability of the administration to fully participate in the project and share the necessary information.

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AT EASE

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RECONVENED

Vice-Chair Micciche thought perhaps his previous question was a better question for the attorney general, and decided to withhold his question for a future date. He felt sure

that important information about the AKLNG project could be shared with the public while still being fully functional.

10:15:47 AM

Co-Chair MacKinnon mentioned a letter that directed the attorney general to manage the special legislative session. She pointed out that there were no administrative officials in the committee room. She noted that the attorney general was scheduled to testify in the committee later in the day. She hoped that administrative employees would be prepared to answer questions later in the day with regard to confidentiality, in aid of preserving competitiveness and creating alignment within the project partnership.

10:17:47 AM

Mr. Butt presented slide 5, "AKLNG Project Scope":

AKLNG Project Team - Pre-FEED Project Scope (under JVA)

- Integrated Project Design Basis
- Train sizes and configuration
- Finalize Plot Plans
- Driver-compressor selection
- Air emissions and modeling
- Finalize Process Design
- Generate data for Resource Reports
- Finalize Pipeline Size and Route
- Cost & Schedule Deliverables
- FEED Execution Plan
- Regulatory/Permitting Plan
- ITT and FEED Contracting Plan

Other Activities being executed by Co-Venturers & State of Alaska (Commercial Work by CoVs)

- SoA - Gas Fiscals, PILT, RIK
- Governance for FEED and beyond
- Long Term Organization, including roles and responsibilities
- FERC Filings
- Commercial / Fiscal / Regulatory Agreements
- Gas supply / balancing
- Upstream Agreements
- Others...

Keys to Success (ARC)

- Alignment
- Risk reduction - reducing the range of uncertainty (perceived risks)
- Cost reduction and predictability

Mr. Butt differentiated the two categories of AKLNG project roles as listed on the slide. The AKLNG project team did design and regulatory work under the JVA to make the project less risky and drive down costs, and to secure the needed permits to evaluate whether the project could move from Pre-FEED into the FEED stage. He pointed out that in addition to the 135 employers and 100s of contractors supporting the project team, there was commercial work done by the co-venturers and the State of Alaska. He specified that each company in the project had dedicated dozens of people to the commercial activities of establishing structure to help the project move forward, while the other team finished the work required to get certainty to move forward.

[10:19:25 AM](#)

Mr. Butt presented slide 6, "Project Development Phases," and discussed the phased/gated project management process used to manage large projects. He emphasized the importance of making sure all project participants were ready to move through each of the phases. He listed the development phases, including concept select, optimize (Pre-FEED), define (FEED), and execution-startup. The concept select phase was where the "how" of the project was defined; key questions as to line size, location of gas and LNG plants, and plant size were addressed. He specified that the concept select phase was completed in June 2014. The current phase was optimize (Pre-FEED), where the project endeavored to drive down costs, advance regulatory work, make sure the design would work and be executed. He specified that the 2016 WP&B supported the work in the Pre-FEED stage but also set up the project for the FEED stage. The FEED stage involved taking the simple and rudimentary designs and making them more complex and with specifications for building. The final phase was execution, in which the project reached final investment decision (FID) and the project was actually built.

Mr. Butt drew attention to the "Project Influence Curve" graph on slide 2 and pointed out that as the project moved through the phases, the ability to make changes and

influence details diminished. Conversely, the amount of money spent increased and reflected the actual forecasted spending line for the project. The spend line represented about \$30 million per year doing concept work, and in the Pre-FEED phase, \$30 million per month was spent to do the more detailed design. He estimated that in the FEED phase, the project would spend \$30 million per week to be more detailed, and in the in the final phase the project would spend \$30 million per day to procure and construct for the project. He stressed the importance of honoring the function of the different project phases, in order to prudently spend larger amounts of money when the project was fully defined, informed, and permitted. He discussed how the margin for error factored in to the curve, and decreased as the project approached the final phase. He described how other projects failed after spending too much money in the initial phases and not completing the important preparatory work.

[10:25:37 AM](#)

Co-Chair MacKinnon discussed recent remarks by the director of the Office of Management and Budget, which pertained to the administration's interest in moving items normally done in the FEED stage back to the Pre-FEED stage. She asked about the fiscal consequences of altering the staged project management, and wondered if more discussion would be needed. Mr. Butt discussed the concept of moving work forward to diminish uncertainty, and related it back to the concept of alignment. He outlined that it was a conscious decision to spend more money and do more work to accomplish certainty, and emphasized the need for agreement of all parties since it was not without consequence.

Co-Chair MacKinnon asked if there were instances in which transitioning work from the FEED to the Pre-FEED stage cost more money and perhaps had to be re-done. Mr. Butt responded in the affirmative, and added that it was especially so in a highly regulated project like AKLNG.

Mr. Butt went back to slide 6, concluding that the project was on schedule to complete the Pre-FEED phase by mid-year 2016 and would be ready for a FEED decision by mid-year 2017, and the work was being done at cost or below original estimates. He stated that other than a few items that had been added to the work scope, the AKLNG spend was underneath what was forecasted, no contingent monies were

spent, and the project was continuing to liquidate work effectively.

[10:29:50 AM](#)

Senator Dunleavy discussed the different attempts to monetize gas in the past, and thought that oil was more of a priority for resource extraction at the time, with gas being used as a lifter [gas can be injected to lift oil to the surface of a well]. Mr. Butt agreed.

Senator Dunleavy referred to research on monetizing gas, and thought AOGCC made a ruling regarding taking a certain amount of gas from the North Slope. Mr. Butt agreed.

Senator Dunleavy asked if the ruler of Qatar was required to sign a confidentiality agreement, and wondered if he was able to access any information he wished. Mr. Butt was unsure of the answer.

Senator Dunleavy questioned if Mr. Butt worked for the legislature or worked for the project. Mr. Butt shared that he worked for the State of Alaska as a participant paying 25 percent of the bills, and viewed the legislature as a kind of board representing Alaskans. He viewed the project as working for all Alaskans.

Senator Dunleavy expressed that he had felt confusion as to who was in command of the project and who was making the decisions. He asked what concerns Mr. Butt had if TransCanada were to leave the project. Mr. Butt referred to the loss of access to TransCanada's experience and expressed confidence in the experience of the other project partners. He reiterated that TransCanada had committed to help finish the Pre-FEED deliverables.

Senator Dunleavy inquired if Mr. Butt was confident that AKLNG could bridge the experience gap through secondment of employees. Mr. Butt responded in the affirmative.

Senator Dunleavy queried about research on a larger 48-inch pipe, and wondered if the state had requested the information rather than the other project partners. Mr. Butt answered in the affirmative.

Senator Dunleavy asked if the price for the research was approximately \$30 million. Mr. Butt replied in the affirmative.

10:33:35 AM

Senator Dunleavy asked how the state could be assured that there was alignment on the value side (money going out), if the joint marketing agreements were not in place. Mr. Butt stated that he was not a marketer, and referred back to slide 5, pointing out that marketing was included in the "Other Activities being executed by co-venturers and State of Alaska" role. He emphasized the need for transparency throughout the project and assurance that the state's share of the resource was commensurate with the share it would get out. He thought there were other individuals more equipped to assist Senator Dunleavy in his inquiry.

Senator Dunleavy wondered if the current partnership was the ideal structure for all partners to get what they wanted, or was there another model that could work better. Mr. Butt thought there was always room to improve, and emphasized that the AKLNG project had endeavored to learn from past projects which were unsuccessful. He discussed the need for building alignment with the state, in order for it to have a seat at the table and operate under the same rules and structures as the other partners. He thought that AKLNG was pursuing a very effective model that had been successful for all participants (including sovereigns) in other places.

Senator Dunleavy requested Mr. Butt to give the committee parting thoughts or considerations regarding the exit of TransCanada from the AKLNG partnership. Mr. Butt extended his thanks to the TransCanada team for the work they had done in the concept and Pre-FEED stages of the project. He referred to the succession planning and transition planning that was in place with TransCanada and thought it was at the state's discretion to work through the transition process.

10:37:50 AM

Vice-Chair Micciche discussed FID for AKLNG and asked Mr. Butt to comment on the eventuality of a negative decision with partners in disagreement, as well as what financial decisions were part of FID. Mr. Butt explained that in the

event that partners did not choose to progress into the FID stage, there would be work products and deliverables that would help inform what it would take to build and construct the project. He related that often projects were not progressed in FID often because of a fundamental change in the market, and investors viewed it as imprudent to put resources into a project without a reliable return. He thought that key decisions in FID included technical confidence and regulatory certainty. He emphasized trust and issue resolution and thought that AKLNG had learned from history and set up a structure through which parties could work together and use best practices from industry, while using a disciplined approach.

Vice-Chair Micciche discussed the necessity of learning the best way to move forward with the project, and stated that he did not have a "project at all costs" mentality. He thought the entire legislature was excited about the potential for AKLNG.

[10:42:27 AM](#)

Senator Bishop commented on the engagement information on slide 7, which included community outreach events and meetings with Alaska Native regional and village corporations, and stated that he would like to have an expanded discussion with Mr. Butt at a later time. He referred to a labor study done by a third party, and asked for Mr. Butt to provide him with a copy. He wondered what percentage of the AKLNG project had been factored in for labor cost.

Mr. Butt spoke to the positive relationships that had been created with the Native corporations, and pointed out that one of the Native corporations was directly working with AKLNG on the gas treatment plant and LNG plant designs. He furthered that there were multiple Native corporations supporting the AKLNG summer field work. He stated that the labor studies were being done in conjunction with the Department of Labor and Workforce Development and Commissioner Drygas, and agreed to share them with Senator Bishop. He specified that he was unsure of the percentage of labor cost in the AKLNG project until the labor studies were completed.

Co-Chair MacKinnon thanked Mr. Butt for appearing before the committee. Mr. Butt stressed the importance of having

differences of opinion within the state and producer parties; it meant partners were engaged and trying to resolve issues. He emphasized the importance of resolving issues in an aligned manner and in a constructive way that worked for all parties to move through the project phases.

[10:46:22 AM](#)

Co-Chair MacKinnon applauded the administration for withdrawing the proposed oil reserves tax from the special session agenda, and for helping to place some additional certainty in the project with regard to the financial structure. She referred to three letters, two of which were mentioned by the governor in a press conference and included information about gas agreements. The mention of gas agreements had included a date of December 4, 2015. She wondered why the governor had not referred to a letter from Exxon Mobile in the press conference, which had mentioned a confidentiality agreement that had been submitted to the administration. Mr. Butt confirmed that he had read the letter in question, and that it did contain reference to a confidentiality agreement. He furthered that the letter was sent by a marketer, on behalf of trying to come up with a marketing structure.

Co-Chair MacKinnon discussed the attorney general and the aforementioned confidentiality agreement. She stated that in the same letter there was reference to a gas sales and purchase agreement, and expressed concern regarding an "artificial deadline." She asked if Mr. Butt could convey information regarding what was required to negotiate a gas sales agreement. She wondered if the negotiations required the presence of attorneys. Mr. Butt reiterated that his area of expertise was the project itself, but offered to give a general industry perspective. He advised that gas marketing agreements were complex, as they dealt with a large quantity of gas over a long period of time. He asserted that the expediency with which the agreements were negotiated depended upon whom was participating, and the skill they employed. He felt that it would be inappropriate to offer the committee a construct around dates or complexities. He summarized that the agreements were part of the gated project structure, and it was important to ensure that all parties had what they needed to move forward and make decisions.

Co-Chair MacKinnon wondered if the committee was interested in hearing more information about the complexity of a gas sales agreement. She expressed her interest in furthering her own knowledge on the subject. She suggested that, with the support of the committee, she would reach out to analytica [legislative contractors advising on AKLNG] with a request for information. She referred to the December 4, 2015 date in the letters and thought expediency was important in order to support the governor and his team on the proposed buyout.

Vice-Chair Micciche expressed interest in obtaining more information regarding gas sales agreements.

[10:51:11 AM](#)

Co-Chair Kelly asked for a rough approximation of the amount of a potential gas sales agreement. Mr. Butt stated that for 32 trillion to 35 trillion cubic feet of gas, the number of dollars involved would be determined by those determining the values of the product.

Co-Chair Kelly asked if the amount would be potentially hundreds of billions. Mr. Butt said yes.

Co-Chair Kelly asked if the agreements needed to be negotiated with each project partner. Mr. Butt responded in the affirmative, and stated that the three letters Co-Chair MacKinnon had mentioned were part of bilateral discussions on how the agreements would be worked.

Co-Chair Kelly asked if the discussions and agreements had to be completed by December 4th.

Co-Chair MacKinnon clarified that two of the three letters in question referred to parties that had committed to try and reach an agreement by December 4, 2015; but she was unclear if the task was possible. She thought a high-level overview of the potential agreements and financial consequences to the state (both positive and negative) would be helpful to the committee. She discussed having a one to two-hour informational session as soon as possible in order to understand the gas agreement and how it might be affected by the letters that were mentioned in the press conference.

Co-Chair Kelly stated that he would also like to get more information on gas sales agreements, and stated he would encourage enalytica to keep any prepared information as a high-level overview, to understand the scope of the project rather than the smaller details.

Co-Chair MacKinnon commented that the state was new to partnership participation, and reminded Mr. Butt that there were 60 legislators trying to understand the project on behalf of their different constituents. She remarked that the governor was leading the state forward and the committee wanted his team to be as prepared and supported by the legislative body as possible.

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ADJOURNMENT

10:54:44 AM

The meeting was adjourned at 10:54 a.m.