

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 25, 2015

3:33 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Mia Costello, Vice Chair
Senator John Coghill
Senator Peter Micciche
Senator Bill Stoltze
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Bert Stedman

COMMITTEE CALENDAR

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 132(L&C)

"An Act relating to the purpose, powers, and duties of the Alaska Gasline Development Corporation related to the Alaska liquefied natural gas project and an in-state natural gas pipeline; relating to the in-state natural gas pipeline fund; and providing for an effective date."

- HEARD & HELD

SENATE BILL NO. 68

"An Act relating to resident big game tags; relating to the authority of the Board of Game and of advisory committees of the Board of Fisheries and the Board of Game to effect emergency closures during established seasons; relating to antlerless moose seasons; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

SENATE BILL NO. 48

"An Act relating to a reduced fee for a nonresident hunting or sport fishing license and a big game tag for qualifying former state residents; and relating to the requirements for a nonresident hunting or sport fishing license."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 132

SHORT TITLE: AGDC SUPPORT OF NATURAL GAS PROJECTS

SPONSOR(S): REPRESENTATIVE(S) CHENAULT

03/02/15	(H)	READ THE FIRST TIME - REFERRALS
03/02/15	(H)	RES, L&C
03/06/15	(H)	RES AT 1:00 PM BARNES 124
03/06/15	(H)	Heard & Held
03/06/15	(H)	MINUTE(RES)
03/11/15	(H)	RES AT 1:00 PM BARNES 124
03/11/15	(H)	Heard & Held
03/11/15	(H)	MINUTE(RES)
03/11/15	(H)	RES AT 6:00 PM BARNES 124
03/11/15	(H)	Heard & Held
03/11/15	(H)	MINUTE(RES)
03/13/15	(H)	RES AT 1:00 PM BARNES 124
03/13/15	(H)	Scheduled but Not Heard
03/14/15	(H)	RES AT 1:00 PM BARNES 124
03/14/15	(H)	-- Continued from 3/13/15 Meeting --
03/16/15	(H)	RES RPT CS(RES) NT 6DP 1DNP 2NR
03/16/15	(H)	DP: JOHNSON, HERRON, HAWKER, OLSON, NAGEAK, TALERICO
03/16/15	(H)	DNP: JOSEPHSON
03/16/15	(H)	NR: TARR, SEATON
03/16/15	(H)	L&C AT 3:15 PM BARNES 124
03/16/15	(H)	Heard & Held
03/16/15	(H)	MINUTE(L&C)
03/18/15	(H)	L&C AT 3:15 PM BARNES 124
03/18/15	(H)	Moved CSHB 132(L&C) Out of Committee
03/18/15	(H)	MINUTE(L&C)
03/20/15	(H)	L&C RPT CS(L&C) NT 2DP 2DNP 3NR
03/20/15	(H)	DP: TILTON, OLSON
03/20/15	(H)	DNP: JOSEPHSON, KITO
03/20/15	(H)	NR: LEDOUX, COLVER, HUGHES
03/23/15	(H)	TRANSMITTED TO (S)
03/23/15	(H)	VERSION: CSHB 132(L&C)
03/25/15	(S)	RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

REPRESENTATIVE CHENAULT
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Prime sponsor of HB 132.

RENA DELBRIDGE

Staff to Representative Hawker
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Commented on HB 132.

MERRICK PIERCE, representing himself
Fairbanks, Alaska

POSITION STATEMENT: Opposed HB 132.

HAROLD HEINZE, representing himself
Anchorage, Alaska

POSITION STATEMENT: Suggested amendments to HB 132.

BILL WARREN, representing himself
Nikiski, Alaska

POSITION STATEMENT: Opposed HB 132.

REED CHRISTENSEN, representing himself
Anchorage, Alaska

POSITION STATEMENT: Supported HB 132.

PAMELA THROOP, representing herself
Fairbanks, Alaska

POSITION STATEMENT: Opposed HB 132.

DOUG SMITH

Alaska Support Industry Alliance
Anchorage, Alaska

POSITION STATEMENT: Supported HB 132.

GEORGE PIERCE, representing himself
Kasilof, Alaska

POSITION STATEMENT: Opposed HB 132.

JIM PLAQUET, representing himself
Fairbanks, Alaska

POSITION STATEMENT: Supported HB 132.

ACTION NARRATIVE

[3:33:13 PM](#)

CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:33 p.m. Present at the call to order were Senators Coghill, Micciche, Stoltze, Costello, and Chair Giessel.

HB 132-AGDC SUPPORT OF NATURAL GAS PROJECTS

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CHAIR GIESSEL announced HB 132 to be up for consideration. She invited Representative Chenault to the table.

REPRESENTATIVE CHENAULT, Alaska State Legislature, Juneau, Alaska, prime sponsor of HB 132, said HB 132 affirms a policy direction for the Alaska Gasline Development Corporation (AGDC) set by the legislature in 2013 when AGDC was created and also again in 2014 when the legislature approved AGDC's involvement with the Alaska Natural Gas pipeline Project (AKLNG) in conjunction with SB 138.

HB 132 recognizes that AGDC is already engaged as a partner on behalf of the State in the Alaska LNG Project, which is the project most likely to deliver the greatest benefit to Alaskans.

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SENATOR WIELECHOWSKI joined the committee.

REPRESENTATIVE CHENAULT continued that because the AKLNG Project is most likely to deliver the greatest benefits to Alaskans, House Bill 132 ensures that AGDC maintains its commitment to this project and does not embark on a duplicative, competing project until the future of the AKLNG Project is more certain. Per House Bill 132, AGDC would be free to pursue other projects at the earliest of three dates: 1) if a party to the AKLNG Project withdraws, 2) if the AKLNG Project proceeds into the Front-End Engineering and Design (FEED) phase, and 3) if there is no agreement by July 1, 2017.

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The legislation further recognizes that the state is prudent to maintain its back-up plan, the ASAP project, in case its partners in the AKLNG Project fail to commit to the next development phase. Should that occur, AGDC is poised to re-solicit gas buyers and gas sellers and to upgrade the ASAP proposal as supported by the market.

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REPRESENTATIVE CHENAULT said keys to megaproject success include the elimination of competing objectives and the alignment of stakeholders along a single project. With the unprecedented momentum to date of the aligned AKLNG Project, contemplation of competing projects increases risk and uncertainty that threaten success. This legislation ensures that AGDC retains the course

set by the Legislature in creating it and provides a framework for it to advance the state's interests as a full participant in the AKLNG Project.

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RENA DELBRIDGE, staff to Representative Hawker, Alaska State Legislature, Juneau, Alaska, said she is working with the speaker on HB 132 and would explain the sections.

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Section 1 is conforming language.

Section 2 adds a new subsection to AS 31.25.005, AGDC's purpose, to place temporary restrictions on AGDC's abilities by prohibiting AGDC from developing a natural gas pipeline project in which more than half the gas transported is intended for export as liquefied natural gas, and prohibits AGDC's involvement in a liquefied natural gas project that competes with the AKLNG Project in which AGDC is already contractually involved.

These prohibitions terminate at the earliest of three dates: the time at which the state and other AKLNG Project parties that have contractual rights to gas withdraw from the AKLNG Project or when the state and the other AKLNG parties progress the project into the next phase, Front End Engineering and Design (FEED); or the time at which the state or another party withdraws from the Alaska LNG Project, or as final backstop, July 1, 2017.

Section 3 adds a new subsection to AS 31.25.080, AGDC's powers and duties, to require AGDC to obtain written consent from an entity controlling or owning gas before it can market that gas. It does not prohibit AGDC from marketing. The legislature created statutory authority for them to create a marketing subsidiary at some point in the future if DNR or other resource controllers ask them to help market that gas.

Section 4 amends AS 31.25.100, the In-state Natural Gas Pipeline Fund, to restrict AGDC from using the monies for a project that competes with the AKLNG Project or for a natural gas pipeline project through which a majority of gas is intended for export. These restrictions expire at the earliest of the same three dates.

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Section 5 amends AGDC's definitions to conform the statutory reference in the definition of "Alaska liquefied natural gas project" to reflect the addition of the new subsection in AS 31.25.005.

Section 6 adds a new term, "front-end engineering and design study," to AS 31.25.390, AGDC definitions. The definition replicates the language in the Heads of Agreement (HOA) document for the AKLNG Project, dated Jan. 14, 2014, between AGDC, the State of Alaska, BP, Conoco, TransCanada, and Exxon Mobil.

Section 7 sets an immediate effective date.

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CHAIR GIESSEL asked the intent of the legislation.

REPRESENTATIVE CHENAULT replied that it is to make sure the legislature's issues are protected. Roughly \$180-200 million is sitting in the fund. Since AGDC was incorporated they were prohibited from doing duplicate services and that is probably the main reason. Competition is seen as bringing uncertainty to a project that he thinks will go forward and he didn't want the AGDC to get in the way of that project. This keeps some of that from happening.

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SENATOR WIELECHOWSKI said he didn't support HB 4 or SB 138, but he respects the democratic process and appreciates his perspective, but HB 132 creates more market chaos. He asked if he could envision a compromise with the governor.

REPRESENTATIVE CHENAULT said that is exactly what they are looking for. The last thing he wants to do is fight with the governor.

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SENATOR MICCICHE said he views this bill as asking the governor to step back and come to the table. He wanted to know how Representative Chenault defines competing with ourselves. What are the limits of where AGDC and the ASAP Project would compete with AKLNG?

MS. DELBRIDGE answered without additional clarity on what ASAP might become it's difficult to be too precise. But the governor expressed a desire to have parallel projects of generally the same size; both would terminate in an LNG facility. They would keep going at the same time until they reached final investment

decision (FID) at which point the one that delivered the most benefits to the state would get the state's full support. That indicates a sense of competition. The Army Corps of Engineers has already paused its work on the ASAP supplemental Environmental Impact Statement (EIS), because if it turns into a bigger line it might become regulated by FERC.

Additionally, there is a lot of potential for market uncertainty and all of the gas contracts need to be in place before FID. So, two different projects presumably carrying the same gas need to go out to secure market at the same time would create confusion but also would potentially give the markets some ability to leverage the two projects against each other potentially driving down the price that the state ultimately receives for its gas.

MS. DELBRIDGE explained that there is also the chance of an unfair advantage to one project or the other if anyone wants to pick that winner and try to make it happen. In particular, special terms are granted to an ASAP pipeline under HB 4 that give it preferential and priority treatment for permits and authorizations from the state.

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SENATOR MICCICHE asked if language on page 4, line 10, saying "the corporation may not expend money" is what they are calling competition.

MS. DELBRIDGE answered that the sponsor had to somehow define what a competing pipeline might be and, respecting the need for the state to maintain a viable backup instate option, the export limit was the logical place to turn.

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SENATOR COSTELLO said many Alaskans see this as a disagreement and asked Representative Chenault to talk about why this legislation is necessary.

REPRESENTATIVE CHENAULT answered that it's about supporting the pipeline project that is most likely to succeed, the AKLNG Project. If it doesn't go forward, why it failed would have to be determined along with why three of the biggest producers in the world and the State of Alaska with all of their interests aligned could not put a project together before moving forward on any type of new project. There has to be an export component, because the amount of gas that Alaskans use is fairly trivial in the big picture.

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SENATOR MICCICHE commented that the project had purchased about 540 acres in Nikiski. The place is abuzz all the time. This is the real thing and he is excited about it.

REPRESENTATIVE CHENAULT confirmed that they had purchased 540 acres and are looking for as total of 800 acres, but that doesn't necessarily mean they are bringing the project to Nikiski. The amount of the money they have spent there is a small piece of an overall \$65 billion project.

CHAIR GIESSEL asked how Alaska's project ranks with others that have shut down around the world.

REPRESENTATIVE CHENAULT answered that he didn't have a ranking system and that there are about 17 or 18 projects up and down the West Coast, mostly in B.C. Alaska's is a little bit different. It has the people with the gas making the investment. Buyers are buying into those other projects, not producers. Only one of our producers is involved in any of those projects.

Alaska has the producers of the gas in partnership with the State of Alaska, which is the alignment needed to move a project forward. AGIA was tried and it kept the producers out. Although the market changed, the suppliers of gas need to be involved in any project of this magnitude or you're just spinning your wheels.

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SENATOR COGHILL thanked him for his tenacity, but cautioned when speaking about "the project" that people don't know which one he is referring to. He asked what it will take to get the AKLNG Project to the FID point and why hold this ASAP up to see if they can get there.

MS. DELBRIDGE responded that there is a concern that export grade gas and a higher pressure in the pipe would cost more to take off at different points along the line. That is a factor that everyone is waiting for more detail on if a new approach becomes an LNG export line.

The AKLNG Project's front end engineering and designed (FEED) decision is expected in 2nd quarter 2016. This is when essentially the project parties look at the huge body of work and preliminary engineering done during the pre-FEED in the past two years and work out some commercial and governing type agreements and look at internal marketing efforts to decide if

the project was shaping up in such a manner that it warranted them moving forward into that next stage gate.

She said that analytica, the consulting firm hired by LB&A, has an excellent overview of the various components that the AKLNG parties will need to have before them in order to make that FEED decision. Then it will be another couple of years of fine-tuning the engineering and studying and making sure that permits are in place. The EPA's EIS process has been initiated and that is when FERC will do the bulk of the permitting analysis and hopefully deliver a permit.

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That phase will take several years and require a \$2.5 billion amongst the parties. Some long lead time items for construction might also be ordered. FEED culminates in the final investment decision (FID), the final stage gate where everyone can check off that things have gone as they needed to in order to go to construction.

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SENATOR COGHILL asked if this bill holds the ASAP Project at bay.

MS. DELBRIDGE answered yes.

SENATOR STOLTZE asked to what degree the producers had participated in the hearing process.

MS. DELBRIDGE answered that the other parties to AKLNG have not participated in the legislative process on HB 132.

SENATOR STOLTZE asked the name of those parties.

MS. DELBRIDGE replied ExxonMobil, ConocoPhillips BP, as well as the State of Alaska through the Department of Natural Resources (DNR), AGDC, and TransCanada. ExxonMobil owns a majority of the project at 33 percent; the state is the second highest owner at 25 percent, ConocoPhillips has around 22 percent and BP as 21 percent.

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SENATOR WIELECHOWSKI said he hoped to hear from the partners, the DNR and the governor's office. Section 3 gives him heartburn, because it says the corporation may not market gas owned or controlled by any entity other than itself without express written consent from that entity. He didn't see a sunset

date and he worried that if AGDC ultimately builds the line that language will give veto power to the producers who don't own the gas but control it.

MS. DELBRIDGE explained that the entity that has the gas is the entity that is going to need to market it; AGDC, as ASAP, was always conceived as a transportation mechanism. AGDC under the ASAP framework never took possession of the gas; it simply took temporary custody to move it from one place to the next. The same type of principle applies: if somebody owns something, somebody else can't market it to sell it at a price that the person that doesn't own it hasn't asked that person to go sell it. Title is generally required to sell something. So, AGDC under the old framework, whether in AKLNG or in ASAP, has never had title to gas. If DNR, who does carry the state's gas share, wants AGDC's assistance or for them to set up a marketing subsidiary to make the deals and look for the potential buyers, they can still do that.

SENATOR WIELECHOWSKI said the duty to produce and market gas is the legal obligation a lessee has and asked if this is saying if one of the majors decides they didn't like the project that he could kill the gas line.

MS. DELBRIDGE replied that duty to produce is not necessarily a duty to market and that legal counsel should follow through on the question.

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CHAIR GIESSEL thanked her and opened public testimony.

[4:22:39 PM](#)

MERRICK PIERCE, representing himself, Fairbanks, Alaska, said he serves on the board of the Alaska Gasline Port Authority and that Governor Walker has consistently explained the correct approach for getting a gasline built. He has already said it needs to be a large diameter, economy-of-scale pipeline for LNG export. With HB 132, a few legislators are having a hard time accepting that Alaskans picked a new governor, one who knows how to get a gasline built. If HB 132 is passed, the state has two options. They can either do a project that is not economic or one that is controlled by those who have projects that compete with Alaska.

The question is who should we trust? The Governor or those who have consistently gotten it wrong? He recounted the many failed attempts to get a gasline that made no economic sense.

Further, Mr. Pierce said, the HOA does not require any player to build anything. AKLNG only gets a project if the global corporations who have competing projects decide to go forward. He cautioned that the AKLNG partners have defrauded Alaskans with fraudulent tariffs on TAPS designed to limit North Slope competition and defraud the state of billions of dollars in revenue.

In 2011 and 2012 when the markets came to Alaska looking for enough gas to build the gasline, ExxonMobil's response was to ignore it. If they wanted a project they never would have ignored that significant development.

4:26:02 PM

HAROLD HEINZE, representing himself, Anchorage, Alaska, suggested amendments to HB 132. He said he has pipeline experience spanning a half century; he followed the rebirth and development of the AKLNG Project over the last few years. In SB 138 the 28th Legislature firmly committed to the state's partner participation in the producer sponsored pre-FEED evaluation of the AKLNG Project. Work is continuing under the associated agreements in preparation for a special legislative session this fall. He hoped that the legislature will fulfill its role as the Board of Directors for the state participation in the AKLNG Project. Given the magnitude of the decision, each member is acting as a fiduciary and responsible to assure that he or she has exercised a high level of due diligence. He observed, however, that while much information has been gathered and generated, the legislature still lacks major information under several categories of importance to a fiduciary.

He said the current instructions in HB 132 appear to narrow considerations that will be brought forward to the legislature and the public, but it could be expanded to a vehicle signaling the need for fuller evaluation of rewards, alternative approaches and benefits in alternative projects and make them publicly available before the decision rather than after.

4:29:21 PM

BILL WARREN, representing himself, Nikiski, Alaska, opposed HB 132. It is unnecessary and a slap to the governor. The feud going on between the House and the Governor ought to cease. This is a needless fight. Strategically it's bad, because it signals that Alaska will make major concessions to secure AKLNG.

He said HB 132 will muzzle the ASAP Project when to really be a Plan B it should be up and running at curbside. AGDC should have the full configuration of pipe sizes and capacities they want, some data on their gas handling and on the LNG component. He said everyone has high hopes that AKLNG will succeed, but Las Vegas odds give it 50 percent.

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REED CHRISTENSEN, representing himself, Anchorage, Alaska, supported HB 132. He said that as part of his job he interfaces with oil and gas industry people on a regular basis and keeps hearing the same thing about the potential gas line from the North Slope: that Alaska is closer that it has ever been. A key component of the AKLNG Project's success has to do with the alignment of all the parties. Setting up another project at this time doesn't make sense.

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PAMELA THROOP, representing herself, Fairbanks, Alaska, opposed HB 132. Don't tie the governor's hands, she said, and make sure Alaska gets the plan that is best for the state. Chenier Energy in Texas got permission to sell gas to China. Since then, they have built four trains and have sold all the gas they can find. If a small company who doesn't own any gas can sell it all over the world, Alaska can, too.

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DOUG SMITH, Alaska Support Industry Alliance, Anchorage, Alaska, supported HB 132. He can speak for service companies: they have been planning for investing and making adjustments to be meaningful participants in AKLNG. Right now they are concerned the project is being killed. The producer's have to be concerned, too. Give it time to work and if it doesn't, there is a backup plan. At .5 bcf/day throughput, the ASAP seems reasonable, but now they are talking about something that is four times that size and clearly stirs the concern of competition.

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GEORGE PIERCE, representing himself, Kasilof, Alaska, opposed HB 132. It ties Alaskans' hands. The same legislators have proposed pipelines for 10 years with no results. The governor is making sure Alaska gets a pipeline built. The Japanese said they have been ready to buy Alaskan gas for over 40 years and they prefer a large diameter line to Valdez.

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JIM PLAQUET, representing himself, Fairbanks, Alaska, supported HB 132. He said he worked on the TAPS when he was 18 years old and remembered workers telling him then - 41 years ago - that a gasline would be built next. The governor's backup plan seems to be in competition with the AKLNG Project that provides Alaska with the best chance of having a viable project.

CHAIR GIESSEL finding no further comments, closed public testimony on HB 132.

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REPRESENTATIVE CHENAULT commented that he and Representative Hawker created AGDC and he would be remiss if he didn't have all the faith in the world that Dan Fauske, the head of AGDC, could put a project together. That is what it was tasked with in the beginning. He still has faith in him and his team.

CHAIR GIESSEL added that AS 31.25.005 states the Alaska Gasline Development Corporation (AGDC) shall:

For the benefit of the state to the fullest extent possible: 1) develop and have primary responsibility for developing natural gas pipelines, an Alaska liquefied natural gas project and other transportation mechanisms to deliver natural gas in-state for the maximum benefit of the people of Alaska.

She said that a couple of people mentioned the Alaska Gasline Port Authority, the group that Governor Walker was part of and working with, and asked if he thought the governor is changing the plan to export from Valdez.

REPRESENTATIVE CHENAULT replied that he had no idea.

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SENATOR MICCICHE stated that the governor's intentions are honorable. On two separate occasions in his district he promised folks of the Kenai that his drive was for a large diameter pipeline with its terminus in Nikiski, and he expects him to keep that promise. The governor is just looking at creative ways to get there.

SENATOR MICCICHE said he thought it was important to give the governor the opportunity to step back and work together with the two bodies toward something that works with AKLNG as the primary project and a second project clearly secondary.

SENATOR COSTELLO asked Representative Chenault when AGDC was put together what he envisioned the governor's role would be.

REPRESENTATIVE CHENAULT replied that the governor is the administrator for the State of Alaska and is in charge of working with the legislature to make sure Alaskans get the greatest benefit from the natural resources they have.

CHAIR GIESSEL held HB 132 in committee.

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CHAIR GIESSEL adjourned the Senate Resources Committee meeting at 4:54 p.m.