

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

March 27, 2015

3:31 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Senator Bert Stedman  
Senator Bill Stoltze

**OTHER LEGISLATORS PRESENT**

Senator Kevin Meyer  
Representative Mike Chenault  
Representative Mike Hawker

**COMMITTEE CALENDAR**

SENATE BILL NO. 8

"An Act relating to the regulation and production of industrial hemp."

- MOVED SB 8 OUT OF COMMITTEE

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."

- MOVED CSHB 132(L&C) OUT OF COMMITTEE

SENATE BILL NO. 57

"An Act relating to the development of state emission standards in accordance with the federal Clean Air Act."

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 8

SHORT TITLE: INDUSTRIAL HEMP PRODUCTION LICENSES

SPONSOR(s): SENATOR(s) ELLIS

01/21/15 (S) PREFILE RELEASED 1/9/15  
01/21/15 (S) READ THE FIRST TIME - REFERRALS  
01/21/15 (S) RES, JUD, FIN  
03/20/15 (S) RES AT 3:30 PM BUTROVICH 205  
03/20/15 (S) Heard & Held  
03/20/15 (S) MINUTE(RES)  
03/27/15 (S) RES AT 3:30 PM BUTROVICH 205

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) READ THE FIRST TIME - REFERRALS  
03/25/15 (S) RES  
03/25/15 (S) RES AT 3:30 PM BUTROVICH 205  
03/25/15 (S) Heard & Held  
03/25/15 (S) MINUTE(RES)  
03/27/15 (S) RES AT 3:30 PM BUTROVICH 205

**WITNESS REGISTER**

DENNIS WADE, representing himself  
Homer, Alaska

**POSITION STATEMENT:** Supported SB 8.

JAN FLORA, representing herself  
Homer, Alaska

**POSITION STATEMENT:** Supported SB 8.

MATT MOSER, staff to Senator Ellis  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Commented on SB 8 for the sponsor.

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

**POSITION STATEMENT:** Commented on HB 132 and reiterated that the governor has stated that his priority is the AKLNG Project and has asked her to work very hard to accomplish it.

REPRESENTATIVE CHENAULT  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Co-sponsor of HB 132.

REPRESENTATIVE HAWKER  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Co-sponsor of HB 132.

RENA DELBRIDGE, staff to Representative Hawker  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Commented on HB 132 for the sponsors.

MILES BAKER, Director  
Governmental Relations and External Affairs  
Alaska Gasline Development Corporation (AGDC)  
Anchorage, Alaska

**POSITION STATEMENT:** Explained the new fiscal note for HB 132.

**ACTION NARRATIVE**

[3:31:43 PM](#)

**CHAIR CATHY GIESSEL** called the Senate Resources Standing Committee meeting to order at 3:31 p.m. Present at the call to order were Senators Costello, Coghill, Micciche, and Chair Giessel.

**SB 8-INDUSTRIAL HEMP PRODUCTION LICENSES**

[3:32:27 PM](#)

**CHAIR GIESSEL** announced consideration of SB 8 and noted that public testimony was open.

**DENNIS WADE**, representing himself, Homer, Alaska, stated support for SB 8.

[3:33:30 PM](#)

**SENATOR WIELECHOWSKI** joined the committee.

**MR. WADE** said hemp was the leading oil used for lighting 2,000 years ago and it burns quite well in modern diesel engines. One acre of hemp will produce as much paper as 4.25 acres of timber pulp and is easier to refine. The fiber makes strong rope and cloth, canvas, which is named after cannabis. The Alaskan agricultural sector will benefit immensely from establishing a viable hemp industry. It will also diversify the Alaskan economy.

He hoped the licensing fees would be small, because the Alaska agriculturalist will have to find seed that will work in the various agricultural areas of Alaska. The seed that will work in Homer won't work in Delta Junction or Fairbanks, he explained.

[3:35:44 PM](#)

**JAN FLORA**, representing herself, Homer, Alaska, supported SB 8. She lives on a cattle ranch that burns diesel to put up 150-200 acres of hay for their beef cattle every year and if they could produce seed and buy a cheap oil press, they could burn bio diesel.

She said hemp is grown in Siberia at 65° north latitude. Delta Junction is at latitude 63° or 64° and this crop is a real possibility for that area. She suggested that she could work with the professors and researchers at UAF's Cooperative Extension Service to develop a seed that would grow in Alaska.

CHAIR GIESSEL thanked her for testifying and finding no further comments, closed public testimony.

[3:38:20 PM](#)

MATT MOSER, staff to Senator Ellis, sponsor of SB 8, Alaska State Legislature, Juneau, Alaska, thanked the committee for considering SB 8.

SENATOR COSTELLO moved to report SB 8, version 29-LS0195\A, from committee with individual recommendations and attached fiscal note(s). There were no objections and it was so ordered.

#### **HB 132-AGDC SUPPORT OF NATURAL GAS PROJECTS**

[3:40:24 PM](#)

CHAIR GIESSEL announced consideration of HB 132. [CSHB 132(L&C), version 29-LS0623\G, was before the committee.] She said she closed public testimony at the last meeting and noted one letter of support.

SENATOR WIELECHOWSKI asked to hear Deputy Commissioner Marty Rutherford's take on HB 132.

MARTY RUTHERFORD, Deputy Commissioner, Department of Natural Resources (DNR), Anchorage, Alaska, lead on the AKLNG Projects, reiterated that the governor has stated to her that his priority is the AKLNG Project and has asked her to work very hard to accomplish it. She reiterated the essence of letter sent to the chair by Governor Walker earlier today. The letter says that he and his administration are focusing on and intending for the AKLNG Project to succeed. He clearly recognized the work the legislature did on SB 138, because it created both a structure and a process that greatly increases the chance to reach a successful project. However, it does not absolutely guarantee a project. That is why he wants to continue the process of making the ASAP an economically viable backup. It is his intention that people working on AKLNG continue to diligently negotiate and work with the producers on it.

The governor said he is proposing that the state evaluate increasing the Alaska Stand Alone Project (ASAP) Project's gas throughput to make it an economically viable backup. The Alaska Gasline Development Corporation (AGDC) board recently passed a resolution that directed the corporation to develop a cost estimate and schedule for a 36 inch diameter pipeline at two different strengths: at 600 and 900 psi, in keeping with the 2013 AGDC project plan amendment that increased the pipe size from 24 inch to 36 inches. He also clearly stated that it is his plan that the state continue discussions with Asian LNG buyers to preliminarily explore their interest in a backup ASAP pipeline should the AKLNG Project fail to come to fruition.

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MS. RUTHERFORD said the governor has specific reasons to move the ASAP forward as an economically viable backup project: the decision on whether to advance the AKLNG Project to the next phase of engineering and design is not simply a state's decision; it is in the hands of the partners, as well. That decision is currently scheduled for 2nd Quarter 2016, which is when the three producer partners and TransCanada decide whether to move forward with the FEED decision. The ASAP project will provide a backup project for any producer party as well as the state to ship gas if the AKLNG Project does not advance.

MS. RUTHERFORD said the Governor noted as well that nothing in the proposed expanded ASAP diminishes or in any way impinges on the chances of the AKLNG Project succeeding. He notes that he contacted AKLNG producer partners at high levels prior to announcing his plan for an expanded ASAP project and continues having discussions with them. All have indicated an understanding of the proposal and their willingness to continue to make progress on AKLNG. That is, in fact, the case, as they have begun full-fledged negotiations on various commercial agreements on AKLNG. (She just emerged from three days of those.)

The Governor notes that having a viable backup plan is typically how the producer partners do business and that ExxonMobil stated in a March 4, 2015 analyst meeting:

Simply put, our large resource base affords us the flexibility to select and develop the most attractive opportunities. We start with high quality resources with stable competitive fiscal terms from resource owners and we choose to invest selectively in only the most attractive.

He also noted his reason for opposing HB 132, including putting the ASAP expanded project on hold, which in his opinion, would be betting the entire fiscal future of Alaska on all four companies - ExxonMobil, ConocoPhillips, BP and TransCanada - even though all agree that the AKLNG Project is the most attractive of each company's multiple options.

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MS. RUTHERFORD said the governor also noted that in 2006 the Stranded Gas Development Act (SGDA) failed because the state put all its eggs in one basket and imposed timelines on itself, which leveraged the its ability to negotiate acceptable terms. He believes that tying our hands through passing HB 132 would not provide Alaska with a viable alternative and run the risk of making the same mistake.

He went on to say that HB 132 substantially harms the team's ability to negotiate favorable terms within the AKLNG framework without a best alternative structure to go to should the AKLNG framework and negotiations fail. Further, she said, the AKLNG Project is scheduled to make a FEED decision in 2nd Quarter 2016 and HB 132 grants an extension of that date to July 1, 2017, and that managing a project such as AKLNG through legislation isn't in the state's best interest.

He closed the letter by saying that the AKLNG Project is his and his administration's preferred option, but that the state needs to be prepared with a fallback if the parties associated with the AKLNG negotiations are not able to meet the hurdles set out in the 2014 Heads Of Agreement (HOA) that preceded SB 138.

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CHAIR GIESSEL thanked her on her review of the Governor's letter.

SENATOR WIELECHOWSKI asked her to address the sponsor's three arguments: that this could create confusion in the market and with the state's partners,- that it could cost the state to have a duplicative effort, and why not wait until the AKLNG Project potentially doesn't succeed.

MS. RUTHERFORD answered that the governor's letter clarifies that this is a backup project and would clarify for the purchasing Asian market that the State of Alaska (SOA) is fully committed to an AKLNG project and its intent is to advance one. But should the AKLNG effort fail for some unforeseen reason, the

SOA will undertake an alternative project to bring Alaska gas to market.

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Regarding it being a duplicative effort, the AGDC board members have all indicated they are looking at ways of moving a backup project forward during the next year while the AKLNG Project is going through the commercial negotiations leading up to a FEED decision in 2nd Quarter 2016. It is interested in finding ways to move a backup project without spending a tremendous amount of money and has just begun focusing on a 36-inch pipe.

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Why not wait until some decision is made? The letter restated that waiting is no longer in the state's best interest, Ms. Rutherford said, since the general fund faces such a significant deficit. A project is needed that will underpin the state's economy for the next four decades. It's not in anyone's interest to just sit back and assume that AKLNG will, in fact, be successful, but to have something that is sitting there ready to move forward as an alternative if a successful outcome is not reach with AKLNG.

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CHAIR GIESSEL said the governor's letter refers to the AGDC project as a backup and an alternative, which is somewhat different and asked her to explain what "alternative" means.

MS. RUTHERFORD explained that it is simply her being inaccurate. She should continually call it a backup project. She said the discussions occurring with the markets during the pre-FEED stage are at a very high level and the potential of another smaller project being available through it if AKLNG does not move forward to FEED. It is indeed a backup.

CHAIR GIESSEL asked if she was an Asian, an Indian or a Chinese buyer and watched the news, and knew a project was going forward with the three producers in an equal partnership and 25 percent for Alaska, with companies that can easily fund their part of the bill and also know that the SOA has this other project, wouldn't she be playing one against the other. It seems like a difficult marketing position for the state to be in.

MS. RUTHERFORD responded that at this stage of any project the LNG marketing discussions as she understands them are very high level about not price and specific delivery dates, but that there is an intention by parties to move gas to market. There is

little opportunity for anyone to leverage the state on price. The state can clearly explain that it's in its own best interest that the AKLNG Project is the preferred option. They intend to deliver that project, however if it should for whatever reason not move forward, the state has every intention of moving a backup project forward that may be of slightly less volume.

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CHAIR GIESSEL stayed with the marketing issue and asked if something is preventing the governor from marketing the state's gas now under the AKLNG Project.

MS. RUTHERFORD answered no. In fact, Audie Setters, the state's outside expert since he was hired in 2014, is in conversations with various parties in the Asian markets. The Governor has also worked with DNR, which is handling the marketing effort that has sent a letter to Asian markets reiterating the state's commitment to bring Alaska gas to market. There are plans to escalate the outreach to the Asian market over the course of the next few months.

4:02:10 PM

CHAIR GIESSEL remarked that was good to know. Having a backup plan is important and a critical piece of SB 138, which was deliberated at length with more than 51 hearings and countless public testimony through the legislative process. Consultants and financial advisors evaluated fiscals. She asked if the AKLNG Project turns out to not be economic, how it would be possible that the smaller line would then become economic.

MS. RUTHERFORD answered that the governor's concern is that a decision on economics would not be what would slow or stop AKLNG, but rather where one of the parties decided they did not want to commit their funding to this alternative but to one of their other LNG export options. He does not want to see the state's gas moving to market based upon simply a company's alternative priorities. His interest in moving a backup project forward is simply so that if such a decision were made that would stall AKLNG, there is something that is ready to take the next step forward to move Alaska's gas to market.

CHAIR GIESSEL asked if one party dropped out - it could be the State of Alaska - couldn't another party come in to join the AKLNG Project partnership.

MS. RUTHERFORD answered yes; it's fair to say that if one party dropped out another party could be found to move AKLNG forward.

She doesn't hear the Governor saying that alternative would be unacceptable. If no other party was found to take their place, something must be available to pick up the pieces and move forward. Finding a replacement for one party's decision to drop out is an option and one that the state would want to pursue, because they want the strength of the large producers involved in an Alaska gasline project.

CHAIR GIESSEL added that the legislature's consultants have pointed out that in many cases of large projects around the world new participants came in during the development stage, even during construction.

She went to the question of confusion and said she was aware that ASAP (the smaller, 100 percent state-owned pipeline) had applied for an Environmental Impact Statement (EIS) from the Corps of Engineers (COE), and earlier this month when the governor said he was going to enlarge it to actually be a conflicting project, the Corps told Alaska Gasline Development Corporation (AGDC) they were putting the EIS on hold. Isn't this an example of uncertainty by federal regulators?

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MS. RUTHERFORD answered that she is not within AGDC and didn't know about their communication with the federal regulators on ASAP, but she had heard second hand that EIS activity was stopped pending clarification on how the project wishes to proceed. In working with various federal agencies over the years, she said it's not unusual for them to say there seems to be some lag or confusion on a project simply because there are limited resources to work on projects and they get prioritized. They are probably quite open to picking up the effort with some clarification.

CHAIR GIESSEL acknowledged that Ms. Rutherford is focused on the AKLNG Project.

[4:08:20 PM](#)

SENATOR MICCICHE asked when Ms. Rutherford talks about the danger of one of the companies or the SOA dropping out and the economy of scale that a 25 percent ownership of the model AKLNG is working with, under what conditions would a less favorable scale, smaller diameter line at a significantly higher risk to Alaskans be more likely to succeed if the economics of the larger scale were not to prove up, so to speak.

MS. RUTHERFORD answered if project economics was the reason that a party decided to leave the AKLNG Project she wasn't sure the state would say an alternative project is in its best interest. The governor's concern is that the economics of another party's project could be more economic for them.

SENATOR MICCICHE remarked that there is a reason that these projects are at an increasingly larger scale; very few decide to modularize to become more efficient. The very conditions that would cause the state to not move forward with AKLNG are likely to be economic conditions that make it unlikely for another option to be economic unless it was a very small diameter instate option to get gas to Alaskans.

[4:11:34 PM](#)

SENATOR WIELECHOWSKI asked if our partners in the AKLNG Project have other projects around the world that they are currently evaluating, that are in competition with the AKLNG Project.

MS. RUTHERFORD answered there is a mix of answers. ExxonMobil does: one in British Columbia that is approximately at the same stage; ConocoPhillips doesn't and she didn't know about BP.

SENATOR WIELECHOWSKI asked if the governor's concern is that ExxonMobil does some extensive economic analysis and finds out they can make a 12 percent versus 10 percent rate of return (ROR) on a Canadian line even though it would make Alaska a heck of a lot of money.

MS. RUTHERFORD answered that captured the governor's concern; it's not that the project is not economic but rather that a major player or players decide to not pursue AKLNG because a better project is in their portfolio that draws them away because of limited capital.

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SENATOR COSTELLO said the AKLNG Project has been described as five mega projects in one and asked at a time when the legislature cut live homework help for students and principal mentoring how can the governor justify adding another mega project all for the simple reason that the state is unable to wait until the 2nd Quarter 2016 when it will know whether the AKLNG goes forward for certain. Why would we pay twice for the same information?

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MS. RUTHERFORD responded that the AGDC is very concerned about not expending duplicate monies or wasting the state's resources and is talking about ways of moving a backup project forward without duplication of efforts.

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SENATOR COSTELLO said the state has no gas treatment plant (GTP) and no LNG plant, and no gas for the ASAP line, and yet the letter describes the intent to bring ASAP to a viable project. How is a project brought forward without spending a lot of money?

MS. RUTHERFORD replied that she is not inside AGDC - she is focused on AKLNG - and could not speak to what specific elements they are considering moving forward or how they intend to move a backup concept forward regarding liquefaction or expansion of the project, but there are probably ways to do that.

[4:17:35 PM](#)

SENATOR COSTELLO said it sounds as if the governor has the ability to market Alaska's gas now and asked if that would be the best way to move forward, and if we find early next year AKLNG is not going to work - and in the meantime he is marketing Alaska's gas - and then ASAP comes on line if needed. She didn't see how that plan was not in the state's best interest especially when they are cutting live homework help.

[4:18:34 PM](#)

MS. RUTHERFORD responded that the governor can move forward on marketing Alaska's gas, but the message he wants to send to the markets and have something substantive to support it is that should AKLNG, which is the state's primary focus, not work for whatever reason, that the SOA has put money into moving an alternative project forward so that it is not just starting over from a static position.

CHAIR GIESSEL said the AGDC board has \$200 million remaining in the ASAP fund. Their resolution was to start spending that now to determine the costs to expand the smaller gas pipeline, and she agreed that it's probably not a good expenditure of the money.

[4:21:03 PM](#)

SENATOR COGHILL asked what favorable negotiating terms (mentioned in the governor's letter) will be substantially harmed if this bill passes.

MS. RUTHERFORD responded that was referencing a basic standard of negotiation, a premise when going into commercial negotiations: if, in fact, you have no good alternative, your ability to negotiate terms is extremely limited.

SENATOR COGHILL said that sounds like a competing alternative rather than a backup alternative. The governor also said that the state would take an extreme risk of being able to attract customers if this bill passes. He asked if she had seen failed attempts of the partners in trying to co-op Alaska, or not act in good faith, or anything showing this is a bad partnership.

MS. RUTHERFORD answered no; the parties under AKLNG are negotiating in very good faith and everyone is working hard to find solutions to problems and challenges that every party has with commercial agreements. Things are progressing extremely well. She explained that any commercial agreement has inherent in it the risk of failure that the middle ground cannot be found. The intention is simply to have a valid alternative backup to AKLNG, but the AKLNG is ahead and it has "huge advantages to it."

SENATOR COGHILL said HB 132 just says if a partner withdraws, you can't move forward without a frontend design. AGDC hasn't been taken off the table, yet.

MS. RUTHERFORD said there is always risk that commercial agreements won't come together and in this case where there are so many, there is risk. She personally believes and fully expects to get to a FEED decision. But the issue is that the alternative AGDC project is limited to 500 mscf and is not a good economic alternative. It is a project that because of the low throughput would require a tremendous amount of subsidy. So, the governor wants it expanded to make it much more economically viable as a backup if AKLNG is not successful.

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SENATOR MICCICHE said we are partnered with - not dependent upon - three companies that have successfully and actively traded trillions of cubic feet of LNG in Asian markets for the last 45 years and posited: "Don't we have lower risk with companies with those decades of experience versus a company hopeful to be engaged in the LNG business in the future?"

MS. RUTHERFORD replied of course there is less risk if the state's partners are ExxonMobil, BP, and ConocoPhillips. They are world class producers and marketers of LNG, and they are a

wonderful team to be in partnership with. That is the essence of why it is the governor's preferred alternative. But, should something occur that causes AKLNG not to move forward, he does not want the State of Alaska to be flat-footed, and have no backup plan that is moving forward and able to deliver for the state's economic future.

SENATOR MICCICHE said he doesn't like risk and feels comfortable with where the state is in this process with these partners and wondered why there is this rub. Increasing polarization doesn't result in a better outcome. He hoped everyone could come to the same table and work this out. Working through severance, royalty and property taxes with the partners has worked out pretty well for Alaska over the years. It's been a pretty successful relationship. Those companies have all had operating relationships that are very complicated but have worked out: think about the Kuparuk operating agreement, the Prudhoe Bay operating agreement and the Beluga River unit operating agreement. These folks could look at other choices in other places and chose to work together for a great outcome for Alaska. This is the first time Alaska will be a partner in this project. Other projects don't make the same claim that the terminus is in Nikiski, which happens to be in his district and he is pretty focused on that.

[4:33:51 PM](#)

SENATOR WIELECHOWSKI said in the time he had been in the legislature he had been through the Alaska Gasline Port Authority (AGPA), the Alaska Natural Gas Development Authority (ANGDA), the Stranded Gas Act (SGA), the Alaska Gasline Inducement Act (AGIA), Denali, and it feels like Lucy and the football. Alaska has waited for 30 years for the largest undeveloped oil and gas reserve in North America to be developed, which is Pt. Thomson, and the only way it got developed is when the state yanked the leases. The tariff disputes have cost the state billions in which a judge said the state was guilty of inexcusable trustfulness in its dealings with the oil industry. The concern over this project comes from the history. It's from people getting bribed down the street in a hotel room.

SENATOR COSTELLO objected for a point of order; she wasn't here at that time.

CHAIR GIESSEL asked him to stick to the bill.

SENATOR WIELECHOWSKI explained that he was talking about where some of the concern comes from and asked permission to continue.

CHAIR GIESSEL said as long as it sticks to the bill.

SENATOR WIELECHOWSKI stated section 3 says the corporation may not market gas owned or controlled by an entity other than itself without express written consent from that entity. That appears to give the producers veto power and there doesn't appear to be any expiration date on it and asked if Ms. Rutherford had any concerns about that section.

MS. RUTHERFORD said she wasn't very familiar with that section, but it sounds like it limits the ability to discuss gas from a smaller project, such as ASAP. ASAP, at 500 mscf, must sell gas outside of the State of Alaska, because the state could not use that much. So, ASAP gas would have to be marketed even as it stands now. Yes, she has some concern with section 3 as he read it to her. She reiterated that the governor isn't suggesting anything more than that the state move forward a more economic backup project.

CHAIR GIESSEL asked if Audie Setters with the Alaska Department of Natural Resources (DNR) will actually be marketing gas on Alaska's behalf for the AKLNG Project.

MS. RUTHERFORD answered yes, Audie Setters is housed in DNR, but other parties may be involved in the marketing effort.

CHAIR GIESSEL said she is referring to marketing the state's royalty gas that still requires a decision by the DNR commissioner to take that gas in kind versus in value.

MS. RUTHERFORD answered that was accurate. AKLNG would trigger the ability of the producers to elect to pay their production taxes as gas so the state's share of gas throughput would increase from an average of 12.5 percent to close to 25 percent.

CHAIR GIESSEL thanked her for the clarification and said that is what makes the state an equal 25 percent partner in the AKLNG endeavor.

[4:41:39 PM](#)

REPRESENTATIVE CHENAULT, co-sponsor of HB 132, Alaska State Legislature, Juneau, Alaska, said they are glad to see something, which is the governor's letter, to explain the expansion of the ASAP. It answers some questions, but brings up more.

Earlier he said it was mentioned that ExxonMobil, BP and ConocoPhillips have projects all over the world and up and down the West Coast, but, for the record, BP and ConocoPhillips have no proposed LNG project in British Columbia or anywhere else in North America. ExxonMobil is part of a British Columbia project, which is not as far along as the AKLNG Project.

[4:44:34 PM](#)

REPRESENTATIVE HAWKER, co-sponsor of HB 132, Alaska State Legislature, Juneau, Alaska, said he is concerned about hearing a backup project being characterized as being an alternative project and a place for an unsatisfied party to turn to. Ms. Rutherford kept coming back to that word constantly. An alternative is a competing project that casts doubt and questions on the market. All have the same objective, but HB 132 is a temporary statement by all of Alaska that says give success a chance. HB 132 says wait until the FEED decision on July 1, 2017. HB 132 is not creating an extension; all of the dates deadlines are defined in the HOA, the MOU and the enabling legislation passed last year.

[4:47:50 PM](#)

RENA DELBRIDGE, staff to Representative Hawker, Alaska State Legislature, Juneau, Alaska, said HB 132 does not extend any timeline. She explained that section 3 restricts AGDC from marketing gas it does not own or have title to. Ms. Rutherford suggested that would be a problem for the ASAP project, but AGDC within the AKLNG Project, can still market gas that is held by someone else with written consent to do so. They can't market gas that they don't own or control. If the state has gas in ASAP, it too, would be in DNR's title as royalty gas and the same principles apply, and they are still welcome and able to ask AGDC and give them consent to market that gas.

[4:48:59 PM](#)

REPRESENTATIVE CHENAULT closed saying that uncertainty kills projects. The governor's letter talks about what happens with somebody leaves the project. Upsizing the AGDC Project creates the uncertainty of AKLNG partners not liking something and trying to negotiate with ASAP.

[4:51:30 PM](#)

CHAIR GIESSEL said the new fiscal note is still zero, but the narrative on page 2 updates language to correspond with what is actually in HB 132.

SENATOR COSTELLO asked if Miles Baker AGDC could explain the changes.

4:52:15 PM

MILES BAKER, Director, Governmental Relations and External Affairs, Alaska Gasline Development Corporation (AGDC), Anchorage, Alaska, explained that the principal change is on page 2 of the fiscal note where paragraph 3 describes section 2 of the bill that sets the three earliest date conditions. One of the amendments clarified the first condition that the party that withdraws has to be a venture party that holds natural gas leases.

SENATOR WIELECHOWSKI asked to hear from the state's partners.

CHAIR GIESSEL responded that this is a bill about SB 138 and not about their participation in the project, so she had not invited them to speak on the subject.

SENATOR WIELECHOWSKI said it's a fairly major policy change and the legislature hears from the partners on every major gasline issue and he couldn't move the bill without hearing from them.

CHAIR GIESSEL said it isn't a policy change; it's actually substantiating SB 138, which they passed after having multiple hearings.

SENATOR WIELECHOWSKI respectfully disagreed and said they had heard significant testimony indicating that this will impact the state's partners by creating uncertainty and the committee has an obligation to hear from the partners.

CHAIR GIESSEL respectfully differed that it is a policy change, but rather HB 132 just substantiates the findings and directions that the state is already taking in SB 138.

SENATOR MICCICHE commented that he sees this as policy preservation and that a 52-8 vote is fairly sure policy. He hoped that this weekend folks could get together and come to some agreement.

SENATOR COGHILL said it is confusing that the governor might want to build a project that would be at least ready to compete before getting to the FEED decision and he supported moving forward with this bill. He thought the governor wants the same thing, but HB 132 pushes him to stay with an agreement that happened before he became governor. Until they know that the

AKLNG Project is not viable, he didn't know how a competing project could go along side of it.

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SENATOR COSTELLO moved to report CSHB 132(L&C), version 29-LS0623\G, from committee with individual recommendations and new attached zero fiscal note dated March 6, 2015.

SENATOR WIELECHOWSKI objected saying this bill is moving extremely fast and it has only one referral. It's important to hear from the partners, because that is the major reason this legislation is needed. It would seem common sense.

CHAIR GIESSEL responded that the policy change would come from the administration, which is actually changing the ASAP line to a larger diameter, and AGDC's Board is deciding to expend money next Tuesday when the state is actually going forward with a project. HB 132 actually creates certainty for the state.

A roll call vote was taken: Senators Coghill, Micciche, Costello and Giessel voted yea; Senator Wielechowski voted nay; therefore CSHB 132(L&C) moved from the Senate Resources Standing Committee.

[5:03:35 PM](#)

CHAIR GIESSEL adjourned the Senate Resources Standing Committee meeting at 5:03 p.m.