

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

October 29, 2015

3:01 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

OVERVIEW: ALASKA GASLINE DEVELOPMENT CORPORATION (AGDC)

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

FRANK RICHARDS, Vice President
Engineering and Program Development
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community and Economic Development
Anchorage, Alaska

POSITION STATEMENT: Provided information and participated in the overview of the Alaska Gasline Development Corporation.

JOE DUBLER, Vice President
Commercial Operations
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community and Economic Development
Anchorage, Alaska

POSITION STATEMENT: Provided information and participated in the overview of the Alaska Gasline Development Corporation.

KEN VASSAR, General Counsel
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community and Economic Development
Anchorage, Alaska

POSITION STATEMENT: Provided information and participated in the overview of the Alaska Gasline Development Corporation.

DAN FAUSKE, President
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community and Economic Development
Anchorage, Alaska

POSITION STATEMENT: Provided information and participated in the overview of the Alaska Gasline Development Corporation.

LIEZA WILCOX, Commercial Advisor
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community and Economic Development
Anchorage, Alaska

POSITION STATEMENT: Provided information and participated in the overview of the Alaska Gasline Development Corporation.

ACTION NARRATIVE

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CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:01 p.m. Present at the call to order were Senators Stedman, Stoltz, Coghill, Costello, Wielechowski, and Chair Giessel.

Overview: Alaska Gasline Development Corporation (AGDC)

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CHAIR GIESSEL announced an overview by the Alaska Gasline Development Corporation (AGDC) and showed old newspaper articles from 1977 about building the TransAlaska Pipeline (TAPS) and a proposed 48-inch ALCAN gas pipeline.

SENATOR STEDMAN reflected that the state could not have gotten a permit to offtake the gas at that time because it would have left billions of dollars of wealth in the oil fields. He opined that the industry gets a bad rap for not building a pipeline 10, 20, or 30 years ago, but it was in the state's and its residents' best interest to wait until this moment in time.

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SENATOR MICCICHE joined the committee.

CHAIR GIESSEL agreed. She continued that yesterday the Attorney General rolled out a plan centered around Alaska operating more of a conventional wealth-type fund and today's presentation is an extension of how that might be done: grow the pie of the state's fossil fuel economy in a commercially viable way. She said AGDC will answer questions about how the state will step into TransCanada's role from a practical and mechanical perspective.

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FRANK RICHARDS, Vice President, Engineering and Program Development, Alaska Gasline Development Corporation (AGDC), introduced himself.

JOE DUBLER, Vice President, Commercial Operations, Alaska Gasline Development Corporation (AGDC), introduced himself.

MR. RICHARDS said the state's objectives in creating the AGDC were to provide for a stable, affordable, long-term supply of energy for Alaskans utilizing the natural resources available - proven resources on the North Slope of Alaska. With that they will maximize the value of those resources, generate revenue, jobs and economic growth for the state, and facilitate further oil and gas development.

He shared the origins of AGCD, which was created by the legislature under House Bill 4 [2011] as a response to concerns over declining Cook Inlet natural gas supplies and high energy costs in Interior Alaska, as well as taking into account the health impacts due to poor air quality in Fairbanks during the winter. Collectively, this created a sense of urgency to get North Slope natural gas to Alaskans, and AGDC was able to move forward on an instate natural gas pipeline to access almost 33 tcf of proven gas reserves in the North Slope.

In 2011, Governor Parnell called for a joint effort by the producers and the state to look at an LNG export facility. Previously, an over-land route through Canada had been considered. After the explosion of shale commercialization, it was acknowledged that an LNG project might be the best way to go forward, therefore, concept selection work was done and a Nikiski site was selected for the liquefaction plant. Heads of Agreement (HOA) were negotiated between the producers and the state, which culminated in 2014 with passage of Senate Bill 138. He related that Senate Bill 138 provided for state participation

in the AKLNG Project and the Joint Venture Agreement (JVA) that initiated the Pre-Front End Engineering and Design (Pre-FEED).

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MR. RICHARDS listed the authorities granted under Senate Bill 138: AGDC has the primary responsibility for developing an Alaska LNG project on the state's behalf, AGDC may acquire a direct ownership interest in any component of an Alaska LNG project, AGDC may enter into contracts relating to treating, transporting, liquefying, or marketing of gas - in consultation with the Departments of Natural Resources (DNR) and Revenue (DOR).

It was also provided that AGDC shall assist those agencies to maximize the value of the gas resources and provide economic benefits and revenues to the state.

CHAIR GIESSEL asked if AGDC has a mandate to look at expansion.

MR. DUBLER said that is not explicit in the statutes, but AGDC is developing expansion principles for the project with the co-venturers.

SENATOR COGHILL stated that AGDC was first put together to get gas to Alaskans, then the AKLNG project came along and it looks like AGDC is to work with that project. He asked Mr. Dubler for clarification on the two different authorities.

MR. DUBLER responded that AGDC was originally created in 2011 as a result of a study done by a group put together by the legislature in House Bill 369. That directed AGDC to prepare a report on the feasibility of a bullet line, the Alaska Stand Alone Pipeline Project (ASAP). The impetus for that was the projected shortfall of natural gas in Cook Inlet. An initial study was for a 737-mile 24-inch pipeline to delivery gas to Alaskans from the North Slope. The mission to deliver gas to Alaskans won't change regardless of which project AGDC is working with.

MR. DUBLER explained that a lot work has been done on the instate line. An analysis was done on demand and supply in Cook Inlet that shows supply will decline, not just drop off. This information can be used for the AKLNG Project as AGDC works to make up the difference in supply and provide natural gas, at least to Fairbanks and other communities along the route, to the extent of the appropriations. He said the offtakes are very expensive, given the number of people in the communities.

SENATOR COGHILL summarized that the original operative language was primarily for instate gas and it got trumped by Senate Bill 138.

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SENATOR COSTELLO asked if the Alaska Gasline Development Corporation Board ("Board") is taking a new direction. She said, in looking at a transcription of the September 23 meeting, it sounds like a subcommittee requested \$10 million to study a 48-inch pipe. A discussion followed in which one Board member questioned where the authority to authorize the \$10 million would come from. In a further discussion, Mr. Fauske said the Board didn't have a vote on it, but supported the concept. TransCanada represents the state's portion of the midstream (pipe) and TransCanada had voted to spend \$40 million, \$10 million of which is the state's portion.

SENATOR COSTELLO remarked that the decision-making process on the AGDC Board is confusing. She said she wants to understand why the decision to evaluate a 48-inch pipeline never came before the Board. She inquired if there was a change in direction and how people and the legislature can have confidence that decisions made by AGDC are made by the Board and not filtered through a committee.

MR. DUBLER explained that the work for the 48-inch study was not done by AGDC; it was done by the Project Management Team (PMT) of the AKLNG Project. That PMT was the midstream project portion over which AGDC has no oversight; AGDC is in the liquefaction portion of the project only. The state's interest in the midstream (pipeline) portion is represented by TransCanada. The Board was not asked about those expenditures because AGDC is not involved in that segment of the project. TransCanada is and they voted in the affirmative.

SENATOR COSTELLO asked if the legislature votes to go separate ways from TransCanada, does the state take up the portion of the study and the resulting decision.

MR. DUBLER answered yes; \$40 million would be under the changes in scope identified as a differential in the work program and budget for the calendar year 2016.

CHAIR GIESSEL recognized Senator Dunleavy.

SENATOR COGHILL remembered that Governor Walker wrote a five-point letter in June and one point was pushing the PMT to incorporate the 48-inch line.

MR. DUBLER said Senator Coghill was correct.

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CHAIR GIESSEL commented that a 48-inch line would accommodate more gas. She asked what AGDC would have to do to prepare for expansion when it takes over from TransCanada because they have the Gas Treatment Plant (GTP).

MR. DUBLER answered that an expansion to an integrated LNG project won't occur until first gas and probably much later when the true throughput is known. An expansion might not be needed for a small amount of gas; minor improvements called "debottlenecking" could be made to increase the throughput of a project. If more gas is found, the four parties would have to initiate the expansion from the company that is running the project. A company, on behalf of the owners, will be set up to manage the AKLNG Project similar to Alyeska Pipeline that runs TAPS. That company would do a study to see what is required to expand for the amount of gas coming into the project and come up with a cost. Then a decision would be made on whether to proceed with the expansion or not.

CHAIR GIESSEL said she understood that the producer companies formed an Alyeska consortium and they control the pipeline. She has also heard AGDC talking about the owner/builder/operator model and asked if Mr. Dubler envisions forming a consortium to operate the pipeline.

MR. DUBLER replied it would be the three producer parties and AGDC, not the State of Alaska. It would be an operating company that is created with ownership identical to the parties' participating interest in the project. So, if the state elects to take royalty in kind (RIK) and the producers elect to pay their tax as gas (TAG), it would be approximately 25 percent state ownership of that company and the related assets.

CHAIR GIESSEL asked, when it comes to a vote to expand, what happens if the three producers vote no.

MR. DUBLER answered that those agreements are currently being negotiated. The position that the state and AGDC has taken is that no party can block an expansion.

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CHAIR GIESSEL asked whether the party making the expansion pays for the cost.

MR. DUBLER said that is another one of the negotiating points.

SENATOR STEDMAN said the expansion point has been argued during the proposed transcontinental line and now during the LNG project and has never been resolved.

MR. DUBLER turned to AGDC's role in Alaska LNG. He said that AGDC has signed the Joint Venture Agreement, which puts it in partnership with the three producers and TransCanada. AGDC holds the state's 25 percent equity interest in the LNG facility (downstream component) of the integrated project. It has members on the Sponsor Group, Management Committee, and the Project Steering Committee. It participates in integrated project decisions and in commercial negotiations related to marketing, expansion, third-party access, and domestic gas supply. AGDC is planning and developing off-takes for in-state gas deliveries.

SENATOR COGHILL asked how the Board will deal with industry negotiations and confidentiality issues once TransCanada exits and AGDC becomes the negotiator for mid-stream, liquefaction, and the conditioning plant.

MR. DUBLER answered that two of the Board members have signed confidentiality agreements, John Burns and Dave Cruz.

SENATOR COGHILL asked for the names of the other Board members.

MR. RICHARDS listed them: Hugh Short, Chris Hladick, Heidi Drygas, Richard Halford, and Joey Merrick.

SENATOR COGHILL asked if all members would be signing confidentiality agreements.

MR. DUBLER answered that AGDC is gathering public comments as to how confidential negotiations should be handled.

SENATOR COGHILL asked if other members of the AKLNG team have commented on that issue.

MR. DUBLER said yes.

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SENATOR COSTELLO stated that she is surprised that the representative to the Project Management Team (PMT) hasn't been decided.

MR. DUBLER explained that the PMT is made up of secondees from all co-venturers.

MR. RICHARDS offered to describe the PMT structure.

CHAIR GIESSEL wished to hear more about the confidentiality agreements. She asked who drafted those regulations.

KEN VASSAR, General Counsel, Alaska Gasline Development Corporation (AGDC), related that the evolution of confidentiality with AGDC began with a private industry model where everything is confidential. He said that AKLNG signed several agreements that followed that model. He reported that Governor Walker's view is that public business should be open and transparent and believes that only those things that need to be kept confidential should be the subject of confidentiality agreements.

He said the regulations were drafted in close discussion and cooperation with the Office of the Attorney General and, in particular, with Jerry Juday, Assistant Attorney General, Labor and State Affairs Section in the Department of Law, to represent AGDC. He pointed out that Senate Bill 138 altered AGDC's laws for negotiations related to AKLNG. The regulations are still in draft form and have been through a hearing process. The producers have offered many comments. The plan is to review those comments, formulate responses, and take those recommendations to the Board at the next meeting. The Board will then determine whether to adopt the regulations.

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CHAIR GIESSEL said Mr. Vassar presented a contrast of confidentiality models, the private industry model and an administrative view that things should be more open. She assumed AGDC adopted the more open model. She inquired what would happen if the companies don't agree with the more open model.

MR. VASSAR answered that it's safe to say that the producers don't like the more open model, but they have submitted comments. He predicted there would be further discussion on it.

He clarified that the private industry model goes back to creation of AGDC. It included a provision to seek information

from private industry, which has no obligation to provide that information. State government takes an opposite approach to confidentiality and includes the Public Records Act and the Open Meetings Act. It starts with the premise that the public's work should be done in the open and the current administration is a strong advocate of that premise. He concluded that a decision point is coming up as to how to reach an accord with private industry and find common ground.

CHAIR GIESSEL commented that companies keep certain data confidential in order to maximize the value of the state's resources when selling gas to consumers. She offered that the State of Alaska might adopt Norway's model of becoming a business.

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MR. DUBLER showed a picture of AKLNG project participation by owner and interest. He highlighted governance-related issues such as equity alignment with TransCanada. The state's share of gas in the project is not equal to its current equity in the integrated project. Currently, the state does not have full voting participation in all project decisions. If TransCanada exits, AGDC would have full voting rights on each project component and in all integrated project decisions.

CHAIR GIESSEL asked how many times there have been voting conflicts under the partnership with TransCanada.

MR. DUBLER replied that there have been none yet, but there is potential for cost-related conflicts.

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SENATOR MICCICHE clarified that TransCanada's spending might be directed more toward their interests, not less cost conscious.

MR. DUBLER agreed.

SENATOR COGHILL asked what other issues besides the 48-inch expansion might be voted on soon.

MR. DUBLER explained that immediate issues are the work program budget and the overall budget for 2016. After those will come all agreements currently being worked on.

SENATOR COGHILL wanted a short list of what items make up the budgets, both due in December.

MR. DUBLER answered the work program budget is a detailed description of work that will be done in the next calendar year, including all engineering work.

SENATOR COGHILL asked about scope changes.

MR. Dubler said those have been proposed by the PMT to the management committee and will be voted on in early December.

SENATOR COGHILL asked if the voting methodology is by unanimous consent.

MR. DUBLER said that was correct for the work program budget and all other budgets.

SENATOR WIELECHOWSKI asked about additional risks the state might incur by taking a larger equity share, such as abandonment and environmental liabilities.

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MR. DUBLER answered that in the agreement with TransCanada, all such costs are passed directly to the state, so the state would be taking on no additional risk by buying out TransCanada. He said there would be the same risk, but twice the reward.

SENATOR WIELECHOWSKI requested clarification regarding TransCanada's equity costs in the case of abandonment in the future.

MR. DUBLER understood that TransCanada would be liable. He offered to find out for sure.

CHAIR GIESSEL asked for Mr. Vasser's position.

MR. DUBLER answered that Mr. Vasser is AGDC's general counsel, not the counsel on the AKLNG Project.

CHAIR GIESSEL asked what Mr. Vasser's role would be if the state buys out TransCanada.

MR. DUBLER replied that he would remain AGDC's general counsel. The work of drafting agreements and documents is the statutory obligation of the Attorney General's Office.

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DAN FAUSKE, President, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community and Economic

Development (DCCED), clarified that AGDC is not a signator to the present agreement. That is under the domain of the Department of Natural Resources (DNR) and the Office of the Attorney General.

MR. DUBLER discussed AKLNG Project governance. In the Sponsors Group there are seven project sponsors which undertake high level project reviews, advance project enabling agreements, and deal with fiscal and commercial issues. Both DNR and DOR are included in this group. The Management Committee consists of joint venture agreement partners, equity investors and overall oversight and control of project development. It does not have any state agency representation. The project steering committee is a group of engineers who provide guidance and technical oversight of the PMT and advises the Management Committee on technical issues. He stated that AGDC sits on all three committees.

MR. RICHARDS showed a chart that depicts the makeup of the Project Management Team (PMT). He said ExxonMobil holds the lead position with Steve Butt as the Senior Project Manager. The functional leads for all of the major projects report to Mr. Butt. He noted that TransCanada currently has two individuals in the leadership structure of the PMT.

In response to Senator Costello's question regarding who would fill TransCanada's role after they exit, Mr. Richards reported that the two individuals would remain in their positions until May. He noted that PMT hires engineering and specialist contractors to advance design efforts. He said that AGDC will fill positions that become available within the PMT across the spectrum of functional leads. He described the process of filling vacancies.

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SENATOR COSTELLO inquired if the qualifications for the "best player" to fill a vacancy can change as the project progresses. She also asked if AGDC is ready to take on the project because their budget for it pales in comparison to their budget for the Alaska Stand Alone Pipeline (ASAP) work.

MR. RICHARDS answered that AGDC has just completed the Pre-FEED and the FEED efforts for ASAP and most of their work is finished. Those employees are qualified to fill the positions vacated by TransCanada.

SENATOR COSTELLO asked whether those positions can be interchanged or changed as time goes on.

MR. RICHARDS answered that the person hired will stay in the position until the job is done.

SENATOR COSTELLO asked how the Board's vote is transmitted to that individual.

MR. DUBLER answered that the Board does not vote on PMT-level appointments; that is done at the management level.

SENATOR COSTELLO asked who will be the decision-makers when the state has a voice.

MR. DUBLER answered that the state currently has a voice on AGDC. The reason there is not a state manager in the top two tiers is because in 2014 ASAP was in full force and there were no extra bodies to put into the project. When an opening comes up in the PMT, AGDC and the other co-venturers would recommend persons to fill it. If it is a lower-level position, the top two tiers would get together and decide who to hire. If the position was in the top two tiers, the resumes would go to the Management Committee for a vote. There is a healthy tension between producers every time there is an opening, but the process has been working well so far.

MR. RICHARDS reported that they just received a nomination request from AGDC for a position on the PMT.

CHAIR GIESSEL inquired if the position was for the liquifaction facility.

MR. RICHARDS said it was.

SENATOR COSTELLO commented that finding out who is in charge is very complicated.

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SENATOR COGHILL asked if the seconded employees serve at AGDC's pleasure.

MR. DUBLER said yes. They would be employees of AGDC, but also remain employees of their original companies. They report to the PMT and are paid by the co-venturers who submit a monthly bill to the project and are reimbursed for their costs.

SENATOR COGHILL said he appreciates that TransCanada engineers will remain on the project.

MR. DUBLER pointed out that AGDC is back in the pipeline business - the AKLNG project.

CHAIR GIESSEL asked for an explanation of the various chart handouts.

MR. RICHARDS referred to AGDC's FY 2016 organizational chart which identifies the executive level down to the Position Control Numbers (PCN) that were afforded to the corporation by the legislature.

CHAIR GIESSEL recalled a conversation where Dan Fauske, President of AGDC, said he could fire Attorney Rigdon Boykin. She asked where Mr. Boykin could be found on the chart. She also recalled that the Board approved his continued contract.

MR. RICHARDS pointed out that the chart represents AGDC's employees and there are many contractors who don't show up on the chart.

MR. FAUSKE related that Mr. Boykin is a contractor, chief negotiator for AGDC, and liaison to the Office of the Governor, and to date, he has done a great job working on negotiated contracts for AGDC. Mr. Fauske stressed that there is an unbelievable amount of work behind the scenes at AGDC. He related that Mr. Boykin's contract is authorized until the end of the year and will be reevaluated at that time.

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CHAIR GIESSEL asked if Mr. Boykin was hired mid-year and his contract lasts until the end of December.

MR. FAUSKE said yes.

CHAIR GIESSEL stated that Mr. Boykin is paid \$120,000 a month. She compared that to DNR's request for \$840,000 for an important marketing position. She asked if the DNR position would be paid out of the AKLNG fund.

MR. FAUSKE responded that Mr. Boykin's contract will be reduced to \$100,000 for the last two months. The DNR position will be paid by a combination of the AKLNG and ASAP in-state gasoline funds at a rate of 85 percent ASAP and 15 percent AKLNG. He added that that ratio is how a lot of contracted costs are

allocated. The whole corporate mechanism is using a cost allocation formula in order to keep track of where the funds go.

CHAIR GIESSEL questioned the 85 percent ASAP allocation since that project was nearly finished.

MR. DUBLER explained that the cost allocation method was approved by the Board of directors last year. He clarified that the dollar amounts that are spent by the AKLNG project are rather large, but the actual volume of invoices is small. He explained how various costs are allocated.

SENATOR STOLTZE asked whether Mr. Boykin was hired in consultation with the Board or unilaterally.

MR. FAUSKE related that the negotiation took place with him advising the Board. He said he has the authority to do this himself, but wanted the Board's involvement also. There was not a technical vote and the Board allowed him to make the decision. He added that Mr. Boykin originally started in the Governor's Office.

SENATOR STOLTZE requested the minutes of AGDC's Board meeting.

MR. FAUSKE agreed to provide them.

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SENATOR STOLTZE asked for information on the Request for Proposal (RFP) process when hiring Mr. Boykin in order to explain high salaries to his constituents.

MR. FAUSKE agreed to do so. He commented that Mr. Boykin started with a negotiated salary in the Governor's Office and his salary was in place when he asked Mr. Boykin to take on AGDC's contract and there was no negotiation of his salary. He stressed that AGDC does not abuse this method. He noted that AGDC is exempted from the Administrative Procedures Act, but tries to administer all contracts through an RFP process. This situation was unique, but in compliance with the process in place.

SENATOR STOLTZE he reiterated the method of hiring Mr. Boykin.

MR. FAUSKE said that was one way to put it. It was moved out of the Governor's Office to AGDC.

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SENATOR COSTELLO referred to AGDC's September 23 meeting and requested when the Board makes decisions that they are transparent. She gave an example of when the Board came out of executive session and voted to create two subsidiaries of AGDC. She suggested the Board cite their authority and explain the rationale behind decisions so the public can better understand their reasoning. She requested the reason the Board created the two subsidiaries.

MR. VASSAR responded that it is part of the evolution of the AKLNG Project because AGDC needs to prepare for instate distribution of the gas. This was discussed at a previous Board meeting a year ago, but the time wasn't ripe then. The creation of AGDC's gas aggregator company is intended to be the subsidiary of AGDC that will provide for the gas that is to be distributed in-state. He pointed out that it is common to discuss those things in executive sessions because of AKLNG's confidentiality agreements.

SENATOR COSTELLO said she understood AGDC's power to set up subsidiaries. She requested an explanation of the second subsidiary corporation.

MR. VASSAR replied the second corporation is an asset holding company, which is related to a TransCanada buyout. Both subsidiaries are simply in place for when and if they are needed.

CHAIR GIESSEL commented that the TransCanada buyout has been in process for a while.

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SENATOR COGHILL asked if the holding company mirrors a current TransCanada holding company.

MR. DUBLER answered that the holding company was set up to hold all assets from the AKLNG Project, not just those from TransCanada. Additional subsidiaries will most likely be set up. It is a typical arrangement for corporations to segregate businesses so that if one runs into the snag it doesn't affect others.

SENATOR COGHILL said it is apparent AGDC is working from ASAP into AKLNG Project delivery. He asked if AGDC anticipates any more scope changes.

MR. DUBLER said no.

SENATOR COGHILL asked whether the idea to create subsidiaries came to the Board from the Governor's Office or from within the Board.

MR. DUBLER answered that it was recommended by Mr. Boykin to the Board, which had already considered the idea. It seemed the right time to do it.

CHAIR GIESSEL commented that Senator Costello's statement related to confidentiality agreements and transparency issues.

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SENATOR WIELECHOWSKI asked if Board meetings are open to the public.

MR. DUBLER said yes.

MR. RICHARDS turned to the topic of AGDC's responsibility for developing pipelines and other mechanisms for delivering natural gas in-state. He said AGDC has completed a forecast of in-state natural gas demand and a preliminary cost estimate for gas off-take facilities. It has developed a framework to assist policy makers in evaluating in-state off-take infrastructure. It has also authorize the formation of a subsidiary capable of aggregating in-state gas demand.

CHAIR GIESSEL recognized Representative Vazquez.

CHAIR GIESSEL asked for clarification whether AGDC was funded to provide for the off-takes.

MR. RICHARDS explained that AGDC has not been funded for any construction activities, but has done cost studies regarding them.

CHAIR GIESSEL referred to the uncodified portion of Senate Bill 138 that instructs AGDC to collaborate with the Alaska Energy Authority (AEA) to consider infrastructure to deliver a North Slope gas pipeline. She asked if the state would be expected to fund the infrastructure and actual offtake points to communities.

MR. RICHARDS replied that the AKLNG Project envisioned five offtake points and AGDC has looked at the spectrum of offtake volumes and the facilities needed and all related components. He

said AGDC has come up with four discreet offtake kits - Macro, mini, macro, micro, and nano - with cost estimates.

MR. DUBLER addressed the costs of the various off-take facility sizes. He assumed there would be some form of subsidies, especially for very small communities. He said the Enstar system in Anchorage and in the Mat-Su Valley has been funded through Enstar and ratepayers. The difference between that system and small communities is volume of people and density of population.

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SENATOR WIELECHOWSKI asked what the tariffs would be for each size of facility.

MR. DUBLER said they have that information in a planned presentation at the next Board meeting and they would be happy to make it available to the legislature. He added that it would be about a \$100 tariff for small communities.

SENATOR COGHILL asked if the aggregator corporation would look at this.

MR. DUBLER replied the aggregator function wouldn't be providing the utility services; a state or private entity would. The aggregator would sit between the three producers, DNR, and the utilities. The Regulatory Commission of Alaska (RCA) would have oversight if the producers have to deal with more than ten entities; if the aggregator sits in the middle, that would not be the case and the Federal Energy Regulatory Commission (FERC) would have oversight.

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SENATOR COGHILL asked if the subsidiary would come under the direction of the Board and need a firewall.

MR. DUBLER understood that both could have the same Board, but would need a different staff.

SENATOR COSTELLO asked if communities are required to go through the aggregator corporation or whether they have the flexibility to make agreements with another entity.

MR. DUBLER answered that they could do it on their own. He pointed out that small communities would want to use the aggregator in order to get a better deal.

SENATOR COSTELLO suggested that, conceptually, the aggregator corporation could be competing with another corporation for the business.

MR. DUBLER said, in theory, yes.

SENATOR COSTELLO observed that the minutes state that the Board would serve both corporations.

MR. DUBLER agreed.

SENATOR WIELECHOWSKI asked if AGDC has had any success in negotiating gas prices with the producers.

MR. DUBLER answered no. The delivery price is dependent on many factors.

CHAIR GIESSEL said the state won't have to pay a tariff as part owner of the pipeline.

MR. DUBLER explained that communities would pay the state a transportation charge and cost of gas. The state's plan is to have all parties to provide a pro rata share for gas for in-state use.

CHAIR GIESSEL asked what the state's priority would be if it could get a higher price for exported LNG than for in-state use.

MR. DUBLER replied that AGDC is not the gas owner; the gas owners are DNR and the three producers. The owners would determine the price of gas either through negotiations with the aggregator, Enstar, or other utilities. The in-state gas portion is a concept that the producers and the state are behind, but the pricing will not be a public discussion. He stated that in-state gas will be delivered regardless. He explained the concept of netback pricing.

MR. FAUSKE added that House Bill 4 mandates the delivery of gas to Alaskans at the lowest possible cost and Senate Bill 138 says to maximize the state's resources. He emphasized the difficulty of gas pricing, noting that the method of gas delivery has not been determined. He noted that a lot of pre-engineering has been done. He said he cannot envision a pipeline not getting gas to citizens.

CHAIR GIESSEL commented that AGDC and DOTPF have done studies related to transportation of gas. She used a Yukon River bridge as an example.

MR. RICHARDS said one study was for a new bridge on a new alignment as part of the pre-FEED work. He gave several examples.

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MR. RICHARDS said the next discussion would be about in-state gas demand forecasting.

[4:56:22 PM](#)

LIEZA WILCOX, Commercial Advisor, Alaska Gasline Development Corporation (AGDC), explained that AGDC has completed a demand forecast for the period of 2015 to 2040 for natural gas use in Alaska. They did this to ensure that AGDC, DNR, and the state could fulfill statutory and corporate obligations to provide instate gas to Alaskans and to provide a precise picture of what the model and design would look like. The number that has been used - 500 million standard cubic feet per day (500 MMSCCF/D) was too broad and equates to a high monthly winter use of gas, but there are many other variables.

She reported that AGDC analyzed historical natural gas production and consumption data, identified existing and potential demand segments, developed a range of demand assumptions, and identified the most likely forecast scenarios through 2040. She termed the analysis a broad economic method.

[4:59:34 PM](#)

MS. WILCOX showed a graph of base case estimates for in-state natural gas demand by gas providers, utilities, and other users, and which includes population growth predictions. The graph shows a steady increase into the future. The study assumes that Cook Inlet would continue to produce gas.

She showed a numerical summary of the previous chart. She concluded that the project volumes are more than adequate to meet the state demand growth.

[5:04:38 PM](#)

MS. WILCOX explained how the new gas demands in small communities would be developed and supplied.

MR. RICHARDS related that the purpose of AKLNG is not only to meet revenue needs but also to provide long-term gas to meet

energy needs. He pointed out that the state's financial commitment to the project should also consider off-take facilities, transmission lines and other in-state distributions systems, as well as home conversion costs. He said AGDC and DNR are developing a framework to assist policymakers in evaluation options and working with AEA to evaluate alternative means of delivery.

[5:05:57 PM](#)

He provided information about AGDC's evaluation framework which was built on work done for the Alaska Stand Alone Pipeline (ASAP). They identified the facilities required to meet the existing in-state demand, to include off-take areas, and are assessing the technical and economic feasibility of communities within close proximity to access gas. They are also evaluating, with AEA, alternative means of delivery.

He reviewed the schematic of gas supply to export and off-take points to service districts and homes. AGDC is looking at costs to provide for that total picture, and is trying to identify project-related and non-project-related costs.

CHAIR GIESSEL said one of the complexities is the two different grades of gas needed, one for export and one for consumers.

MR. RICHARDS agreed. He added that for ASAP, utility grade gas is needed, but for AKLNG, export grade gas is needed. He said more work is needed on this issue.

[5:09:56 PM](#)

He reported on the progress to date on the in-state gasline project. He said about 20 potential interconnection points have been identified along the pipeline corridor. Some communities would be best served from a common access point, off-take facility, and lateral distribution lines. AGDC has developed cost estimates for off-take facilities, excluding local distribution and appliance conversion costs.

[5:11:09 PM](#)

MR. RICHARDS concluded that AGDC has made no final decisions and no public money has been appropriated for the construction of in-state off-take facilities or distribution systems. User fees and tax assessments alone will not be sufficient to finance the new gas distribution systems. It may be a phased approach with some facilities built during construction and others at a later date based on demand.

CHAIR GIESSEL asked which resource report this was from.

MR. RICHARDS said it was from report five.

CHAIR GIESSEL asked if AGDC's work will mesh with the AKLNG work.

MR. RICHARDS said AGDC is part of AKLNG.

[5:12:29 PM](#)

SENATOR COSTELLO asked if AGDC is aware of the new vision that Governor Walker has regarding the gasline.

MR. DUBLER requested clarification.

SENATOR COSTELLO referenced the Board minutes from September 23, where there was a discussion of a proposed constitutional amendment.

MR. DUBLER deferred to Mr. Vassar to answer.

MR. VASSAR responded that this relates to the concept of fiscal stability. The producers want as much certainty as possible regarding the tax climate in Alaska if they are going to invest a great deal of money in the pipeline. The producers would like a set rate or a limitation on the amount of the tax over the period of financing for the project. The state cannot contract away its taxing ability, hence the need for a constitutional amendment.

MR. DUBLER added that future legislatures cannot be bound by a fixed tax rate into the future.

CHAIR GIESSEL noted a time constraint in that the legislature would have to approve of the constitutional amendment before it is put on the ballot for the November election.

SENATOR COSTELLO requested a copy of proposed regulations on confidentiality.

[5:18:00 PM](#)

SENATOR STOLTZE suggested that the administration should define the project more clearly for consumers.

CHAIR GIESSEL said legislators from Mat-Su Valley are having difficulty explaining that the economics of the project make a gas-line unlikely in parts of that area. She requested help from

AGDC to help explain the reasoning for that. She noted that a private company is looking at barging gas to the area and she thought private sector innovation might help meet their gas needs.

CHAIR GIESSEL noted she has confidentiality regulations in her binder which she will distribute to the committee.

She thanked the presenters.

5:23:31 PM

CHAIR GIESSEL adjourned the Senate Resources Standing Committee meeting at 5:23 p.m.