

**ALASKA STATE LEGISLATURE  
SENATE RESOURCES STANDING COMMITTEE**

January 27, 2016

3:30 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**

JOINT VENTURE PARTICIPATION UPDATE BY THE AKLNG FISCAL TEAM

- HEARD

**PREVIOUS COMMITTEE ACTION**

See 1/25/2016 Senate Resources minutes.

**WITNESS REGISTER**

FRITZ KRUSEN, Interim President  
Alaska Gasline Development Corporation (AGDC)  
**POSITION STATEMENT:** Presented AKLNG joint venture update.

DAVE VAN TUYL, Regional Manager  
BP Alaska  
**POSITION STATEMENT:** Presented AKLNG Joint Venture update.

LEO EHRHARD, Vice President  
Commercial Assets  
ConocoPhillips  
Anchorage, Alaska  
**POSITION STATEMENT:** Presented AKLNG Joint Venture update.

BILL MCMAHON, Senior Commercial Advisor

ExxonMobil

**POSITION STATEMENT:** Presented AKLNG Joint Venture update.

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

**POSITION STATEMENT:** Presented AKLNG Joint Venture update.

**ACTION NARRATIVE**

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**CHAIR CATHY GIESSEL** called the Senate Resources Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Stedman, Costello, Micciche, Wielechowski, Coghill and Chair Giessel.

**Joint Venture Participation Update by the AKLNG Fiscal Team**

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**CHAIR GIESSEL** announced the Joint Venture Participation (JVP) Update by the AKLNG fiscal team.

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**FRITZ KRUSEN**, Interim President, Alaska Gasline Development Corporation (AGDC), assured the committee that the professionals at AGDC are still ready to go and move this project forward. With assistance from the legislature they achieved the transfer of the state's representation from TransCanada to AGDC in what is called the mid-stream components. The transition has gone well and cash calls are being made. AGDC is now a full 25 percent partner.

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**DAVE VAN TUYL**, Regional Manager, BP Alaska, said he has worked for BP in Alaska for over 31 years, the last several on getting Alaska's gas to market. Now he works on the fiscal team and as a Management Committee member on the AKLNG Project. His comments were from BP's perspective.

The success of the AKLNG Project is critical to BP's future business in Alaska, as well as the future of the State of Alaska. This past year, 2015, has been an important and successful one for the project that continues to make progress towards becoming a reality.

Important achievements include filing 12 draft resource reports - over 8,000 pages of documentation - with the Federal Energy

Regulatory Commission (FERC) in February. In March, the FERC issued its notice of intent to proceed with an Environmental Impact Statement (EIS) which opened a 9-month public comment period on the project. In May, the project received authorization from the U.S. Department of Energy (DOE) to export up to 20 million tons per annum of LNG to non-free trade agreement countries, coupled with a prior authorization to export to free trade agreement countries. That authorization sends a huge message to the world and is a major step forward as the AKLNG Project was able to essentially jump the queue over a number of other U.S. LNG projects that were also awaiting an export authorization.

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In October, the Alaska Oil and Gas Conservation Commission (AOGCC) increased the maximum allowable offtake rate from Prudhoe Bay for gas to a level sufficient to support LNG export from Prudhoe Bay. They also authorized injection of CO2 from the gas treatment plant (GTP) into the main Prudhoe Bay reservoir. Also in October, the AOGCC established a gas offtake rate at the Point Thomson Unit that supports the AKLNG Project. Those are authorizations that they never had before.

In November, the State of Alaska (SOA) acquired TransCanada's 25 percent interest, and now AGDC is Alaska's voice in the midstream as well as the downstream. In December, BP, ExxonMobil, ConocoPhillips and the SOA all approved the 2016 work program and budget that authorizes over \$200 million in spend to continue advancing the project. On Monday, the committee heard from Steve Butt, project manager, that the project team is making very good progress on the front end engineering deliverables (pre-FEED).

A number of commercial issues were worked through during the course of 2015 and progress is continuing on other issues. Beginning last February, they worked with the administration to understand more about its Plan B and the implications it has for their joint work in the event that the AKLNG Project does not proceed. This past summer they responded both verbally and in writing to public notice of new confidentiality regulations proposed for AGDC expressing their desire for terms that facilitated AGDC's full and equal participation in the project, which BP believes is essential for the project's success while also protecting its competitive advantages.

Throughout 2015, Mr. Van Tuyl said, they worked with the administration in defining a property tax framework and that

framework has been communicated to the Municipal Advisory Group Project Review Board. BP successfully negotiated and executed a gas availability agreement in December along with ConocoPhillips and the SOA. BP also looks forward to continuing to work with the state as it desires to progress any other such agreements.

They are also making progress on other commercial fronts including support for the Department of Natural Resources (DNR) in making its royalty in kind (RIK) election, defining fiscal terms, and defining the manner in which instate gas supply would be provided and other commercial issues.

MR. VAN TUYL said they understand and agree with the Governor's recent statements about the need for additional progress on agreements. However, these agreements are quite complex and will impact this multi-billion project for decades. Given the complicated issues they are working through and the fact that each of the parties in the negotiations has its own needs and concerns, it shouldn't be a surprise that those negotiations are difficult.

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SENATOR STOLTZE joined the committee.

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MR. VAN TUYL said hitting speed bumps is actually an encouraging sign that tough issues are being tackled. BP desires to get these agreements done as soon as possible, but it's essential to all parties that they are done well. BP is committed to working out the remaining issues as quickly and as fairly as possible. They are encouraged that the project continues to make real, tangible progress as measured by the key external milestones, and BP remains actively engaged in progressing the AKLNG Project both with the technical work and the associated commercial work. Given the current economic environment, 2016 looks to be a challenging year for all, but BP and Alaskans know what it means to face challenges and, "The best way we have found is to do so together," he said. BP remains committed to the project.

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LEO EHRHARD, Vice President, Commercial Assets, ConocoPhillips, Anchorage, Alaska, said he had been in this role for about nine months. He has accountability for the Cook Inlet operated assets, Prudhoe Bay non-operated assets, TAPS and other pipeline interests, ConocoPhillips' aviation and the AKLNG Project. In his past 30 years, he has worked in project development capacities across the Middle East, Northwest Africa and now in

Alaska. For the AKLNG Project his role is as a project owner and ConocoPhillips representative. His team's role is to integrate all of the project aspects: technical, commercial, and marketing - their objective being to economically monetize Alaska North Slope (ANS) gas resources.

He said ConocoPhillips continues to support this project and to progress commercial and technical aspects of it. The AKLNG Project faces the significant economic headwinds of low oil and gas prices as well as depressed Asia LNG prices that are down by 60 percent since early 2014. The LNG market is very tight, if not oversold for 2016, but fortunately they are not selling into this market today and prices will recover. It's just not known when.

MR. EHRHARD said ConocoPhillips would work with their AKLNG partners to find cost savings in their 2016 spend, just as they have done for Alaska and their worldwide portfolio. He said a long list of commercial agreements need to be completed to support the special session. Unfortunately, they have not made progress on these agreements compared to what they had hoped for at this time. As most are aware, the Governor has identified a list of agreements that he wants to see completed before the special session and that will be very difficult to accomplish. Of particular concern is the gas supply agreement.

As ConocoPhillips testified in February, June and September, Mr. Ehrhard said, the gas supply agreement is foundational for the project. It is the basis for determining the rate and total volume of gas to be supplied to the project from Prudhoe Bay and Point Thomson. It directly or indirectly sets equity participation levels and says what happens if volumes are not supplied; for example, if a field has a problem or there is an opportunity to increase production.

ConocoPhillips believes that the gas supply agreement is one of the key agreements required for the legislature to consider, for both the project and action on the fiscal contract. It is required for the FEED decision, as well. It is crucial to agree to this as soon as possible to ensure the project has a solid commercial foundation upon which the legislature can ratify its legislation and pass the support for a constitutional amendment vote.

MR. EHRHARD said ConocoPhillips is very aware that commercialization of ANS gas is important to all, and should these agreements reach an impasse, they won't stand in the way

of the project and will make ConocoPhillips' gas available to the state on commercial reasonable terms. These are the gas access agreements that Mr. Van Tuyl referenced a few moments ago.

ConocoPhillips remains committed and engaged with the other parties to complete all the agreements on the table and is encouraged by the state's ongoing engagement and progress on the project. This includes the Governor's accessibility and his personal engagement in their meetings.

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BILL MCMAHON, Senior Commercial Advisor, ExxonMobil, said he has over 30 years of experience with the company. He has worked on the commercialization of ANS gas since 1992. He said ExxonMobil remains committed to AKLNG and believes this project is the best way to develop ANS natural gas resources. ExxonMobil as a leaseholder of natural gas on the North Slope has diligently undertaken various individual and joint activities to commercialize ANS natural gas.

He said ExxonMobil is following the framework set out by the state through the Heads Of Agreement (HOA) and SB 138 and the AKLNG Project has achieved significant project and regulatory milestones. The pre-FEED effort, alone, with ExxonMobil as the lead party, is costing over \$500 million, with ExxonMobil providing about one-third of the funding and two-thirds of the project personnel.

He said ExxonMobil appreciates the way the Alaska Legislature worked during the special session to provide funding to AGDC so that the 2016 work program and budget could be approved and so that the pre-FEED work could continue uninterrupted.

The current AKLNG project schedule calls for completing the pre-FEED deliverables in 2016. This will position all participants to make a decision about entering the FEED stage that will cost over \$1 billion. As ExxonMobil considers this decision, they will evaluate the project's potential commercial technical viability by assessing the following: capital requirements and execution schedule, the outlook for getting FERC approvals and other regulatory authorizations in a timely fashion, and the LNG market as well as buyer support. They will also be looking at the business environment including the LNG price outlook and the availability of materials, equipment, and qualified contractors and vendors. Finally, they will be looking to the project enabling fiscal and commercial agreements.

MR. MCMAHON said a key FEED requirement for ExxonMobil is a mutually acceptable fiscal contract that provides competitive predictable and durable terms. They also are cognizant that an affirmative vote for FEED by all the participants is dependent upon the availability of near term cash in today's challenging economic environment. "Now more than ever, we are reminded that projects must be extremely cost competitive to survive the inevitable ups and downs of the market cycle." The AKLNG parties continue to evaluate opportunities to reduce overall cost through various engineering and technical options. These options and efforts will be critical to support the project's economic viability and position AKLNG to be competitive in the world market.

He said when the producers and the administration are aligned and ready, legislative action on project enabling agreements will be signed consistent with SB 138. ExxonMobil believes that the support of all stakeholders, including the ANS leaseholders the SOA and its citizens is necessary for a successful project. Actions of ExxonMobil to complete the pre-FEED, negotiate commercial and fiscal agreements and secure timely regulatory approvals demonstrate its commitment to advance AKLNG.

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MARTY RUTHERFORD, Deputy Commissioner, Department of Natural Resources (DNR), Anchorage, Alaska, thanked the legislature for its support in the special session that allowed the TransCanada buyout and transfer to the AGDC, which now provides a very streamlined voice in the project. She also recognized the outstanding progress the technical project has made and said they continue to be very diligent in trying to reduce the project cost.

She said this administration is now very committed to the AKLNG Project and committed to completing the project agreements as soon as possible. However, the Governor, in his January 18 letter to the producers, indicated his frustration with the pace of negotiations. It is clearly the Governor's goal to have commercial agreements available to the legislature for a spring special session that will lead to a constitutional amendment to be voted on in November. Each of the parties has recognized that as a very challenging schedule, but the administration is hopeful it can be attained and will throw everything they have at it to meet that schedule. They do not want to see any slippage on the decision to move into FEED.

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MR. MCMAHON began a slide presentation highlighting the progress that has been made since the last time they met, adding that a lot of the achievements had already been mentioned in the opening remarks like the seamless TransCanada interest transition with some key TransCanada personnel still working on the project, and the AOGCC authorizations for offtakes and CO2 injection into Prudhoe Bay.

He said one of the top feedbacks from Alaskans is how they are going to get access to Alaska gas. So, AGDC has stepped in to fill that need and had recently formed an instate gas aggregator subsidiary to accumulate supplies from the project and work on distribution plans.

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Slide 3 highlighted plans for AGDC to join the AKLNG, LLC, in place of TransCanada and slide 4 encapsulated all the work Mr. Butt and the project team are doing and what the eventual participants will be doing.

Slide 5 diagramed what is inside the AKLNG Project: transmission lines, GTP, pipeline, LNG plant, storage and loading. Important activities are outside the diagrammed circle as well: work that is going on at Prudhoe Bay to prepare to make gas available to the project as well as the gas development at Point Thomson. Off to the side was the work AGDC is doing for the instate gas facilities. Everything on the chart is important, but when they talk about the project investment, itself, it refers to the things inside the circle.

MR. MCMAHON said that slide 6 illustrated venture participant work, which is handled differently than the project team work. When Mr. Butt speaks to them it is on behalf of all the project participants and his team that are co-located in one office working on the technical work, Mr. McMahon explained, but venture participant work has representatives from all five parties involved representing their interests to move the following forward: gas production (making sure gas is available to produce into the project), commercial agreements, fiscal agreements, regulatory work with DOE and FERC, and external affairs and government relations efforts to be the face of the project with the community.

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Slide 7 illustrated AOGCC work; they approved an amended Prudhoe Bay field gas offtake authorization that will allow gas to be

produced at higher rates than previously authorized and at rates sufficient to support the project. Also included was an authorization to be able to inject CO2 and other by-products coming from the GTP from other fields into the Prudhoe Bay reservoir. Finally, a field gas offtake authorization was granted in October at Point Thomson for a gas expansion project.

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Slides 8 and 9 showed how the working interests in the Prudhoe Bay and Point Thomson fields came up with composite working interests and how the state becomes 25 percent owner in the project.

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SENATOR MICCICHE said Alaskans are confused about the complexity of the gas sharing agreement and asked him to explain why it's a difficult undertaking.

MR. EHRHARD said probably the place to start is to recognize the unprecedented nature of the project. It's probably the only project in the world that has been sourced by two separate fields with different interests. Usually the participants go through a unitization process that simplifies the arrangement. In AKLNG, the units handle the operation of each of the fields that source gas into the project and they want to make sure that those fields retain their responsibilities that are separate from what is supposed to be done by the governing group that runs the AKLNG Project, and those things have to be aligned.

A second area of complexity is the state's synthetic equity or the equity that is created by the state's election to take royalty in kind (RIK) and for the producers to pay their tax as gas. This has to be accommodated in the gas supply agreement. There are multiple ways to go about doing that, but the state has to have a clear line of sight to its resource base, so it understands the scheduling on which it's going to get its gas and then it has an opportunity to participate in whatever marketing mechanism it needs down the value chain. This turns out to be fairly complicated and probably one of a kind. He was not aware of a RIK/tax as gas structure for any other major LNG project.

One more item is the question of equity marketing versus joint venture marketing and depending on how that is handled it can help streamline the contract or conversely complicate it. So, they are trying to come to a four-party accord.

MR. VAN TUYL added that if every day the gas production shares and marketing demand were as shown on slides 8 and 9, it would certainly simplify the complexity, but the fact of the matter is the production from the two North Slope fields varies with time. Sometimes a facility is down for a period and therefore changes are made in what portion of gas is coming from which field, and because the field equities are different, that changes the entitlements. Those have to match up with the long term contracts everyone has with the market at the other end of the project stream. That's on the upstream end and those can change. At the same time, the demand in the market can change. From month to month a particular buyer may say they don't need a cargo one month or they can't take a cargo for whatever reason; maybe they need two cargos the next month. Those sorts of flexibilities need to be considered, making for a complicated arrangement. He said that BP had entered into gas balancing agreements around the world with other LNG projects, but this project does offer some "pretty unique complexities."

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CHAIR GIESSEL asked if the gas supply and balancing agreement is between the producers or is the state involved.

MS. RUTHERFORD answered that the state will be a party to this, because it needs a direct window into both the supply and the delivery to feed the contracts it will be entering into on the other end with the LNG purchasers. The state is not a working interest owner (WIO); however, the state is a derivative owner. So, the state is interested in how the structure accommodates the state's interest as a derivative. All three of the producers have been very good at recognizing what kind of things need to be protected in the state's interest. The state will not be signatory to the actual agreement, because it is not a WIO.

MR. EHRHARD said one other element this contract attempts to accomplish is to provide a function of mutual aid between the two fields. It's a great benefit to have a major LNG project with multiple fields, because it's a way of risk sharing across the fields recognizing that from time to time one field could be down from some reason and they want to be able to share gas between those fields. Mechanisms for sharing the gas are needed like: notification periods, repayment methodologies, repayment timing, establishing value in case it can't be repaid, risk to the reservoir if these occurrences happen late in the field life, and things like that. He wanted to make sure that everyone on the committee is aware of the central function, almost, of this particular agreement. Yes, the governance, fiscals, the RIK

and TAG are important, but this agreement monitors the fiscal flows and establishes the equities of participation either directly or indirectly, and this is going to be central to banks who are financing the project. The buyers have the same interest in knowing where the gas is coming from and how it gets into the project and need assurances that the contract they are signing has sufficient resources behind it.

CHAIR GIESSEL said they had heard about the goal of having the legislature approve certain contracts by May or so and asked the likelihood of the gas balancing agreement achieving that.

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MR. EHRHARD answered that they had been at the negotiation process for two years and it is the basis for which the participants get comfort in spending \$50 billion on an LNG project. They look at the complexity and the timeline and what they have been through in order to write these drafts and are concerned that it takes so much time and trial and error, even to draft an idea. From the amount of time left to the participants, it is difficult to see those complex agreements being resolved.

SENATOR COSTELLO asked if the team is not making significant progress what needs to change to speed it up.

MR. EHRHARD answered that terrific progress has been made on the technical aspects of the project, but they aren't as far along on the commercial side as they would like to be. What has to change? They have to be inventive, creative, and flexible and look toward natural balance points between the parties. They need to stand in each other's shoes and recognize that there are preexisting equity positions being leveraged into a project of great magnitude, scope, complexity and cost. They don't stand here and accuse each other of not doing that, but they say, "We have to do that more. We have to do that better."

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SENATOR COSTELLO asked if the "team" has efficient communication.

MR. MCMAHON answered that teams are dedicated for each of the agreements - the fiscal agreement, venture agreements, and gas supply and balancing agreement - and have frequent communications. The key is having a clear understanding of positions and finding ways to bridge the gaps. They have good communication and just have to continue those efforts. These

agreements are one of a kind and complicated and won't move forward for approval until all five parties can support them.

SENATOR COSTELLO asked how much of Ms. Rutherford's time is dedicated to this project.

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MS. RUTHERFORD answered 150 percent, virtually all of her time.

SENATOR MICCICHE asked if the complexity of the gas balancing agreement is due to issues surrounding operatorship.

MR. VAN TUYL answered that operatorship hasn't been a factor in the discussions, but commercial agreements are just complex.

MR. EHRHARD agreed.

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MR. MCMAHON went to slide 10 that highlighted commercial activities and then to slide 11 that covered the governance agreement for the long term venture including expansions. It governs how the pre-FEED is executed, how the project will be constructed (engineering, procurement and construction), and it will also govern the project for the 30-plus years of operation. Good progress is being made on these agreements and outstanding issues will likely get resolved along with the fiscals and gas supply agreements. It's really important for each of the parties at the table to make sure that their interests are represented in those agreements, because they will live under them for decades to come.

He said the team is working on getting alignment on a common structure and a couple of alternatives are under consideration. From the SOA's perspective this is the agreement that is going to give the state and its LNG buyers a clear line of sight to the state's right to lift gas, not as a working interest owner, but as a lifter of RIK and tax as gas (TAG).

The gas supply agreement will inform what they are going to do, and the lifting rights are going to inform how it's going to be done for things like scheduling cargos when the LNG carriers show up, and rules for whose ships come in at what time.

MR. VAN TUYL supplemented Mr. McMahon's comments saying that things you might expect to see in that agreement are the terms that describe how the system will be used: things like an annual

delivery plan, the nuts and bolts involved in operating the LNG system.

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MR. MCMAHON continued that in the area of instate gas AGDC really has two sides of the same coin to work. They are coming up with the state's preferred commercial structure for instate gas distribution from the flange and, at the same time, with their aggregator subsidiary, they need to come up with how gas will be supplied to the aggregator to feed this distribution system. Those will be key agreements to the people of Alaska, the legislature and the administration. Another agreement that is being worked on is the GTP byproduct handling.

MR. VAN TUYL explained that the byproduct handling agreement is an offshoot of the AOGCC authorization that was received in October in an area injection order that says byproducts from the GTP can be injected into the Prudhoe Bay reservoir. The question then is whether there will be a fee associated with using the facilities to reinject that gas.

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MR. MCMAHON said Prudhoe Bay has a similar agreement that specifies how field costs will be paid for royalty gas that is going to be lifted. They don't have such a settlement agreement at Point Thomson, and parties think it would be prudent to get that agreed to up front and are working on such an agreement.

Along those same lines at Point Thomson the parties are working to convert some nonstandard lease forms of sliding scale royalty leases and net profit share leases into a fixed royalty percentage that would allow the state to have an increased gas royalty in kind take and increase its participation in the project.

MS. RUTHERFORD said bilateral discussions are taking place on the state's methodology for how it would market its gas either through a joint relationship with one or more of the producers or as called for in SB 138 where it says that each producer will provide the state a method of purchasing, disposing of, or marketing its royalty gas and TAG on the same or substantially the same terms as they do their own.

MR. MCMAHON said this is one of the key things that SB 138 provided for to make sure that the state is not at a disadvantage when disposing of its LNG share. Each of these

agreements will support DNR's RIK election and a special session to approve the contracts as well as the proposed fiscal terms.

CHAIR GIESSEL asked who negotiates these contracts on behalf of the state.

MS. RUTHERFORD answered the Ken Minesinger with Greenberg Traurig and Manzer Ijaz with Millbank, Tweed, Hadley & McCloy, LLP, are the state's lead negotiators. They work directly with her, the DOR commissioner and the Attorney General. They have regularly scheduled meetings with the Governor and AGDC is a part of those discussions. At Friday's hearing they would share the matrix method used for working these issues, because there are subject matter experts both inside the agencies and external contractors who assist the negotiators as support. Policy issues are raised and that information is fed back resulting in regular dialogues. They will also identify who the lead entity is; sometimes it's AGDC with consultation by DNR and DOR; sometimes it's DNR in consultation with AGDC. So each of the various issues, sometimes entire agreements, are led by a particular agency with involvement by the other. The statutes driving that complexity have been identified and it is now working fairly well.

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SENATOR COGHILL asked for context of marketing gas through joint venture and individual marketing.

MR. VAN TUYL explained that at the highest level there are two forms of marketing and BP is involved with both in various projects around the world. One is joint venture marketing where the LNG that's produced out of a project is actually collected together and marketed by a joint venture. In this case, all of the AKLNG gas would be marketed together by a separate joint venture company. Another form is equity marketing where for instance there are BP molecules that BP is going to be responsible for and has its own marketing affiliate and each of the other project partners make similar arrangements. One essential thing to remember is that everyone here are competitors as it relates to marketing. Individual marketing can happen with the state under SB 138. If the state made an arrangement with BP whereby it would market some of the state's gas, but they can't agree with other companies on how a market is going to be divided; that would violate anti-trust laws. Clear entitlement lifting rights for each of the parties would be needed to enable forming of a joint venture marketing company. It is pretty clear from the working interest ownership

that the producers have it and the state's entitlement must be clearly defined in those agreements so it can market its gas just like one of the producers.

SENATOR COGHILL said he wanted people to hear there is no collusion or price fixing, but the state is just trying to figure out how different to market its share with the producers or on its own.

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MR. MCMAHON said slide 12 is the fiscal page and shows the foundation upon which fiscal discussions are under way. This is one of the key enablers for the project.

CHAIR GIESSEL asked which of the contracts will need legislative review and approval.

MS. RUTHERFORD answered generally, any agreement that appropriates state resources or monies must come before the legislature for review and approval and any agreement that the DNR enters into that is two years or longer also requires approval by the legislature. She just received a request to update the previous presentation on particular agreements and who is party to them. That will be produced by the end of the week. It will identify which of the contracts they believe will require legislative approval; not all of them will.

CHAIR GIESSEL said the state had received a report on how to finance this project and asked if there is an analysis of that by a consultant.

MS. RUTHERFORD answered that they have an updated report from Lazard and she would ask the DOR commissioner if he could discuss it on Friday.

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SENATOR STOLTZE asked to see the proposed constitutional amendment so it could be vetted.

MS. RUTHERFORD commented that the Attorney General will be here in the committee on Friday and that could be talked about more. However, a determination on what a constitutional amendment looks like is going to be fairly reliant upon what kind of fiscal contract is proposed to be entered into between the parties. Unfortunately, that has not progressed to the stage where she nor the Attorney General are able to determine what exactly must be addressed in such an amendment. Using overly

broad language becomes more difficult to convince people you want to amend the constitution, so the thinking is to keep it as focused as possible and what that would look like will be an evolution of the fiscal agreement that is negotiated.

CHAIR GIESSEL commented that the administration presented a draft of a constitutional amendment in the June Joint Resources meeting and she would get copies of that. She understood that the draft amendment was essentially placeholder language.

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MR. MCMAHON said they had reported earlier this year about filing draft resource reports with the FERC and they plan on getting a second draft in for the first half of 2016. The FERC invites draft submissions so they can be placed on the website for public and staff comment. The idea is to have the final application be as good as possible so it can be acted upon quickly. He explained that the resource reports have been modified as they continue to look at cost savings ideas and changing the project description a bit - the 48 versus 42-inch work that is under way - will impact them as well.

CHAIR GIESSEL asked which one of the reports addresses community impacts, because she wanted it highlighted for constituents.

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MR. MCMAHON answered resource report number five and said that there is a major effort by External Affairs to outreach to communities that is reflected in slide 14.

CHAIR GIESSEL asked if he could talk about the impact of the SOA's consideration of a change in oil and gas tax policy for the project, such as a change in tax credits or changes to the minimum tax.

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MR. VAN TUYL reflected that BP thinks a successful AKLNG project depends on a healthy base oil business. It's very important for a number of reasons; one is because those very same facilities at Prudhoe Bay will be relied on for decades. They know that first gas is still many years away and they need to be able to have a safe, compliant, sustainable base business for the long term. That is what BP and their co-venturers - ExxonMobil, ConocoPhillips, Chevron and Prudhoe Bay - are working towards right now in reducing costs to make it even more efficient in this cost challenging environment. They are doing the same with AKLNG. They can't control the price, but they can control the

cost at which LNG can be delivered to the market. An increase in tax is an additional challenge to those missions, and affects the base business that supports AKLNG.

MR. MCMAHON agreed; an increase in oil taxes could impact their decision to enter the FEED and FID.

MR. EHRHARD echoed the same perspective.

MR. MCMAHON said slide 15 highlighted accomplishments since September. The team is now focused on these Outstanding Issues:

- Domestic instate gas supply structures in place using the AGDC gas aggregator

- LNG marketing structures in relation to the state's LNG share

- Timely completion of the commercial and fiscal contracts followed by legislative approval consistent with SB 138 including a gas supply to the project.

ROYALTY DECISIONS:

- Lease modifications at Point Thomson for conversion of the specialized field leases

- Modification to limit the state's right to switch between RIK and royalty in value (RIV) consistent with a RIK election.

- RIK election subject to the Project Enabling Agreements

- Determining the state's gas share structure

LEGISLATION TO AUTHORIZE:

- Public vote on constitutional amendment to provide predictable and durable fiscal terms.

- Property tax structure

SENATOR MICCICHE asked if a delay on the other agreements could potentially compromise the timeline that gets the constitutional amendment on the ballot in 2016.

MR. VAN TUYL answered that his understanding of the timeline for entertaining a constitutional amendment is clearly defined: it can only be entertained during a general election, in this case in November, 2016. To be able to do that, the amendment would need to be drafted by a date in June. Missing that timeframe would complicate things.

SENATOR STOLTZE asked how much can they rely on the draft constitutional amendment language provided in June, 2015.

MS. RUTHERFORD said it is a fluid document and not indicative of anything the administration would propose moving forward.

SENATOR MICCICHE said the point he is trying to make is if they miss the June 16th deadline that will adversely affect the potential of this project to move forward.

MR. VAN TUYL said he was not prepared to say definitively what the impact would be, but BP is working hard to ensure they aren't delaying the project.

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MR. MCMAHON said slide 16 was the closing slide and a graphic to show all the deliverables to support the FEED decision, some of which are still under development.

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CHAIR GIESSEL said she was thinking about the long haul and was looking for a slide of the production curve for this gas project, similar to the North Slope's production curve. She said the expectation is that there will be more production emerging from other areas, like the Foot Hills, and the state is counting on other smaller companies to access the expansion potential in the gas pipeline and that affects other decisions they are making in this session related to the state's tax structure.

SENATOR STEDMAN commented that the oil production curve is very different than a gas production curve. He recalled a conversation that reinjecting waste product into Prudhoe Bay could re-pressurizing the field somewhat, which would result a more oil being produced.

CHAIR GIESSEL said she knows that CO2 injection is an effective production enhancement in the Lower 48 but wondered whether it is an effective production enhancement in Alaska on the North Slope.

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SENATOR WIELECHOWSKI asked on a scale of 0-100 how likely this project is to happen within the next 15 years.

MR. EHRHARD responded that this project has the necessary ingredients to be successful. It has a fantastic gas resource that has been recycled multiple times through the reservoir and another gas resource that can help fill in the volume. It has good transportation distances to markets in the Far East and it has a reputation. Japanese and Korean buyers like the idea of buying gas from the United States and from Alaska. Significant technical progress has been made. The fundamentals are there.

MR. MCMAHON was hesitant to put a number on it, since he had been working on it since 1992. But a lot of good things line up: the fact that they have the resource, the fact that all five parties are sitting at the table working together, the fact that after pre-FEED this project will have gone further than any project in the past, getting the DOE export license and a second set of draft resource reports in. He is bullish on the project. The reason he hesitates to put a number on it is because of market factors. The AKLNG gas resource is a tremendous part of ExxonMobil's endowment and they will not stop pursuing it until it's done successfully. It is a key part of their portfolio.

MR. VAN TUYL echoed the previous comments. Alaska has multiple known resources and the gas source is close to markets; all the companies have done big LNG projects around the world; the alignment continues on this project and that is absolutely critical. They continue to be bullish on this project and it is critical to BP's future in Alaska.

MS. RUTHERFORD said she also feels very bullish about this project. Some of the fundamental problems encountered in previous attempts to monetize Alaska's gas have been resolved. She is concerned about the current economic environment, but the good news is that this project won't come to the market for eight to nine years, so that works to its advantage. The Japanese buyers are very excited about AKLNG, because they have had a long term relationship with Alaska and feel very good about it. It is close to their market; it is a stable political environment; known quantities of gas underpin this project to a far greater degree than other project around the world, and the state is aligned with the producers. The sovereign involvement is critical to the Asian buyers; it is a huge advantage.

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MR. KRUZEN added that AGDC is the state's gasline pipeline company and they want to make this project happen, but it has to make economic sense. They are working with the project to help bring the capital costs down and to increase reliability.

CHAIR GIESSEL thanked the participants

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#### **ADJOURNMENT**

CHAIR GIESSEL adjourned the Senate Resources Committee meeting at 5:05 p.m.