

**ALASKA STATE LEGISLATURE  
SENATE RESOURCES STANDING COMMITTEE**

January 29, 2016

3:31 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Senator Bert Stedman  
Senator Bill Wielechowski

**COMMITTEE CALENDAR**

AKLNG PROJECT UPDATE BY THE STATE OF ALASKA GAS TEAM

- HEARD

**PREVIOUS COMMITTEE ACTION**

See 1/25/2016 and 1/27/2016 Senate Resources minutes.

**WITNESS REGISTER**

FRITZ KRUZEN, Interim President/CEO  
Alaska Gasline Development Corporation (AGDC)  
Anchorage, Alaska

**POSITION STATEMENT:** Provided a summary of AGDC activities relative to AKLNG.

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

**POSITION STATEMENT:** Provided an overview of the AKLNG Project authorities for each state agency including the Department of Natural Resources (DNR), the Department of Revenue (DOR), the Alaska Gas Development Corporation (AGDC), and the Department of Law (DOL).

ATTORNEY GENERAL CRAIG RICHARDS

Department of Law (DOL)  
Juneau, Alaska

**POSITION STATEMENT:** Explained DOL authorities relative to AKLNG under SB 138.

COMMISSIONER RANDY HOFFBECK  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** Explained the DOR authorities relative to AKLNG.

#### **ACTION NARRATIVE**

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**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, Micciche, Coghill, Stoltze, and Chair Giessel.

#### **AKLNG Project Update by the State of Alaska Gas Team**

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CHAIR GIESSEL said today's meeting would conclude the opening week of the Senate Resources Committee's AKLNG Project update. She noted the packets included the PowerPoint, the report that is required from Sec. 77 of SB 138, a copy of the draft constitutional amendment language that was presented in the June, 2015, update, an updated list of agreements for the project and a graph of projected production of natural gas for the AKLNG Project. She invited the state's gas team to the table.

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FRITZ KRUZEN, Interim President/CEO, Alaska Gasline Development Corporation (AGDC), Anchorage, Alaska, related his background. He is an electrical engineer with 38 years of experience within the oil and gas business, 36 and a half years with ConocoPhillips and coming on a year and a half with the Alaska Gasline Development Corporation (AGDC). Working for ConocoPhillips, he spent more time offshore than his father who was in the Navy in World War II, but well over half of his career has been involved with LNG. Because he was involved in gas gathering and processing work for a gas transmission pipeline in the Lower 48, ConocoPhillips tapped him to go up to the Kenai LNG plant in Nikiski where he was head engineer for six years. He went on to be part of the team that helped design the next generation of LNG plant that ConocoPhillips would

market across the world. From there he joined the licensing team. He helped start up an LNG plant and then managed the export engineers that really know the details of how to design, construct and operate an LNG plant. He had been involved directly with two previous attempts to monetize Alaska North Slope natural gas: one was an LNG project and one was an attempt to pipe gas to the Lower 48. He also helped staff a third attempt.

MR. KRUZEN said he transitioned to AGDC as vice president of AKLNG, so he is the corporation's technical person on LNG matters and the Project Steering Committee (PSC) representative, the technical governance body of the four co-venturers for the AKLNG Project. He represents AGDC, the folks that brought the ASAP project forward on schedule and within budget, the people who now, with the TransCanada buyout, represent the State of Alaska (SOA) on its full 25 percent of all the objects within the AKLNG Project, and the people who are getting spooled up to take on the task of instate gas.

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MARTY RUTHERFORD, Deputy Commissioner, Department of Natural Resources (DNR), Anchorage, Alaska, said she would provide a summary of the AKLNG Project authorities for each state agency including the Department of Natural Resources (DNR), the Department of Revenue (DOR), the Alaska Gas Development Corporation (AGDC), and the Department of Law (DOL). She would also talk about their roles and focus areas within the AKLNG Project. The team would discuss each agency's organization associated with AKLNG and that entity's decision making process. The team would explain the state gas team's organizational chart, the matrix organization, and the coordination between the state agencies and AGDC. They would discuss the work flow and work teams and provide an update specific to TransCanada's buyout, the AGDC's presidential search, and as well as AGDC's instate aggregator function.

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ATTORNEY GENERAL CRAIG RICHARDS, Department of Law (DOL), Juneau Alaska, said SB 138 creates the statutory framework in which the SOA operates within AKLNG; in particular it defines the relative roles of the various state agencies within that framework and creates certain changes to what was then existing law. It also creates an expectation of certain deliverables to the legislature for final approval before the project can move through various stage gates including into front end engineering and design (FEED). It was passed by the legislature in April,

2014 and it is still the framework that is being used now. This presentation focuses on the relative roles of the agencies in executing their tasks within AKLNG and where they are moving along in the various work streams.

He said SB 138 provides, in particular, that DOR and DNR are responsible for negotiating the commercial agreements on behalf of the state that impact what has been referred to as the "sovereign interests" - tax interests, royalty interests, and other interests, whereas AGDC is given the commercial authority over matters that relate to the infrastructure and instate gas delivery. DNR handles the royalty side in the upstream issues and the DOR is tasked with financing, developing financing reports and matters involving the state's taxing system. The DOR is also the lead in interacting with the Municipal Advisory Gas Project Review Board, which was created for the state to interact with the municipalities and the producers in terms of an acceptable property tax structure.

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MS. RUTHERFORD said slide 5 is an overview of state authorities under SB 138. DNR has the authority to negotiate the commercial agreements, to market the state's royalty-in-kind (RIK) gas and the tax-as-gas (TAG) volumes, and to modify certain lease terms. Specifically, DNR, in consultation with the DOR, negotiates agreements including the upstream gas supply and balancing agreements, markets the state's share of LNG and the state's portion of instate domestic gas (to AGDC).

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She said the DNR will receive the RIK (if that is the decision by the commissioner of DNR) and the producers will have the option to pay their production tax as gas (TAG). The department would receive that gas and manage its sale to AGDC both for instate use and for export.

MS. RUTHERFORD explained that the DNR commissioner may make certain modifications to the leases, specifically the Point Thomson leases. She explained that Prudhoe Bay leases are almost all Division of Land (DL)-1 leases, the original leases sold at Prudhoe Bay prior to TransAlaska Pipeline System (TAPS) beginning operations. Point Thomson has new leases form - net profit share leases and sliding scale leases. In those instances, because the total royalty value of those leases can change, SB 138 says that the DNR commissioner may modify them to fix them at a certain rate so that can be used as the percentage by which Point Thomson gas would be identified. DNR is in the

process of negotiating those modifications and is progressing quickly with them.

SENATOR STOLTZE wanted to know specifically what the governor's "must haves" are in reference to his January 18th letter.

MS. RUTHERFORD responded that the governor referenced eight agreements in his January 18th letter to the producer companies. The Governor believes these agreements are necessary for the state to know if it's in its best interest to enter into RIK versus taking royalty in value (RIV), and to allow the state to feel comfortable enough to enter into a fiscal stability contract with the producers. The producers have indicated that a fiscal stability contract will be a necessary step before they are willing to progress the project. The governor has stated many times that he is concerned about "project slippage."

SENATOR STOLTZE asked what "slippage" means. Does it deal with a timeline?

MS. RUTHERFORD answered yes. The Governor doesn't want the project to miss the 2024/5 window to sell the state's LNG into the export market and the Attorney General has determined that the state cannot enter into a fiscal stability contract without a constitutional amendment.

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She explained that you have to start with the fact that the next opportunity for a constitutional amendment, which requires a two-thirds legislative vote by both bodies, must appear in a general election. That would be in November, 2016. Once the legislature approves the constitutional amendment language, it has to be certified by the Division of Elections by late June in order to appear on the November ballot. If the legislature is to have an adequate opportunity to review commercial agreements to support that language, that would be in mid-March/early April or early second quarter. The Governor wanted to emphasize that if in fact Alaskans want to hit that timeline, then these eight commercial agreements have to be in place and before the legislature in a timely fashion. Then the FEED decision can be made in early 2017, when an export window is available to the Asian market. She could not speak for the Governor about what will happen if parties are not able to hit that timeline, but the state is well prepared to hit that date without partners.

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SENATOR STOLTZE asked what the options are for Alaska going it alone.

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MS. RUTHERFORD said she didn't recall going it alone being part of the January 18th letter. The Governor has said he is committed to the AKLNG Project and he wants the department to continue to work diligently to get the commercial agreements in place so they don't have to do anything other than progress in a more timely fashion on the project.

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SENATOR MICCICHE said he didn't count eight required agreements for the constitutional amendment and asked her to list the eight she felt were necessary to move forward with the amendment.

MS. RUTHERFORD listed them - commercial agreements/issues some that role up into one agreement - adding that where they will ultimately reside is still being sorted out. They are as follows:

1. Gas balancing and supply agreement
2. Byproduct handling terms (the GTP CO2 disposal into Prudhoe Bay)
3. Field cost allowance, which is the amount the state will pay the unit working interest owners for its gas
4. Point Thomson lease modifications, which consist of fixing the net profit share leases and the sliding scale leases at Point Thomson, fixing the state's ability under lease provisions to switch between RIK and RIV. An aspect of that is also making a RIK determination.
5. Marketing agreements. Right now the options available to the state are multiple. SB 138 said that each producer must make a bilateral proposal to the DNR to either purchase or market for the state the state's volumes of RIK and TAG gas under terms generally equivalent to the terms under which they market their own gas. The state has the option of going as an equity marketer, which is basically where the state would set up its own structure with all of its own people to market the state's share of gas in competition with the other producers on AKLNG. The state also has the option of joining with one or more of the producers in a joint marketing structure. Everything is still under discussion at this point.
6. Members agreement and associated governance agreements (managed by AKLNG). These are the terms

under which the state participates as a joint venture member in the infrastructure and kit. This is where issues such as third party access into the facilities and expansion prerogatives reside.

7. The system use agreement which is about how the owners of the gas will be able to access their capacity rights.

8. Domestic gas sale terms to ensure that Alaskans get access to gas for its own uses.

SENATOR MICCICHE asked if she didn't see a withdrawal agreement as being a part of the overall requirement.

MS. RUTHERFORD responded that the Governor's January 18th letter specifically said that he is satisfied with the letters he received from ConocoPhillips and BP indicating that they would make their gas available under commercially reasonable terms should they decide to withdraw from the AKLNG Project. Subsequently, in conversations with ExxonMobil, Jim Flood and associated letters, he has also determined that he is satisfied with the commitments that ExxonMobil has made.

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MS. RUTHERFORD continued on to slide 6 that outlined DNR statutory responsibilities in key areas:

-Negotiating commercial agreements

-Managing the risk/reward balance that are inherent in the state moving out of a pure sovereign role (the taxation/royalty side) and into a commercial role as an equity owner in the project and receiving and selling its own gas.

-Ensuring certainty of the upstream gas supply so that the state in turn can satisfy the buyers that it can access it. She explained that basically the state will never be a working interest owner, but it has to look synthetically like one so that it has the same prerogatives as the actual producers to ensure its gas is available when needed and so that certainty can be passed along to the gas purchasers.

-Marketing structure, ensuring that the state negotiates a reasonable risk/reward position.

-Determine how the state will function as a shipper on the AKLNG Project system (which will take a little longer than the next two months)

-The primary focus is the state's RIK versus RIV decision. It is also trying to protect the sovereign state's interest in the governance structures in expansions and third party access, because the state will continue having lease sales in both the

North Slope and the Foothills and other areas of the state that might actually have gas, too.

Slide 7 illustrated DNR's functional organization for AKLNG. The North Slope gas commercialization area is where various subject matter experts are involved to lead the work streams and team discussions. Anthony Scott is the commercial lead, Steve Wright, a retired Chevron employee who dealt with upstream issues, is the upstream lead, David deGuyter, who used to work for BP and extensively on TAPS, is midstream lead. They are also about to hire a new short term contractor for marketing issues for the negotiation purposes and some support people under North Slope gas commercialization. She said they also work very extensively with resource evaluation people and other technical experts within the Division of Oil and Gas (DOG) to ensure that the right expertise is at the table to ensure that the synthetic working interest owner's capacities are fully identified and protected in the negotiations.

MS. RUTHERFORD said that is basically DNR's organizational function and that they all answer up through her and she answers to DNR Commissioner Mark Myers.

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She explained that the decision making is basically done by the state gas team, a multi-agency matrix organization that uses internal subject matter experts and external consultants. They work issues subject to a lot of policy and terms sheets that were developed to support the discussion with the parties across the table. They are not static. As new complexities and alternatives present themselves, they have to be vetted with the policy makers: not only the commissioner of DNR, but the commissioner of DOR, AGDC, and the Department of Law. They have these discussions and then go back to the teams and they develop the positions that in fact are negotiated by the state's two lead negotiators, Ken Minesinger with Greenburg Traurig and Manzer Ijaz with Millbank, Tweed, Hadley & McCloy. At the end of the day, the final policy decisions that are associated with the DNR commissioner's statutory authorities are made by the commissioner.

CHAIR GIESSEL asked where the lead negotiators are located.

MS. RUTHERFORD answered that they are not located in Anchorage, but they travel to Anchorage fairly regularly for ongoing meetings. One or both are there constantly and both fly in Sunday night this week. Given the state's financial situation,

they are trying to optimizing the ability to use video conferencing, teleconferencing, and electronic exchanges to the maximum degree. People in other law firms support them, but not much agreement writing is happening right now.

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COMMISSIONER RANDY HOFFBECK, Department of Revenue (DOR), Juneau, Alaska, explained the department's authorities under AKLNG. The SB 138 structure says the producers can elect to pay their tax as gas (TAG) and it would be set at 13 percent of the gas. However, that particular component is awaiting on the state's RIK decision. If the producers elect to pay their tax as gas, then the state also has the responsibility of determining how the revenues that are received when the gas is delivered to the state eventually flow back into the state and finances the project.

CHAIR GIESSEL said her understanding of the state's 25 percent ownership is that 13 percent would come as tax as gas and 12.5 percent would be the royalty if the lease modifications arrive at 12.5 percent. She asked if that 25 percent is actually somewhat of a moving target until it's nailed down.

COMMISSIONER HOFFBECK said that is correct; the state's percentage ownership will be consistent with what its gas ownership is after the royalty modifications.

He went to slide 10 and said the DOR is focusing its efforts on reporting on the range of financing options available. Lazard delivered a preliminary report in the last legislative session and they will deliver a final report when the first contracts are delivered to the legislature. He said the department is also participating in negotiating the contracts primarily with DNR, but also with AGDC. The team's focus is on keeping all of their options open. They want to make sure that none of the fiscal agreements and the governance and commercial agreements would actually preclude any one of their financing options, and if they do, what the impact is on revenues and what mitigating position needs to be taken in negotiations.

DOR has a couple of deliverables: one is how communities, regional corporations, or individuals can participate in the project. That will be in the Lazard report. It is a difficult component of the project just because of the risk associated with those types of investments, but the structure would be put in place. Smaller investments would probably come later on in the project when it has more certainty of completion.

COMMISSIONER HOFFBECK said one thing that is not listed is the continued analysis of the commercial agreements for state funding options. Slide 11 indicated that DNR is carrying the load of the negotiations. DOR has a much more limited scope in the project and doesn't need that level of additional expertise. Deputy Commissioner Keppers is essentially 100 percent assigned to AKLNG and is DOR's face in the negotiations. Working with her are two audit masters out of the Tax Division and two commercial analysts out of the Economic Research Group.

He said the department also has subject matter experts and uses contractors when needed to provide additional information. Deputy Commissioner Keppers reports to him and the decision making process is exactly the same as with DNR. Decision points will be brought to him for guidance and then they will take that back into the process. He would make the final decision that would be taken to the executive committee for its final decisions.

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MR. KRUZEN said with the buyout of TransCanada, AGDC became the state's 25 percent equity participant in the GTP, pipeline and LNG plant, otherwise known as the AKLNG Project. He said AGDC set up the project funds so that the legislature's appropriations can be used to pay cash calls that come from the lead party, ExxonMobil. AGDC has a role in assisting DNR and DOR in maximizing the value of the state's gas and a role to also figure out the systems to get gas to instate customers from the AKLNG pipeline at commercially reasonable rates, which the ASAP mandate says is "the lowest rate."

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He displayed an organizational chart and said AGDC is the transporter; the molecules belong to DNR, the shipper, and that it is all sort of managed in FERC Sec. 3.

AGDC is a public corporation with a board of directors; Dave Cruz is the chairman; Mr. Short is the vice chair. Mr. Kruzen said he is interim president; Miles Baker is the External Affairs and Government Relations (EAGR) representative; Ken Vassar is the general counsel. Lieza Wilcox leads their commercial function and Bruce Tangeman is leader of finance and administrative functions. Frank Richards, who led the ASAP effort, is now the Program manager over the technical aspects of AGDC's support of the AKLNG Project.

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The decision-making process is a little different for AGDC. It has a "squad" of technical experts to call upon. Mr. Kruzen said that for pipeline matters they confer with Mr. Richards and then make the technical decision; if it's a gas treatment plant or LNG plant matter they confer with himself and then make the technical decision. If it's just a matter of technical assurance, it ends there. But if it goes on to inform a decision, then it's taken to the Management Committee (ManCom), the decision-making body overseeing the AKLNG Project. Frank Richards is the AGDC representative on ManCom.

MR. KRUZEN explained that in accordance with their authorities, if it's appropriate the decision elevates to the president or to the board and if it's a policy matter he talks to their partners within the State of Alaska. On the corporate side, they follow their delegation of authorities.

CHAIR GIESSEL noted the pot of money AGDC has in its budget structure for ASAP and asked what it is being used for.

MR. KRUZEN answered that AGDC has two funds, an instate gas fund which is intended for ASAP, and the LNG fund for the AKLNG Project. Those are blended together in a formula to finance day-to-day activities.

CHAIR GIESSEL asked what work is being done on ASAP at this point and why.

MR. KRUZEN answered that no technical work is being done on ASAP; it's on the shelf. However, they are progressing the permitting side to get to the end point of the supplemental environmental impact statement (SEIS), which gets a record of decision, which gets the permits and right-of-way along federal lands. It requires a little money, but not a lot. It seems to be going well and by the end of the year, AGDC, and by extension the State of Alaska, will have an asset that is useful for both projects (because ASAP and AKLNG have the same route). This is an example of doing work that advances both ASAP and AKLNG.

SENATOR STOLTZE asked if the activities and benefits of both projects are commensurate.

MR. KRUZEN said he couldn't specifically answer that, but he could say that ASAP has valuable assets - bore holes along the pipeline route from NW of Fairbanks down to Southcentral - and AKLNG has also done a lot of bore holes from Fairbanks to the

North Slope. So, they compare notes and try to establish who's got what and what they do in common. If it's something that has commercial import, that gets negotiated and they arrive at a fair value exchange of the data transfer. There have been three or four episodes of that and it is going well. AGDC also serves as a subcontractor for AKLNG for things they are good at like knocking on doors and getting permits. The process seems fair to him and he hadn't heard the AKLNG Project management team express any concerns about unfairness.

SENATOR STOLTZE asked who would complain from within the administration and how a complaint would manifest.

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MR. KRUZEN answered that the administration recognizes a fiduciary duty to get fair value for State of Alaska assets. "So, we would complain if we thought we were hosed. Certainly, AKLNG chooses not to participate and go do their own thing if they feel we're charging too much."

SENATOR STOLTZE asked where you complain if you are an ASAP cheerleader.

MR. KRUZEN didn't have an answer to that.

SENATOR MICCICHE said the firm transportation services agreement (FTSA) is out into FEED and asked, as contentious as negotiations have been, if that concerns him.

MR. KRUZEN answered now that TransCanada is out of the picture, the firm transportation services agreement would be between DNR, the shipper, and AGDC, the transporter, to move the state's molecules through the AKLNG pipeline. Some people think the FTSA should be advanced before the FEED decision and others think it can wait until after the decision. He didn't know the answer. The good thing is that FERC Sec. 3, the permitting process that AKLNG is being regulated under, allows the shipper and the transporter to talk without fire walls, which leads to more of a collaborative approach, and he is quite optimistic about it getting done.

SENATOR COGHILL said it became clear in the TransCanada buyout that AGDC has some valuable assets and asked if they become part of the value set that is brought into the 25 percent of the state's ownership or if they got lost in the blended package of cross funds.

MR. KRUZEN answered that those assets didn't get caught up in the blend. This sort of information is more of a "below the bottom line transaction" that was negotiated. They are not talking about big dollars, maybe \$100,000. He added by comparison that the typical monthly cash call for the state's 25 percent is maybe \$6 million.

SENATOR COGHILL said if it became clear that the AKLNG project just can't make it for whatever reason, then the state has an asset, but he wanted to know if the state is giving it away or if it is part of the 25 percent value chain.

MR. KRUZEN answered that they are certainly not giving away any value of assets. He explained that sometimes people are steered not so much towards the proprietary information within ASAP but towards the publically available information that one gets from the permitting process. If they are talking about proprietary information, they have a discussion and capture value for it. It really isn't part of that 25 percent math.

SENATOR COGHILL observed that AGDC worked very hard to get the property information from north to south and asked if it could be used with other options.

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MR. KRUZEN answered yes; but he didn't know how big of a toggle that information is. The right-of-way for ASAP is going to be a major, major, State of Alaska asset and it is something they believe can be transferred to the AKLNG Project if that is the right thing to do.

SENATOR COGHILL said he just wanted to make sure that if these assets are under both the permitting and under ASAP money that the asset is not going to be given away.

MR. KRUZEN said his message was heard and he agreed that the property, and the right of way that the property provides, is a valuable asset and said that it will be treated accordingly.

CHAIR GIESSEL said last year a bill for a right-of-away passed the legislature and asked if they have the complete right-of-way now and if not, where the gaps are.

MR. KRUZEN said he couldn't answer that at the moment, but he would get that information.

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ATTORNEY GENERAL CRAIG RICHARDS said that SB 138 provides that the Department of Law (DOL) and the attorney general are ultimately responsible, in consultation with AGDC, for providing legal counsel for the commercial agreements and their contracts, whereas litigation and internal corporate counsel, even for AKLNG, remains within the purview of AGDC's corporate counsel.

Three assistant attorney generals do the work - Jerry Juday works with AGDC, and Martin Schultz and Elena Romerdahl are the two full time DOL attorneys who are part of the DOR/DNR teams. A few other attorneys do part time work. The DOL has a suite of outstanding counsel that is used for AKLNG, particularly Greenberg Traurig and Millbank, Tweed, Hadley & McCloy, that have different roles in the different work streams.

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SENATOR STOLTZE asked if there is 100 percent certainty that the constitutional amendment is an absolute necessity.

ATTORNEY GENERAL RICHARDS answered there is an absolute certainty that a constitutional amendment is necessary if the fiscal agreements the producers want contain provisions in it where the legislature suspends its power to tax. Article 9 of the Constitution, like most state constitutions, has a provision stating the legislature cannot surrender the power to tax. So, if the legislature's constitutional authority to change taxes is surrendered, then the constitutional amendment is needed.

SENATOR STOLTZE said he couldn't remember the fiscal terms in previous gas line agreements requiring a constitutional amendment and asked if this issue has undergone an evolution in the DOL. He also wanted to know if it is being used as motivation to bring Alaskans in as part of the discussion.

ATTORNEY GENERAL RICHARDS replied that it is a strictly legal issue. The Stranded Gas Development Act (SGDA), which was another fiscal certainty arrangement, had a little debate, but from the beginning of its enactment there was basically an assumption by the DOL that a constitutional amendment was necessary. The Alaska Gas Inducement Act (AGIA) didn't contain terms relating to the legislature surrendering its power to tax, and therefore, there wasn't a requirement for a constitutional amendment.

COMMISSIONER HOFFBECK added that SGDA had embedded language that gave protection by taking away more and more of the state's gas if the legislature changed its tax structure. So, there was

concern even then about changing the constitutional and statutory structure.

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MS. RUTHERFORD added that slide 18 is the overall high level AKLNG structure but she directed them to the bottom tier, the State of Alaska Gas Team made up of the DOR and DNR, their experts and consultants, as well as a combination of North Slope gas technical experts that are embedded in the Division of Oil and Gas, Resource Evaluation, and their associated North Slope gas consultants that they use outside expertise on. Then there are the AGDC subject matter experts and consultants, all supported by the DOL and their outside counsel. These are the people who do the day-to-day work; they develop the state's positions, analyze the options and assist the actual negotiators, and who attend the negotiations to support the negotiators.

But when issues that haven't been addressed through existing term sheets or policy directions arise, they elevate to the next tier, the commissioner of DOR, herself in DNR, the AGDC and legal support from both DOL and the Attorney General. When there are policy questions a dialogue occurs. If there is disagreement among these people, then it can be elevated to the governor, or if an issue has statewide implications, the governor is involved.

SENATOR MICCICHE said he appreciated the organizational evolution since November and thanked her for demonstrating it up to this point.

MS. RUTHERFORD accepted that on behalf of the people who are working hard on the technical and coordination issues.

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MR. KRUZEN said slide 19 was AGDC's version of the slide that was presented on Wednesday by the producers. The two anchor fields - Point Thomson Unit and Prudhoe Bay Unit - were on the left. The gas molecules that are owned by the state are DNR's molecules. Those molecules move out of the field facilities and into a 60-mile transmission line from Point Thomson Unit or a 1-mile transmission line from Prudhoe Bay into the gas treatment plant (GTP) where the CO<sub>2</sub> is taken out, and in through an 800-mile pipeline to the Nikiski LNG plant at tidewater. Those molecules are under the purview of the AGDC. The DNR then markets the LNG to buyers out of state.

He recalled that Mr. Butt said a 10:1 ratio of gas is going down to be LNG versus gas that is used in-state, but when those instate molecules turn the corner and go to instate markets (instate aggregator box) they are still DNR molecules. The AGDC is responsible for figuring out the aggregation systems so that small communities don't have to deal with it. The large users are able to manage weekly/daily temperature type swings and inform the LNG plant of what is coming off the line so that their operation is not impacted.

MS. RUTHERFORD said slide 20 talks about the State Gas Team that manages approximately 20 project work streams that are subdivided into two aspects. One is the commercial work that involve the negotiations required to develop the commercial agreements to advance the project and the other is the technical work which is really the upstream work (getting certainty of supply off of the two units and how that is going to evolve into certainty of our molecules so they can be sold to the market).

Slide 21 talks about the organizational framework of the teams. It's a multi-discipline matrix organization; each state team is either led by a state agency (DNR or DOR) or AGDC. It is based upon the organization of the statutory authorities associated with that particular issue or agreement. Each team includes representatives from other agencies as appropriate according to interest and effect to ensure that there is full coordination and integration.

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MS. RUTHERFORD said that each team includes state agency subject matter experts, legal support both from the DOL and external legal firms, and hired expert commercial or financial consultants. These teams work internally and sitting across the table from the joint venture sponsor companies. For every hour spent across the table with the people you are negotiating against you should be spending at least seven in getting your act together internally: understanding the evolution of the issues, the positions of the various parties, working to determine whether nuances need to be elevated for policy direction, and ensuring that everyone has looked at it from the various perspectives that are at play in the decisions. She explained that you are always trying to find that sweet spot that satisfies every party's interest. There is never a time when one of the lead negotiators attends a meeting that isn't supported by these technical and commercial teams.

CHAIR GIESSEL asked if DNR, AGDC and DOR all have legal consultants or if they rely on the DOL and its consultants.

MS. RUTHERFORD relied that the DNR relies on the DOL that has both internal legal support and externally from the firms of Greenberg Traurig and Milbank, Tweed, Hadley & McCloy that bring a larger expertise to the discussion. It's always a constant determination by the team as to who the appropriate legal counsel is to participate in the discussion.

Slide 22 provided AGDC, DNR and DOR jointly integrated work processes. Clear statutory responsibilities have been identified that often times requires coordination, but Ms. Rutherford hastened to add that they work very hard not to be duplicative. She said they have full State Gas Team meetings at least weekly to ensure that they don't have gaps in what they are working on, that everyone is covered and resources are committed to it. DNR, AGDC and DOR have bi-weekly meetings to coordinate on specific issues and decisions. She turned the talk over to Mr. Kruzen to walk the committee through the essence of this presentation.

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MR. KRUZEN started with slide 23 and the acronym "RACI:" "R" for responsible, "A" for accountable, "C" consulted, and "I" for informed.

Who is responsible? If he was given the task of pulling this presentation together, he is the one who has to get it together. If he does a bad presentation, he's the one who is accountable and he gets fired. Who is consulted? Who is an expert that might be able to give advice that you really ought to consider? You advise back what you like and don't like. It's a two-way street. Who is informed? Hello press; there is a presentation that you might be interested in at 3:30 p.m. on Friday.

He said they sort of divvied up what the major functional responsibilities were in what was called the Functional RACI Matrix on slide 24:

Resource ownership: Deputy Commissioner Marty Rutherford, DNR, is responsible and the DOR commissioner is accountable.

Sovereign taxation: Deputy Commissioner Donna Keppers, DOR, is responsible and the DOR commissioner is accountable.

Project ownership and governance: Frank Richards, AGDC, is responsible and Mr. Kruzen is accountable.

Project financing: Donna Keppers, DOR, is responsible and the DOR commissioner is accountable.

LNG marketing and marketing of the instate gas molecules as they turn the corner from the pipeline: Marty Rutherford is responsible and DNR commissioner is accountable.

In-state gas delivery (which is figuring out the details of the infrastructure, the aggregation and that sort of thing): Brad Chastain of AGDC is responsible and AGDC's Mr. Kruzen is accountable.

FEED decision support package: AGDC will advise on the kit; DOR will advise on the money; but since most of the commercial work is with DNR, Marty Rutherford is responsible and the Governor is accountable.

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Slide 26/27 broke functions down into 10 task streams and sub-streams. Mr. Kruzen said this will probably evolve a bit, but this is the administration explaining to the legislature and the public the division of labor amongst the major tasks.

MS. RUTHERFORD added that this chart is a reflection of the authorities the presenters have talked about as well today. It is the first step in providing some granularity on how some of the functions break out and it will become more granular over time.

CHAIR GIESSEL commented that this really is a breath of fresh air in comparison to prior AKLNG updates, notably the one held in September, 2015, in Palmer. She appreciated the hard work that went into it.

MS. RUTHERFORD said Mr. Kruzen came up with the idea of using this structure that is well understood in the project world.

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MR. KRUZEN noted some target dates on slides 26/27 and proceeded to slide 28.

MS. RUTHERFORD noted that slide 28 talks about slides 29-42. Basically it identifies the various work stream teams for everything from the fiscals to the property tax, the upstream, the midstream use and the marketing of LNG. The next 13 slides give more information about each of those elements: the lead agency for each work stream, what their primary duties are, and who the team members are. She offered to take questions before skipping to slide 43 and finding none, Mr. Kruzen took over.

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MR. KRUZEN said slide 43 contains the update on the TransCanada buyout. The legislature appropriated money that is getting used to cover the state's cash calls. He said the AGDC board will dissolve the entity called TC Alaska Mid-stream Limited Partnership at the February 11 meeting. All the assets are now with AGDC. He said, although the shell company will disappear, many of the fifteen TransCanada employees primarily involved on the pipeline project team are still there through an arrangement between TransCanada and ExxonMobil. Key TransCanada employees were hired by a contracting firm and then ExxonMobil, the lead party, would hire them. This has worked really well and there are no gaping holes. A few people actually moved on, because some of the projects were on or approaching the downward arc of pre-FEED.

MR. KRUZEN said that TransCanada had submitted a final report, which Deputy Commissioner Keppers is auditing and that should be finished soon. It looks like TransCanada may owe the state about \$220,000. He could not say enough nice things about TransCanada. "They were a super co-venturer on this project."

MS. RUTHERFORD pointed out that the \$220,000 identified on slide 43 is the estimate that TransCanada has as its final cost report that was provided in mid-January. An outside audit contract with Ernst & Young is being overseen by Donna Keppers; it will determine if that number is accurate. DOR and DNR will follow up to ensure that any monies owed to the State of Alaska are returned as quickly as possible.

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MR. KRUZEN said slide 44 was the update on the search for an AGDC president. In November they engaged B+R Consultants, a boutique search firm out of Houston, Texas, for a sum not to exceed \$170,000 and for which there are progress payments as various milestones are met. AGDC Vice Chair Hugh Short is masterminding the process as a board issue. Originally, they thought that this would take 120-180 days, but it's going faster and B+R is turning up some interesting candidates. He said they are looking for some pretty special people: people with demonstrated leadership skills, with a good solid technical and project underpinning, who know something about gas pipelines or LNG or both, who know the commercial stuff, who know the regulatory and permitting stuff, and people who are good at stakeholder engagement, such as with the legislature. These are pretty high powered people and it will probably take some money

to land such a person - just a heads up in case they come back to the legislature to approve a signing bonus or a retention program of some sort.

CHAIR GIESSEL asked when the next AGDC meeting is being held.

MR. KRUZEN replied February 11.

He went to slide 45 on the instate aggregator corporation that was set up late last year as allowed in SB 138. Right now it's just a name and they have to ask permission of the board to do the next steps, which are things like what the corporation will look like, how the small quantities of instate demand will be pooled and how it is going to work with the large users to schedule such that the LNG plant operation isn't impaired, and things like that.

MS. RUTHERFORD noted that slide 47 indicated the fully integrated State Gas Team with the governor at the head. This project is very much in development. Issues such as the major appropriations, the fiscal durability proposals, structural issues associated with marketing, and a state gas company are all yet to be determined. The governor is going to have to carry those proposals and all the commercial agreements to the legislature.

Slide 48 contained acronyms so that Alaskans can figure them out, and slide 49 contained the legislature's authorities.

MS. RUTHERFORD said the DNR provided the TransCanada quarterly report that broke out the final costs and how the Alaska Gas Inducement Act (AGIA) reimbursement was involved. There was a total payment of \$64,590,000 and she had already discussed the audit that will be occurring. The other item that was made available to the committee was requested at Wednesday's meeting, an update of all the agreements that are being negotiated that both do and do not require legislative approval. TransCanada has been removed from those future agreements where they are no longer a party, but it is still listed for those agreements that are completed already.

CHAIR GIESSEL asked her to clarify: in the governor's January 18th letter to the producer parties, that not all of the governor's eight items will require the legislature.

MS. RUTHERFORD said that is correct; not all of them will require legislative approval. She also corrected a statement she

made on Wednesday. She told them that the state was a party to the Gas Balancing Supply Agreement, but not a signatory. That is incorrect. The state is both a party and a signatory to that agreement. She explained that their understanding of the state's role in the Gas Balancing and Supply Agreement has evolved over time and it is fairly clear now to the state as it is to the co-venturers that the state has to be a signatory.

CHAIR GIESSEL said that was a huge deal. She thanked her for the Division of Oil and Gas' production chart that demonstrates the state will be looking for additional explorers to produce gas in the North Slope and Middle Earth areas.

MS. RUTHERFORD responded absolutely; the profile indicates a wedge to be filled starting around year 2018. It is both the opportunity for where they think additional gas has been identified already, but also for where new third parties can monetize the found gas. She said that Paul Decker with the DNR Division of Oil and Gas could discuss this topic in the future.

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SENATOR COSTELLO asked the Attorney General what the governor's January 18th letter means.

ATTORNEY GENERAL RICHARDS said the letter lays out the governor's expectations: that they will achieve a series of agreements in time to make the timeline that allows them to get the agreements before the legislature in time for the constitutional amendment to get on the ballot; so there is no slippage if the producers are unwilling to go into FEED without a fiscal agreement.

SENATOR COSTELLO commented that it's being talked about as an ultimatum.

ATTORNEY GENERAL RICHARDS responded that he didn't know why people were characterizing it as an ultimatum. It just lays out expectations as to a schedule if everyone is going to make the timeline for this project.

SENATOR COSTELLO guessed that when that word is used perhaps it means if a certain action doesn't happen that there will be consequences. The letter says he would consider other options, and that is disconcerting to her.

CHAIR GIESSEL asked the exact date for achieving the constitutional amendment language for the November ballot. She heard it is June 25th.

ATTORNEY GENERAL RICHARDS said he didn't know the exact date, but it's within a few days of that range. It involves the amount of time the Lieutenant Governor would need to get the ballot certified under the regulatory structure.

CHAIR GIESSEL said there is also a public opportunity to view that and asked if it was 90 or 60 days and asked if the legislature has to wait for that time period to end before it can act.

ATTORNEY GENERAL RICHARDS said he must review the mechanics and procedural process of how it goes to the ballot.

CHAIR GIESSEL asked him to do that and send the information back to her office. She would distribute it to the committee and put it on the legislative website.

ATTORNEY GENERAL RICHARDS said he would be happy to do that.

MS. RUTHERFORD asked for clarification, because she might be referring to two different things. Is it the length of time by which the public and legislature must have access to the commercial agreements before acting or is she asking about the constitutional amendment provisions.

SENATOR GIESSEL answered the commercial agreements, and thanked Ms. Rutherford for that clarification.

SENATOR STOLTZE complimented Chair Giessel for conducting the hearing and for the information received. He said to not judge the community of Palmer by the activities of the September, 2015, meeting when the former head of AGDC, Mr. Dan Fauske, "was asked to walk a flea infested dog at the last minute." It's truly a great place. He was pleased that Ms. Rutherford is in more of a leadership role now.

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**ADJOURNMENT**

There being no further business to come before the committee, the Senate Resources Standing Committee meeting was adjourned 5:13 p.m.