ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE
Anchorage, Alaska
December 4, 2017
6:06 p.m.

MEMBERS PRESENT

Representative Andy Josephson, Co-Chair
Representative Geran Tarr, Co-Chair
Representative Harriet Drummond
Representative Justin Parish (via teleconference)
Representative Chris Birch (via teleconference)
Representative DeLena Johnson
Representative George Rauscher (via teleconference)
Representative David Talerico (via teleconference)

MEMBERS ABSENT

Representative Dean Westlake, Vice Chair
Representative Mike Chenault (alternate)
Representative Chris Tuck (alternate)

OTHER LEGISLATORS PRESENT

Representative Tammie Wilson (via teleconference)
Representative Lance Pruitt
Representative David Guttenberg (via teleconference)
Representative Paul Seaton (via teleconference)
Representative Charisse Millett
Representative Dan Ortiz (via teleconference)
Representative Cathy Tilton (via teleconference)
Representative Dan Saddler
Representative Ivy Spohnholz

COMMITTEE CALENDAR

PRESENTATION: AK LNG PROJECT UPDATE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

KEITH MEYER, President
Alaska Gasline Development Corporation
Department of Commerce, Community & Economic Development
Anchorage, Alaska
POSITION STATEMENT: Provided a PowerPoint presentation entitled, "Alaska LNG," dated 12/4/17.

FRANK RICHARDS, PE, Senior Vice President
Alaska Gasline Development Corporation
Department of Commerce, Community & Economic Development
Anchorage, Alaska
POSITION STATEMENT: Answered questions and discussed regulatory issues during a PowerPoint presentation entitled, "Alaska LNG," dated 12/4/17.

ACTION NARRATIVE

6:07:21 PM

CO-CHAIR GERAN TARR called the House Resources Standing Committee meeting to order at 6:06 p.m. Representatives Tarr, Drummond, Josephson, Johnson, Parish (via teleconference), Rauscher (via teleconference), Talerico (via teleconference), and Birch (via teleconference) were present at the call to order. Also present were Representatives Pruitt, Wilson (via teleconference), Guttenberg (via teleconference), Seaton (via teleconference), and Millett. Representatives Tilton (via teleconference), Ortiz (via teleconference), and Saddler arrived as the meeting was in progress.

PRESENTATION: AKLNG Project Update by the Alaska Gasline Development Corporation

6:08:04 PM

CO-CHAIR TARR announced that the only order of business would be a continuation of the joint meeting of the House Resources Standing Committee and the Senate Resources Standing Committee held on 10/16/17. Since then, a joint development agreement between the Alaska Gasline Development Corporation (AGDC), [Sinopec, China Investment Corporation, and Bank of China] was signed 11/9/17, and there have been additional letters of intent and further announcements in this regard. The committee will hear the remainder of the earlier presentation from officials at AGDC, and a briefing on recent events. She advised the presentation and monthly updates on the project are available to members of the public at the AGDC web site: https://agdc.us.

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KEITH MEYER, President, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community & Economic Development, provided a PowerPoint presentation entitled, "Alaska LNG," dated 12/14/17. Slide 1 was an array of photographs related to the signing ceremony of the AGDC joint agreement during a U.S. Department of Commerce trade mission in China on 11/9/17. Mr. Meyer said the signing was a very significant event that required a year of preparation, and which has created momentum [for the project] in both the U.S. and China. One of the objectives of the Trump Administration is to increase the positive trade flow to the Asia region, particularly with China. Slide 3 listed an overview of the presentation and AGDC's mission: Maximize the benefit of Alaska's vast North Slope natural gas resources through the development of infrastructure necessary to move the gas into local and international markets. He said AGDC "take[s] [its] mission to heart" and seeks to balance the objectives of customer, finance, and netback to the state for its natural gas.

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MR. MEYER continued to slide 4 that illustrated Alaska LNG Capital Structure, which he said is a 75 percent debt and 25 percent equity structure that is reasonably typical for a U.S. liquefied natural gas (LNG) pipeline project; however, this structure is not as typical for an "oil and gas major [company]" funded project, which would be closer to 50 percent debt and 50 percent equity. He explained an infrastructure project - for a utility, for example - has a higher debt component because the project has greater stability and longer-term contracts. Therefore, for a $43 billion project, this means about $32 billion in debt and $11 billion in equity. Also on slide 4, the total debt is split into major components: gas treatment plant (GTP) facility; gas pipeline; LNG facility; $6.4 billion owner's cost, which is cost of the management of the project; $10 billion in contingency, which is 30 percent of the base of $33 billion. He said the cost of $43 billion, which was derived from $600 million spent to date by the producers and the state, is a number that is "probably comfortable on the high side," and potentially could be a little less. In response to Representative Pruitt, Mr. Meyer said the source of the $11 billion in equity would be addressed in detail later in the presentation.

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REPRESENTATIVE PRUITT asked whether it was expected that the $10 billion contingency would be spent on cost overruns.

MR. MEYER affirmed it is most likely the contingency would be spent on unforeseen cost overruns; the $10 billion amount is high compared to other projects with a 25 percent contingency.

REPRESENTATIVE PRUITT surmised "it definitely should be expected that we'll spend a fair portion of that contingency."

MR. MEYER agreed. He opined that good management could save some [money] in contingency and some owner's cost; however, the economics are based on the full amounts.

REPRESENTATIVE BIRCH observed Alaska LNG is a "massive project" that is competing with projects in the Gulf of Mexico that can reach production with a $2 billion or $3 billion investment. He asked how the project would compete and acquire contracts to secure equity.

MR. MEYER responded the project is very competitive with the Gulf. In fact, the LNG plant is "about par with a Gulf Coast facility at roughly, around, [$1,000] per ton." He acknowledged the Gulf Coast has some advantages such as construction labor on site. Also, the Gulf Coast has a pipeline to tidewater, so to make the Alaska LNG pipeline economical, the project must carry sufficient volumes to bring the per unit overall cost down. Two significant advantages for Alaska LNG are a one-third shorter distance for shipping compared to the Gulf Coast, and a proven conventional stranded resource that can be priced attractively and safely, as opposed to Henry Hub [natural gas spot] prices that have a history of volatility. Further, Alaska LNG natural gas avoids the Panama Canal which can be a restriction point. Thus, Alaska LNG can compete quite well with Gulf Coast projects on a unit cost basis, provided there are sufficient volumes to justify "the overall bill." Mr. Meyer acknowledged the Gulf Coast "probably offers our sharpest competition."

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REPRESENTATIVE BIRCH agreed and stated the Lower 48 is awash in gas - LNG is becoming fungible [and available from many sources], whether exported to the Pacific Rim or Europe; however, he said the investment side is his largest concern and questioned whether [China Petroleum & Chemical Corporation

(Sinopec)] is a viable investor, or if China has sufficient demand for the "massive quantities of gas that this would propose to put on the market ...."

REPRESENTATIVE SADDLER recalled previous iterations of the project forecast a cost range of between $40 billion and $60 billion, which is almost the same as a cost of $43 billion plus a $10 contingency for known overruns. He asked for the average cost of unanticipated overruns in similar projects.

MR. MEYER clarified the previous cost range of $45 billion to $65 billion was developed two years ago before $600 million was spent on engineering to refine the cost; he opined the present cost is "a pretty comfortable number. It does not have completely unforeseen events ...." Prior to obtaining financing and making a final investment decision (FID), AGDC will identify events that are insurable and those that are not. [AGDC] feels $43 billion is a good number.

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FRANK RICHARDS, PE, Senior Vice President, AGDC, added the numbers [shown on slide 4] were developed by AGDC partners and its former partners BP, ConocoPhillips Alaska, Inc., and ExxonMobil Corporation. The contingency in this level of detail is completed in the preliminary front-end engineering design (pre-FEED) effort, following the industry practice established by the American Association of Cost Engineering of approximately plus 35 to minus 25 percent contingency: Alaska LNG has a 30 percent contingency. After significant research related to vendors and scheduling, and factoring in the cost by components, AGDC used a Monte Carlo analysis to determine the base contingency.

REPRESENTATIVE SADDLER expressed his understanding AGDC engineered the project down to a cost of $33 billion and added a $10 billion contingency to that.

MR. RICHARDS said the total cost includes owner's cost to manage the construction and design aspects of the project, and the contingency, so, yes, it is a segment of the overall cost.

REPRESENTATIVE SADDLER restated his question about whether the amount of average unanticipated overruns is known.

MR. RICHARDS pointed out one of the major potential risks is regulatory permitting, which can add years and dollars to the

project. [AGDC] has undertaken - in its application to the Federal Energy Regulatory Commission (FERC) for its [section 3 of the Natural Gas Act] authorization - a step to help de-risk that in the regulatory component through the environmental impact statement (EIS) work, this year or next.

CO-CHAIR JOSEPHSON returned attention to Representative Birch's suggestion that with a $2 billion to $3 billion investment, the market could be satisfied by Gulf Coast natural gas production. If so, [the signing of the aforementioned agreement on 11/9/17] would not have occurred. He asked Mr. Meyer to clarify his response to Representative Birch.

MR. MEYER explained LNG costs about $1,000 per ton, so a $2 billion investment on the Gulf Coast is [equal to] about 2 million tons, which is about one-tenth the size of Alaska LNG; by no means would that satisfy the market in Asia. Alaska LNG is not the largest facility in the U.S., in fact, facilities on the Gulf Coast are larger and smaller. A $2 billion facility is the size of the existing [ConocoPhillips Alaska, Inc., Kenai LNG plant in Nikiski, Alaska] built in 1969. He said the demand in Asia is far greater than this project and will easily need over five plants equal to the size of Alaska LNG; perhaps ten new facilities will be needed between now and 2030, depending upon the impact of fuel-switching [from coal to LNG].

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CO-CHAIR JOSEPHSON affirmed Mr. Meyer's testimony is that the demand curve [for natural gas in China] is valid.

MR. MEYER said yes, the demand is there. China currently consumes one-half of the world's coal; shifting a small fraction of its demand from coal to natural gas is a significant number. China is number three in the world in terms of LNG consumption, behind Japan and Korea, and is the fastest-growing market; the Asian region market is also growing. He advised the Asian market could easily absorb production from Alaska LNG; however, Alaska LNG must compete with other U.S. states, as well as Australia and Papua New Guinea. He was unsure whether the market could absorb all of the proposed projects; in the U.S., all of the proposed projects would produce nearly 40 billion cubic feet per day, all competing for the same market.

CO-CHAIR JOSEPHSON returned to an earlier comment that natural gas is so plentiful and available, it is fungible. He recalled when Senate Bill 138 [passed in the 28th Alaska State

Legislature] in 2014, there was also a lot of gas in the world market. Although there is now concern about the project price of $43 billion, when the project was transferred from the original Alaska LNG team led by [former Senior Project Manager Steve Butt], the cost was $43 billion, and in that respect, "there is no real surprise that's here ...."

MR. MEYER said correct. He continued, noting natural gas has become the hydrocarbon molecule of choice.

[Due to technical difficulties, the remainder of Mr. Meyer's response is indecipherable.]

REPRESENTATIVE GUTTENBERG urged for the presenter to return to a description of the project.

REPRESENTATIVE JOHNSON expressed her hope to hear during the presentation that the aforementioned agreement in no way intentionally, or by commitment, obligates the Alaska Permanent Fund as collateral or security against the proposed investment in the project.

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MR. MEYER stressed [use of the Alaska Permanent Fund as security] is not part of the plan and has not been discussed in any way. He returned attention to a map on slide 3 and provided the following description of the project: The GTP is located at the north end of the pipeline and is designed for three production trains. From there an 800-mile-long, 42-inch gas pipeline with 8 compressor stations runs to a 20-million-ton per year LNG facility, also designed with three trains. It is still an option to design the plants using one train, and then adding additional trains in phases; however, at this time the system is designed for a GTP in the north and a pipeline to an LNG plant in the south. The pipeline is bigger than the LNG plant in order to transport about 500 million cubic feet per day [MMCF/D] for instate markets, which is over twice the existing instate consumption. Mr. Meyer then presented slide 5, which illustrated three drivers: customers, financing, and resource owner. On the customer side, AGDC can't set the price in a competitive market; similarly, the project must be financed in debt and equity markets, and be able to cover the cost of system operations. In addition to these costs, there must be an acceptable netback to the state.

REPRESENTATIVE PRUITT asked who is referred to as the resource owner for the project.

MR. MEYER responded that technically the state is the resource owner. Once the pipeline is in place, the producers have the ability to pull the reserves out of the ground to monetize them, so AGDC will have a gas supply contract with the producers; he opined the first entity to satisfy is the State of Alaska. Slide 6 focused on LNG market price. Mr. Meyer said Alaska LNG is competing in the Asia Pacific LNG market only, the project is not competitive in Europe due to the shipping distance, nor in the American market, or in Africa. The Asian market is the focus for Alaska LNG, and competition for the Asian market is from the Lower 48 and international gas suppliers. Lower 48 suppliers trade gas on the Henry Hub index, based on a pipeline hub point in Louisiana where the New York Mercantile Exchange sells futures contracts, thus many Gulf Coast contracts are based on a Henry Hub plus price for natural gas. Recently, the price has been around $3-$3.25. In order to compete in Asia [Gulf Coast suppliers add] the costs of shipping through the Panama Canal, liquefaction, fuel, and gas supply, which totals around the Henry Hub price plus $5. On the international side, most LNG is linked to an oil price index, which is currently around 12-14 percent of the price of oil. For example, at 12 percent, LNG is $12 at an oil price of $120 per barrel, and currently at an oil price of $63, the price of LNG is $7.56. Using about $8 as the market price in Asia, he said, "and so we've got to get to the beach in Asia, at 8 bucks a million [British thermal units] BTU[s]." In response to Co-Chair Tarr, he clarified Alaska LNG must show it can compete with the U.S. Gulf Coast and Australia at an $8 landed [in] Asia price.

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REPRESENTATIVE BIRCH noted the real competition is from natural gas shipping out of the Alberta Canada, hub, which is typically priced about $1 less than Henry Hub. He said $2 Canadian is about $1.60 U.S. and that is a more realistic and certainly a lower number than Henry Hub.

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MR. MEYER said no, adding that Canadian projects have fallen away because they have a virgin [pipeline] corridor over the mountains and do not have an existing corridor as does Alaska. Further, Canadian projects have significant First Nations issues unsettled by an agreement similar to the Alaska Native Claims

Settlement Act (ANCSA). He said he has no fear about competing with Canadian projects.

MR. MEYER continued to further pricing information shown on slide 7. The project needs about $0.80 shipping cost from Alaska to Asia, and he restated Alaska is about one-third the shipping distance to China from the Gulf Coast: at $8, minus $.80, the LNG must reach Nikiski at a cost of $7.20 [MMBtu]. Mr. Meyer said slide 8 turns attention to financing. Because the project plans for $32 billion in debt and $11 billion in equity, financing is big piece of the project. Further, about $1.4 billion is estimated for system operations including operations and maintenance (O&M), and payments in lieu of taxes (PILT) to communities. After dividing the costs by throughput, "which is just shy of one trillion cubic feet [TCF] per year," the project needs O&M costs of no more than $1.45 per MMBtu. Further, financing the $3.5 billion debt service payment for 20 years, at 5 percent, including 5 years of capitalized interest during construction, [cost $3.60]. The equity return to investors is about $1.1 billion per year, thus with O&M, debt cost, and the equity cost of about $1.15, the total cost of the Alaska LNG system is about $6.20.

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CO-CHAIR TARR observed PILT paid to communities along the corridor would help defray the cost of infrastructure to accommodate the construction of the pipeline, and O&M money would also stay in the state to pay workers.

MR. MEYER agreed that no matter who owns the project, $1.45 billion [MMBtu] stays in the state for the life of the project, estimated to be from 50 to 100 years. Payments for Alaska labor, contractors, and to local communities would come from overseas. In response to Representative Guttenberg, he said the payments for debt and equity begin after construction and [the project is] in service. Typically, LNG facilities are given about one year of operating "cushion" before debt service payments have to be made, although interest will accrue.

REPRESENTATIVE SADDLER asked whether the interests in China would demand participation - in proportion to their equity share - in terms of contracting, jobs, and procurement.

MR. MEYER said, "No, it does not come with that requirement."

REPRESENTATIVE BIRCH asked if there is an expectation that there would not be a change in oil and gas tax policy over the life of the project. He recalled over the last few years [Alaska has had] a changing tax structure and questioned whether there is an expectation by the Chinese government of a "fixed" [tax structure].

MR. MEYER responded that the issue of taxes and related topics has not been finalized with the Chinese and will be addressed in 2018.

REPRESENTATIVE BIRCH questioned whether PILT would be the total of the taxes paid by the project. He opined the Chinese style of government dictates taxing structure and policy, however, in the U.S., and especially in Alaska, these issues are more fluid.

MR. MEYER said AGDC has maintained that PILT would be $450 million for the life of the project and would be paid to communities as part of doing business.

CO-CHAIR TARR pointed out PILT was incorporated into Senate Bill 138 to resolve some of the issues related to the Trans-Alaska Pipeline System (TAPS).

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REPRESENTATIVE PRUITT, returning attention to the discussion of tax structure, suggested that a producer with expectations of a stable tax structure would include in gas supply contracts a provision to pass on any [increased costs] due to changes by an unstable state government, thereby affecting the proposed gas price expected by [China]. He asked whether AGDC has discussed what can be delivered in terms of tax stability, and the tax structure in Alaska.

MR. MEYER said AGDC has not had specific discussions on the future tax structure in Alaska; AGDC has characterized Alaska as a stable regime. Prior to funding and the finalization of the commercial contract, the issue will be addressed on "the gas supply side and the buy side." To date, AGDC has not had to "paper this solution;" he pointed out every regime must address the issue as to who takes the burden of shifting taxes. Although Gulf Coast projects typically pass tax changes through to the customer, this project in Alaska is unique because the state is developing the project.

REPRESENTATIVE PRUITT asked for clarification on whether the [$11 billion] equity is resource or non-resource equity.

MR. MEYER explained equity in the project is a dollar commitment from investors such as third-parties, the state, bonds issued by AGDC, investment by Alaska regional corporations, investment by municipalities, or a combination of sources.

REPRESENTATIVE SADDLER restated his question related to whether there is a current agreement that would require the project to give Chinese interests 75 percent of the contract work in proportion to their equity. As an agreement has not been finalized, he asked for a commitment from AGDC to legislators that a future final agreement would not allow China to get a significant percentage of the contracting and labor work in Alaska.

MR. MEYER restated AGDC has not finalized discussions on this topic, and he pointed out it would be impracticable for China to have a majority involvement in construction. The labor requirement for construction will severely stress Alaska, so outside labor will be needed. He said he expected Alaskan contractors will have a degree of priority, and he does not expect Chinese companies would provide labor under any circumstances. The project will be built by Alaska contractors, and Alaska labor, as was TAPS, although many workers came from out of state. Mr. Meyer stressed there is not an entity in Alaska that has the systems and competency to manage a megaproject, thus some expertise will have to come from elsewhere and AGDC is in contact with large entities - domestic and foreign. He remarked:

> To be clear there is not an Alaskan contractor that can handle a $43 billion construction project, and so, so, we look for those large companies. ... I just don't want to, to be disrespectable to our, to Chinese companies that also have a very high degree of competency, that also build pipelines. ... Sinopec has built a pipeline longer than ours with an altitude peak higher than ours and a gas treatment plant larger than ours.

MR. MEYER, in further response to Representative Saddler, said he expects the project will be subject to a project labor agreement. He returned to the presentation, restating the cost to the Asia market is $8, less $0.80 shipping, and so is $7.20 delivered to Nikiski; less the costs of O&M, debt service, and

equity return, leaves $1 per MMBtu - about $1 billion per year - to the gas suppliers, of which the state garners 25 percent [slide 9]. Slide 10 illustrated the balance of the three drivers: the market gets a cost of $8 for delivered natural gas; financiers receive a modest equity return; operations are paid; PILT is paid; and the netback is $1 at the gas treatment plant.

REPRESENTATIVE JOHNSON asked whether $1 for gas is acceptable to the gas suppliers.

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MR. MEYER further explained the [netback of $1] "comes from sort of what's leftover." [AGDC] cannot change the market price of LNG, and the costs to operate the system and PILT must be paid. He characterized the financing and cost of equity is "reasonable debt financing," and $1 [netback] is what is leftover. About 8 BCF of gas is produced in Prudhoe Bay. The project needs about 3 BCF, and about 400-600 MCF/D is burned by pushing the gas back in the ground, so the cost of not pushing gas back in the ground is negative. He advised getting $1 billion per year - for a resource that today is lost - is reasonable; although the netback is not as high as Henry Hub, [the gas priced by] the Henry Hub index is not on the North Slope. Mr. Meyer said AGDC feels this is a reasonable return for a resource that is otherwise stranded and would be burned up by pushing it in the ground.

REPRESENTATIVE JOHNSON expressed her desire to hear from the producers regarding the netback, and whether the netback could be higher for gas delivered to other parts of the world. She requested further information from the producers in this regard. Returning attention to PILT, she asked if the state is the owner of the pipeline, is it accurate to call the tax PILT.

MR. MEYER advised PILT was part of the arrangement in place and therefore is unquestioned; a provision to pay some compensation to all of the affected Alaska communities has always been part of the project.

REPRESENTATIVE JOHNSON inquired as to the possibility that AGDC - or a portion thereof - could be purchased by Chinese investors.

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MR. MEYER said the reason for PILT is not in anticipation of a change in the ownership of the pipeline. He was not 100 percent sure whether PILT has to be paid, but the economics of the project have always included [the cost of] PILT paid either in cash, gas, or another form. In further response to Representative Johnson, he said he does anticipate third-party investors in the project, not at "the AGDC level," but the project will be held in a project-company structure, and investors would invest in the project as opposed to having an investor in the role of AGDC. He said he envisions AGDC would remain 100 percent state-owned. Mr. Meyer further explained an owner in the project-company would own an asset. For example, there would be one project-company for each of the main assets: an LNG project-company; a pipeline project-company; and a gas treating plant project-company; each conceivably with different owners.

REPRESENTATIVE PRUITT expressed concern that the $1 netback seems uncertain. He asked for the cost of producing natural gas from Point Thomson; in fact, if the netback is the catalyst for the project, the model should be built around the cost of supplying the gas.

MR. MEYER advised at Prudhoe Bay, it is arguably a negative cost because [producing] the oil keeps the cost of producing the gas significantly less than one dollar. He cautioned that "everybody wants more ... the equity guy, the PILT guy, the operations guy, everybody." He opined the $1 netback is easily justified at Prudhoe Bay but acknowledged Point Thomson maybe needs a higher price. However, the netback formula is common worldwide and is "what all the producers deal with," with the exception of the Lower 48, because of its mature market and the accepted index of Henry Hub, and a similar exception in Canada. He restated that all producers deal with netback throughout the world, as this is the standard process, particularly for stranded gas. Mr. Meyer posited stranded gas in Australia would garner higher prices because it has a domestic market that would provide competition for LNG; however, in Alaska, for a stranded gas resource, the netback has to reasonably cover the cost of the gas. Internationally, because the price of gas is linked to an unknown price for oil, the sellers "live with this, this fluctuating price." He opined netback is a sound way to determine a market price, and removes the volatility associated with netback by fixing the price, and by inflation-proofing. Although some producers prefer the volatility associated with oil markets, the netback could be indexed, and as the $8 market

price increased, the $1 netback would increase. These terms are part of the producer discussion.

REPRESENTATIVE PRUITT noted the state must get the highest benefit from its resources, but Mr. Meyer earlier stated putting gas back in the ground is essentially burning gas. If a producer is going to make $0.75 for gas, the producer's concern is whether to get the higher benefit from the production of oil in Prudhoe Bay - and the state is getting revenue from tax and royalty in taxes on the production of oil - whether the better value is $1 netback from gas or reinjecting the gas and producing higher-value oil.

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MR. MEYER said the answer can be demonstrated by the Alaska Oil and Gas Conservation Commission's (AOGCC's) decision to allow gas to be taken off, because in order to maximize recoverable hydrocarbons, it is necessary to pull the gas off by 2023 or 2024. Eventually, it doesn't pay to continue to pressure the field. [AOGCC] said removing 3.6 BCF/D of gas from the Prudhoe Bay reservoir will have no detrimental impact, and that is the reason the Alaska LNG facility is sized at about 3.3 BCF/D. He said there has been sufficient analysis on the reservoir, which is now a large gas reservoir with oil, instead of the other way around. When the oil is gone, and the gas is all that is left, the gas must pay for all the associated facilities for gas, but not the entire Prudhoe Bay complex, so he acknowledged that the price of gas cannot go below the cost to operate the system when the oil is gone.

REPRESENTATIVE PRUITT asked whether AGDC has presented [the economics of the project] to producers.

MR. MEYER remarked:

> We have had conversations, they have seen this presentation. Everybody wants more, no one said it's not accepted. I think it's very acceptable, but at the same time, I know everybody wants more. ... But none of the producers have said 'This doesn't work, that this is higher than our, or lower than our cost.' It's not."

MR. MEYER opined $1 billion per year upstream, when compared to nothing, looks good. On slide 11, he pointed out the project provides benefits to the state in the amount of $1.75 billion to

$2 billion, and $750 million to $1 billion to the producers, regardless if the state is an owner or not. He turned attention to slide 12, noting that there is at least 500 MCF/d in the gas pipeline reserved for instate use, which is more than twice the instate consumption of 60 trillion Btu [TBtu] in 2016, and restated the pipeline is sized larger than the LNG facility in order to transport additional gas for instate use.

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REPRESENTATIVE BIRCH inquired as to the price of gas for instate use.

MR. MEYER estimated between $5-$6 delivered to Alaska communities through at least five interconnects. This price is assuming all parties are reasonable, and the cost of the gas is about $1.

REPRESENTATIVE JOSEPHSON observed the economics proposed in the presentation reflect a low-price environment, and slides 9 and 11 illustrate the amount of the state's royalty interest; as interest debt is retired, the state's netback would grow, and the state would also profit from selling 500 MBtus of gas on the market. He pointed out although slide 11 indicates the state would reap $250 million per year from its investment, "the scenarios could prove much rosier than that, in total."

MR. MEYER agreed and clarified on the financial side the total [benefit] is about $5 billion, but about $3.5 billion of that is debt service. Once the state is 100 percent owner, it would earn $1.1 billion for about 20 years, increasing to about $5 billion for the remainder of the life of the pipeline, if the tariffs remain unchanged. An asset returning about $5 billion per year could be sold or monetized, if desired. The project is the gas equivalent of TAPS, however, unlike crude oil, natural gas can be used right out of the pipeline and thus Alaska LNG will grow lateral branches to Fairbanks, to mines, and to other communities.

MR. MEYER continued to slide 14 and said AGDC created a megadeal to build a megaproject by taking advantage of Alaska's status as a sovereign government, and utilizing a government to government approach in Asia, where there are large state-owned utilities, with the exception of Japan. [AGDC] approached Japan, Korea, and China with the structure illustrated on slide 15. He explained this approach:

> ... in the form of a loan we will give you back in repayment - to one of your buying companies - capacity in our system. That entity can actually make the debt service payments to you directly, which mitigates credit risk, and also, we don't care what currency they pay you with, [and that] can minimize exchange rate risks. So, we become somewhat insulated for the debt - you give us a bunch of dollars, we'll give you a bunch of capacity. That works for large, credit-worthy entities that are holding big dollars, so it only really works in three countries: Japan, Korea, China.

MR. MEYER further explained Alaska LNG will have to raise and provide the equity funds of $11 billion. He recalled the structure on slide 15 resembles the original structure, however, the original producer-partners took 75 percent ownership of the project and with structure now proposed the state retains 100 percent of ownership and will find a customer for 75 percent of the capacity.

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REPRESENTATIVE SADDLER posited whether the state, as 100 percent owner, will have to make up any deficit in the value of gas - and guarantee China financiers their expected rate of return - if the price of gas drops after the pipeline is built and commitments are made.

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MR. MEYER said no. He returned to slide 15 and pointed out in addition to capacity in the system, the buyers pay for a proportional share of O&M and the gas supply, whether a fixed or indexed price. Although buyers have an interest in an oil-linked gas price, from AGDC's point of view, the price is a flow through, giving [the buyer] system capacity in exchange for the debt. He restated no, the state would not have to make up anything in a changing price environment.

REPRESENTATIVE JOHNSON returned to slide 14 and asked whether "Chinese" could be substituted for "in-country," and if so, whether Chinese companies are nationalized companies.

MR. MEYER responded yes. In further response to Representative Johnson, he clarified the project company referred to on slide 14 is a marketing entity of the project company, which would be

a marketing entity that currently would be 100 percent owned by AGDC, although there may be third-party investors in that company. The owner of the 25 percent - that could sell into potentially higher-valued, shorter-term regional markets - might not underpin long-term debt. What it's really for is to do other, more traditional deals with countries such as Japan and Vietnam.

7:36:36 PM

REPRESENTATIVE JOHNSON concluded that would be the partial ownership investment, not AGDC, and expressed her hope the presentation would at some point ensure that another large-scale company would not be in competition for the gas, and the focus would be on maximizing the resource for Alaskans.

MR. MEYER stated a good a part of AGDC's mission is that the whole system is being built largely to provide gas for Alaskans; however, Alaska does not have sufficient demand to anchor an 800-mile pipeline from the North Slope. He stressed the difference between Alaska LNG and Canadian projects is that Canadian LNG projects need a pipeline, but Canada doesn't want to build a pipeline. Alaska LNG is a gas pipeline that needs an LNG project - and everybody wants the gas pipeline. Mr. Meyer assured the committee Alaskans will have gas from the Alaska LNG project; he added that pipelines can be expanded through compression and through looping, as has happened to every major pipeline in the Lower 48 as the market grew.

REPRESENTATIVE JOHNSON restated her desire for a clear sense of the financing structure that is integral to the project and stressed the importance of the project's value to the state in jobs, management, and gas supply; although Sinopec has the capability to build the pipeline "we might not necessarily want them to."

MR. MEYER pointed out the benefit to Alaska's economy would be not just during construction, but may last 50-100 years, and that the use of natural gas would improve the environment in Alaska and in China.

REPRESENTATIVE PRUITT asked how [AGDC] will hold 100 percent ownership, yet still have third-party investors [in the project].

MR. MEYER explained AGDC now has 100 percent ownership, but at the point it accepts third-party investors, their investment

will be in exchange for ownership. Further, he restated Senate Bill 138 requires Alaska LNG to have a structure that allows Alaskans, regional corporations, and municipalities to invest.

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REPRESENTATIVE PRUITT questioned how AGDC will maintain its tax-exempt status. He added that his earlier question was not about Alaskans acquiring ownership but, as shown on slide 14, "partial ownership investment by foreign entity ...." If China is investing in the project, the U.S. government would not consider maintaining the project's tax-exempt status.

MR. MEYER clarified AGDC has tax-exempt status that could be extended to a wholly-owned subsidiary; however, tax-exempt status cannot be extended to a third party that is not a U.S. tax-exempt entity, thus the ownership held by AGCD will be tax-exempt, and AGDC can issue tax-exempt bonds, however, other parties on the distribution side of the project company will be taxable. He acknowledged this is a more challenging "economic" for tax-paying investors, such as hedge funds.

MR. MEYER continued to the following slides:

- slide 16 illustrated China represents the primary demand for energy
- slide 17 illustrated the Asian LNG demand and its contracted supply of LNG, and that Alaska LNG is not a big project in the worldwide view
- slide 18 illustrated: China is moving to cleaner fuels including [gas], renewables, and clean coal; China's historical demand for natural gas; in China the number of LNG import-receiving terminals grew from 1 to 19 in 10 years

MR. MEYER described China's interest in the joint development agreement and said China wants 15 million tons of capacity - which is three-quarters of the total capacity of 20 million tons - in exchange for debt. By the terms of the joint development agreement, China would pay for O&M and gas separately. The agreement involves three parties: Sinopec, the third largest company in the world by revenue; Bank of China, the fourth-largest bank in the world; China Investment Corporation, China's sovereign fund worth $813 billion, the third-largest in the world; all of which are owned by the Chinese government. Thus, the agreement has a buyer, a lender, and a potential investor all in one. By the target date of May [2018], AGDC seeks to

further define the roles, the distribution of the gas, whether the banks will issue a nonrecourse debt instrument, and other terms. By the end of 2018, executing definitive agreements would allow for a final investment decision (FID) in 2019, and to start construction and be in service by 2024 or 2025 [slide 19].

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MR. MEYER said slides 20-22 provide more information on Sinopec, Bank of China, and China Investment Corporation. Slide 23 was a diagram that showed how AGDC benefits from a single in-country buyer that distributes the product within China. In terms of price, he explained the Chinese consumers will pay for the cost of debt and for the capacity, and this provides "tension, and you know, some balance there as well, but from our point of view we get one buyer for the 75, who takes care of the debt portion ... the 25 percent we want to sell to regional markets, so you'll notice we followed up ... and we signed with PetroVietnam Gas, which is Vietnam's state-owned company." He noted PetroVietnam Gas is state-owned but does not have the credit capacity of China, and this is a "completely different transaction." Also soon to be announced, is a transaction with Tokyo Gas Co.; he added Japan can provide funding through the Bank of International Cooperation (JBIC), which has a mission to lend money into resource projects if the resource products are distributed to Japan.

REPRESENTATIVE JOHNSON, speaking on behalf of her constituents, expressed their concerns about China as a trading partner, adding that Sinopec was previously disqualified from participation in the TransCanada [gas pipeline] project, [due to] "human rights violations, and so on." She inquired as to what has changed, so that China can now be a trading partner, from the views of the Trump Administration and Mr. Meyer.

MR. MEYER said he has been impressed with the progress China has made. He recalled Sinopec has long been interested in [doing business in] Alaska; however, his understanding is that Sinopec pulled out of Alaska because its bid was never considered. Sinopec is China's number-one rated credit entity and has about 700,000 employees. [AGDC] has been impressed with Sinopec as a company, and Mr. Meyer said China has made reforms and progress in factors such as air quality. Mr. Meyer pointed out China is Alaska's number-one trading partner in seafood. For the U.S., China is a trading problem, and currently holds $1.24 trillion in U.S. Treasury bills and is a big trade partner. He

acknowledged China did have human rights abuses, but is "Alaska's number-one trade future, and [will be] the largest resource-buyer on the planet ... for the rest of our lives." He returned attention to slide 18 and noted China's demand for resources that Alaska could provide. He opined China is a valuable, viable, credible, and quality partner, and cautioned against prejudice, urging the committee to look to the future, encouraged by the Trump Administration's interest in China.

7:57:09 PM

REPRESENTATIVE PRUITT stated his concern is that China would have such a large stake in the project that Alaska would no longer be its partner, but would be a vassal, and thereby treated as a colony. He asked how Alaska could partner with the Chinese and avoid a role where Alaska is subservient; further, he noted it is indicated that through the joint development agreement [there is 75 percent debt] and asked whether that percentage is scalable. For example, can others who may be interested, such as PetroVietnam Gas and Japan, play a role and diversify [investment] beyond the major stake held by the Chinese. He questioned whether the proposed Chinese partners are amenable to diversification.

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MR. MEYER said there is no scenario envisioned in which the Chinese would own a majority interest in the project. In terms of whether the project is scalable, he said yes, in two ways: other entities - such as Japan or Korea - could participate, and the facility is also scalable, and could be limited to two trains with the third train added in the future. In fact, Alaska LNG with two trains and an 800-mile, 42-inch pipeline would only require 3 compression stations instead of 8; he said the unit economics are "a little bit worse ... but they're not so bad that it breaks the balance." He advised Gulf brownfield projects are those that have been built in phases, and said, "It's the pipeline that's tough, once you get that pipeline in, the rest of this is easy."

REPRESENTATIVE PRUITT surmised the remaining 25 percent represents the Alaska share that would be sold on the market by Alaska.

MR. MEYER answered yes, AGDC would sell that capacity to regional and private entities - that could also be Chinese private entities - and other parties; however, it is more work

to sell to buyers without credit depth. He stressed AGDC does not have a "balance sheet" and so must look for nonrecourse debt, which leads AGDC to focus on selling to large, credit-worthy entities.

REPRESENTATIVE SADDLER related the U.S. government has described China as an authoritarian regime, China has denied Western forces access to Southeast Asia oceans in restraint of international free trade, is the patron state of North Korea, executes prisoners, has a policy of forced abortion, and other practices. He quoted [Nikita Khrushchev, First Secretary of the Communist Party of the Soviet Union 1953-1964], "The West would sell communist Russia the rope to hang us with." Further, the U.S. sold raw materials to business partners in Japan until Japan attacked Pearl Harbor [Hawai'i, on 12/7/41]. He opined China has a long-term goal of political gain and seeks to control the supply of minerals, coal, gas, and oil, and has control of access to the Panama Canal. Representative Saddler cautioned the State of Alaska and its governor are playing an economic and political game to get a gas pipeline "at almost any cost." He said he wished Alaska would propose an agreement with South Korea, Japan, India, or Vietnam as opposed to doing business with China. He questioned whether there are moral considerations, or considerations related to Alaska's contribution to global stability, for those who deal with China.

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MR. MEYER said no to both questions. China is Alaska's largest customer today and Alaska's largest trade partner. In fact, Alaska has welcomed China's business in seafood and minerals, and [Alaska LNG] is an extension of an existing trade relationship. He said trade with China did not bother him and pointed out the trade mission had the full support of Washington, D.C. Mr. Meyer advised the Chinese contacted U.S. Senator Lisa Murkowski for assurance in this regard. Turning to Alaska's participation in the global economy, he opined stable energy prices lead to regional stability, and providing stable energy prices to countries brings stability to regions; the U.S. recognizes using energy trade as a geopolitical tool to establish a relationship with a country and thereby create a dependency. Furthermore, the Trump Administration seeks global energy dominance. He said trade would bolster the U.S. geopolitical position through the use of energy as a trade tool.

MR. MEYER continued to slide 24 and said the Alaska LNG Project Structure is an entity that would hold assets through separate

entities, including, but not shown on the slide, separate entities for LNG, gas represented by commercial contracts for repayment through commercial banks, export credit agencies, project bonds, and other debt lenders. Turning to the source of the $11 billion equity, he said the desired structure gives the state the option to invest, but it is not required to do so, meaning there would be funding from outside from third parties such as financial investors, trading houses, or sovereign wealth funds. He said if funding does not come from third parties, it must come from the state or other Alaska entities. Also shown on slide 24 was the requirement in Senate Bill 138 that Alaskans can invest in the project. Further, AGDC could issue bonds or get funding from the state, as determined in the future.

8:10:14 PM

REPRESENTATIVE SADDLER asked whether phase construction would affect the financing structure or the agreement with China.

MR. MEYER said no. The structure would be the same with 25 percent equity and 75 percent debt; dropping one train for a later phase lowers the cost to about $33 billion. Regarding phase construction's effect on the China agreement, he stated, "we could talk them into less [gas]."

REPRESENTATIVE BIRCH expressed his deep concern that possible risks will mean "Alaskans are going to end up holding the bag on this." He assumed China has a clear understanding of the project and cautioned that Alaska's gas on the North Slope is not competitive. He observed the Chinese government has access to gas from Russia, where a major new pipeline will begin shipping in 2019, and another is being negotiated. During the discussion of equity financing options, there has been no mention of Sinopec executing an earnest money agreement or sharing in the cost of ongoing operations. With Alaska's current budget, further investment in the project requires comforting words about shared costs and risks of exposure on the part of Alaska's perceived partners in the project.

MR. MEYER advised cost-sharing is typical with a potential partner, but not with a customer. In terms of the risk of overrun, he said getting the risk out of the project will be a focus in 2018, and who bears the risk, "and it most likely will not be AGDC in a big way."

REPRESENTATIVE BIRCH further observed AGDC is dealing with astute, major multi-national government-owned concerns with

tremendous resources, "... and I'm worried about us getting out-gunned." For the first time, Alaska does not have a major oil company and producers participating; for four decades the oil industry, as lease owners, has borne all the costs of gas projects, pipeline investigations, and other costs, and he recalled oil [development] costs were borne by the producers who held the obligation and challenge to develop a viable project. Because shale gas entered the energy market 10 years ago, Alaska has a stranded asset, and he questioned whether Alaska LNG is a viable project; in fact, the $1 netback could be "squeezed down to zero or negative." Representative Birch said he did not see substance in the joint development agreement and restated his concern about the project moving forward.

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MR. MEYER agreed there are big entities involved, but Alaska is also bringing big legal and financial firms, and expertise in the industry, to the negotiations. The Chinese entities are very capable and relatively new to LNG. He pointed out the producers are major successful companies that have higher priorities and said, "I don't think we can, we can have the producers in there and have a project, we've done rather well, you know, since stepping into this in 2017." He opined AGDC is not out-gunned and restated AGDC will have law firms and investment bankers involved in the project to "paper this deal." In addition, lenders have to be satisfied, and the state will have to be satisfied. The challenge for AGDC is to put together contracts, an investment perspective, and a portfolio of the project that is acceptable to the state and to customers, lenders, equity investors, and gas suppliers. Mr. Meyer described some of work that must be completed in 2018, and challenges for AGDC to address. He advised making more progress will assuage doubt.

CO-CHAIR TARR directed attention to regulatory issues beginning on slide 31.

8:20:15 PM

MR. RICHARDS informed the committee to reduce regulatory risk, AGDC entered into an application with the Federal Energy Regulatory Commission (FERC) on 4/17/17; the application is required by FERC to license an LNG terminal. The project is deemed an integrated project - from FERC's perspective - because it incorporates an LNG plant and a pipeline, so the entire project is included in one application. The application

represented 60,000 pages of environmental and engineering work submitted to meet FERC's minimum requirements for the Natural Gas Act Section 3 application. The application is currently under review by FERC and AGDC's third party contractor, and AGDC is responding to about 200 questions that remain from FERC's original 801 environmental data requests. [AGDC's] goal is for FERC to be in a position to publish the schedule of the environmental impact statements (EISs), issue a final EIS at the end of the year, and issue a record of decision the first quarter of 2019 [slide 31]. Mr. Richards said the Trump Administration, in advance of the aforementioned trade mission, recommended AGDC apply for Fixing America's Surface Transportation Act (FAST-41) authorization in which the federal government puts major infrastructure projects on a "dashboard" and requires that federal agencies respond and provide timelines for federal permits, and to report to Congress if there is a change or delay. The project was accepted, and FERC is responsible for obtaining timelines from federal agencies; however, state permitting agencies are not included on the dashboard at this time [slide 32].

MR. RICHARDS advised the project has support from Alaska's congressional delegation in the form of provisions in the National Park Service Organic Act to allow a high-pressure gas pipeline to enter a national park, revisions to the Alaska Natural Gas Pipeline Act (2004), and briefings to ensure those who have been nominated to serve on related agencies are aware of the Alaska LNG project and its challenges. The White House has provided an executive order defining the response from federal agencies for permitting authorizations and to reduce the duplication of work [slide 33]. Finally, slide 34 illustrated the regulatory timeline envisioned for the next year: April 2017, initial FERC filing; August 2017, FAST approval; August 2017, executive order; November 2017, joint development agreement; December 2017, EIS schedule (requested); December 2018, final EIS (requested); February 2019, record of decision (requested) [slide 34].

CO-CHAIR TARR said slide 35 reflects AGDC's budget and forecast budget projections that will be discussed in a future meeting.

8:26:57 PM

CO-CHAIR JOSEPHSON related [U.S.] two-way trade with China totals $576 billion, and said he assumed the project would increase the trade number but decrease the trade deficit. He opined the U.S. has an enduring trade relationship with China in

place and commended the presenters for their work. He said he feels the efforts for the project have had some real success, and [the Walker Administration] cares about the project and has worked very hard on the project.

REPRESENTATIVE PRUITT recalled several previous presentations on the project and its schedule and asked what happened to front-end engineering and design (FEED).

MR. RICHARDS explained the money identified on slide 35 is the money spent last year [on major activities] since the initiation of the project by AGDC, and totals about $28 million. The amount identified as Class 3 Work (Prepare for FID) is what has been previously referred to as the work efforts that AGDC would undertake to take the project through FEED, and to progress to a lump sum turnkey (LSTK) cost estimate that would guarantee the price on a project component that would be used in the final investment decision (FID). He said AGDC is not discounting FEED but is going to define the steps to progress to that stage.

REPRESENTATIVE PRUITT pointed out [slide 34] indicated a decision in February 2019, but some of the engineering may be done by AGDC or by the Chinese, and suggested the project is skipping a step that the legislature has been told is critical prior to FID. If the Chinese design some features of the project, he questioned how AGDC will have sufficient engineering and time to reach a final decision between December [2018] and February [2019].

MR. MEYER acknowledged previous presentations included a stage-gate process that had a pre-FEED bid, FEED, and a construction bid, which is how major oil companies proceed. However, many pipelines and Lower 48 projects are different, instead approaching a contractor with the expertise for construction, and paying the contractor to complete an LSTK bid which includes FEED. For example, for the LNG plant, Chiyoda Corporation - a very large and experienced Japanese company - has done most of the work, and AGDC asked Chiyoda for an LSTK [bid]. Chiyoda doesn't have to complete FEED to offer a bid. He acknowledged major oil companies maintain that FEED will result in a cheaper construction bid; however, if a project skips the construction bid and seeks an LSTK quote from a contractor, then the project has a contractor with the competency to build, and FEED is part of the construction bid. Although the cost may be higher, this process saves years, and several Gulf Coast projects have gotten into service using "more of a pipeline approach" to a company that knows how to build an LNG plant.

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REPRESENTATIVE PRUITT restated every presentation has included the stage-gate approach. He stressed this is huge change; LSTK may work for an LNG plant, but not for an 800-mile pipeline.

MR. MEYER agreed and said, "the pipeline is the place where we've got some risk and we may have to do some FEED ...." However, the GTP on the North Slope and the LNG plant are no problem. He remarked:

> In terms of not hearing about the FEED step, that was, you know, in the last, last year and a half - two years ... since we got here, that, that is a traditional process for a pipeline - in the Lower 48 - project. FEED gets done, no question about it, but it doesn't have to be a whole separate step. We've got to go to a contractor that can do FEED as part, as well, as the construction of the facility. But you are absolutely right, the pipeline is the piece where I think we're going to have to spend our, our focus on engineering work. You've got the [Alaska Stand Alone Pipeline (ASAP)] project ... AGDC did the ASAP project and it had FEED ... we've done FEED for an uncompressed, 36-inch pipeline ... [with the] same exact centerline, right, there's no, no difference. The only difference is ... 6 inches of diameter which is really not a different trench size. ... They won't be identical necessarily, but they'll be very close, ... but we've already got quite a bit of work done on the pipeline that would qualify as FEED.

MR. MEYER said he recognizes the pipeline is where AGDC has construction risk.

REPRESENTATIVE TALERICO referred to the schedule and asked for the appropriate time to "bring the leaseholders in." He said that previous projects have failed because the state failed to recognize those who own the leases, and the leaseholders are needed to help the state negotiate, talk with buyers, and provide a level of expertise to facilitate a successful project.

8:37:23 PM

MR. MEYER said now is the time to more seriously engage the leaseholders. AGDC's initial focus was on the marketing and on

financing, but will now engage in discussions on the gas supply. However, the major oil companies will not be involved in project ownership because the project does not garner a rate of return that "clears their internal hurdle rate." Alaska LNG is a pipeline project and there are no major oil companies involved in gas pipeline projects in the U.S., because the returns are too low. He said oil companies will not be an ownership component; in terms of negotiations - as negotiations are sensitive - some of the oil companies are involved in negotiations with the same customers, but not on the Alaska LNG project. Mr. Meyer explained that oil companies focus on their shareholder return; he cautioned against inviting oil companies to take the negotiations because AGDC is the only one looking out for Alaska's best interest. The other entities are looking out for their interests, and AGDC is fighting for Alaska.

REPRESENTATIVE SADDLER, noting these discussions are serious business, pointed out that Alaska LNG has financiers, customers, and constructors, but not suppliers; those who own the leases to produce and sell the gas are not at the table. Although there was a reference in the structure of how the producers may affect the commitment of gas, he related there is an official who has held up the Prudhoe Bay plan of development progress on a pipeline. If the hurdle rate is not high enough for the construction of a pipeline, what happens if the $1 netback is insufficient for the suppliers' internal rate of return? Is the duty to produce - that is implicit in leases - the argument that will induce producers to supply gas to the pipeline?

MR. MEYER said [the question of the duty to produce] is not within the purview of AGDC but is a Department of Natural Resources issue. [AGDC's] focus is to keep the cost of the system as low as possible. He said AGDC will buy gas at a reasonable price that will bring a profit of $1 billion to the producers. However, if gas can be sold at a better price, the producers should take it - as long as it is "an Alaska deal .... [not] in a different country." Further, the gas could be purchased at Nikiski for $7.20 and resold. AGDC will engage gas suppliers, but first it had to finish its work on marketing issues. He opined producers acting in the best interest in Alaska will accept this price; the companies have to behave rationally and responsibly for their shareholders, and also must meet the obligations and expectations of the state as the resource owner. Mr. Meyer reminded the committee Alaska licenses the extraction rights to producers, so they can extract and commercialize, but not to hold it in the ground and commercialize another project because there is no penalty,

unlike in other parts of the world where if there is no production within 5 years, the right to produce is lost. He agreed that producers are a big part of the project, and the project will have a reasonable solution.

REPRESENTATIVE BIRCH recalled ASAP was a $10 billion pipeline and questioned the total project cost of Alaska LNG. In regard to nonrecourse debt, he asked if nonrecourse debt meant in the case of default to its creditors - for example, the Chinese - the creditors take over the assets of the pipeline and facilities, and the state would not owe a deficiency payment. He asked for clarification of nonrecourse debt and the state's liability.

8:45:18 PM

MR. MEYER answered nonrecourse debt means nonrecourse to the state, so the state is not providing a guarantee of the debt or of repayment. He said the proposed structure is that the payment is in the form of capacity to an affiliated buying entity. Thus, the only payment back to the state is O&M and the gas supply. He clarified nonrecourse project debt means the lenders have to look to the sanctity of the project entity, and not to a guarantee from a parent [company] or beyond.

REPRESENTATIVE BIRCH inquired as to whether the debtor ends up owning the pipeline.

MR. MEYER said no, the debt is secured by capacity that AGDC provides to the buyer, and the buyer pays the bank.

CO-CHAIR TARR announced at upcoming meetings the committee will discuss further netback price, ownership interest, PILT, impact aid, FEED, and the previous stage-gate timeline.

8:48:17 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 8:48 p.m.