

SENATE FINANCE COMMITTEE
February 14, 2017
9:06 a.m.

9:06:58 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:06 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Mike Dunleavy
Senator Peter Micciche
Senator Donny Olson
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Senator Cathy Giessel; Keith Meyer, President, Alaska Gasline Development Corporation; Frank Richards, Vice President, Program Management, Alaska Gasline Development Corporation.

PRESENT VIA TELECONFERENCE

SUMMARY

PRESENTATION: AGDC FINANCIALS

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9:07:31 AM

Co-Chair MacKinnon indicated that Senator Cathy Giessel was invited to join the committee at the table.

9:08:31 AM

KEITH MEYER, PRESIDENT, ALASKA GASLINE DEVELOPMENT CORPORATION, discussed the presentation "Alaska Moving Forward: AGDC Update" (copy on file). He felt that the dialogue between the legislature and AGDC had been fruitful. He spoke to the request from the legislature for greater transparency from the corporation, and relayed that a letter had been sent to the Senate President and to Senator Geissel pledging greater clarity and frequency of information. He related that his communications group would prepare a semi-monthly report detailing the corporation's activities and that corporate vice presidents had been informed that they would be interviewed by the communications department, which would result in the electronic report that would be distributed to the senators and representatives that signed a confidentiality agreement. He hoped that there could be a feedback loop between legislators and the corporation that would provide the opportunity for legislators to comment on the report and offer constructive criticism. He thought that in 2017 the corporation had more latitude to be more transparent and communicative, now that the state was the project lead. He spoke of the transition agreements signed in 2016 that allowed the state to take the lead on the project. He said that there would be three main areas of focus for 2017: regulatory, commercial, and financial structuring and the introduction and engagement of the global finance community.

[9:12:19 AM](#)

Mr. Meyer discussed Slide 27, "AGDC PROJECT FUND STATUTES":

AS 31.25.100. In-state natural gas pipeline fund was created in HB4 for the corporation's use in planning, financing, development, acquisition, maintenance, construction, and operation of the **in-state natural gas pipeline** described in AS 31.25.005(4) and for purposes in AS 31.25.005 (4), (6), and (7).

AS 31.25.110. Alaska liquefied natural gas project fund was created in SB 138 for the corporation's use in purposes related to an **Alaska liquefied natural gas project** and for the purpose of transferring net revenue received by the corporation related to equity interests, contracts, and other activities to the appropriate fund of the state as determined by the

commissioner of revenue in consultation with the commissioner of natural resources.

9:12:43 AM

Mr. Meyer looked at Slide 28, "AFE'S, OPERATING BUDGETS, & FUND BALANCES":

EXPENDITURE AUTHORIZATIONS

Composite AFE total (capital budget): \$ 86.4mm
Remaining FY2017 Operating Budget (Feb-Jun): \$ 5.2mm
FY2018 Operating Budget: \$ 10.4mm
Total: \$102.0mm

AGDC FUND BALANCES

In-State (incl Alaska USA account) Fund 1229: \$26.0mm
Alaska LNG Fund 1235: \$76.0mm
Total: \$102.0mm

Mr. Meyer emphasized that his goal was for AGDC to operate within the funds that had been allocated to it by the state. He felt that the corporation had done sufficient work on engineering and optimization of the project and had narrowed the capital cost from a range of \$45 to \$65 billion, down to a range of \$40 to \$45 billion. He stressed that AGDC would not be coming to the legislature for additional funding until a customer commitment or a strategic financing partner was secured. He spoke to the numbers for expenditure authorizations and AGDC fund balances illustrated on the slide.

9:15:54 AM

Senator Dunleavy asked about HB 4 [passed in 2013] and SB [passed in 2014] 138, and asked whether the funds under each piece of legislation were accounted for separately.

Mr. Meyer replied in the affirmative.

Senator Dunleavy queried the coding of the funds on the three documents entitled, "FY 16 Contractors," which listed expenditures.

FRANK RICHARDS, VICE PRESIDENT, PROGRAM MANAGEMENT, ALASKA GASLINE DEVELOPMENT CORPORATION (AGDC), elaborated that the documents pertained to contractor that AGDC had secured for FY 16, FY 17, and reimbursable service agreements for those

same years. He said that AGDC had identified the contractors and their scope of work, as well as the authorized contracted "not to exceed" amount. He stated that the figures had not be identified by specific fund source.

Co-Chair MacKinnon requested that the contracts be delineated by fund source, which had been the goal of reviewing the records.

[9:17:45 AM](#)

Co-Chair MacKinnon recalled that she had heard AGDC was requesting a reappropriation of over \$10 million.

Mr. Meyer replied that the request was for \$14 million. He relayed that most of the \$86.4 in composite AFE total, under expenditure authorizations on Slide 28, was devoted to the AKLNG project and not the ASAP project.

[9:18:46 AM](#)

Vice-Chair Bishop requested that the presenter explain any acronyms he used.

Senator Dunleavy asked whether there was a way to identify if the listed contractors were from in-state or out of state. He thought it would be helpful to know fund sources and where the contractors were located.

Mr. Richards explained that AFE was authorization for expenditure, which was a process mandated by the board in which authorizations for amounts greater than what was provided to the president be presented to the board. He stated that the authorization for expenditures currently under discussion had been presented to the board last week, and had received board approval to move forward.

[9:20:16 AM](#)

Mr. Meyer showed Slide 29, "AGDC EXPEDITURES AND FORECAST," which showed a table that separated the operating budget, AGDC capital (AKLNG/ASAP), the Huston office, and the Japan office, and presented the numbers for FY 16, 17, and 18. He noted that the expenditures were detailed in the previous slides.

Mr. Meyer discussed the fourth component on Slide 29, "Japan Office." He relayed that the space was small. He said that Japan was an epicenter for liquefied natural gas. He shared that Masatoshi "Nick" Shiratori was the new state representative focusing on marketing the AKLNG project and other trade issues. He stated that Mr. Shiratori was facilitating important meetings and was an asset to the state.

[9:25:20 AM](#)

Senator Micciche wondered whether further detail concerning the Huston contractors could be made available.

Mr. Meyer relayed that AGDC had five contractors in Houston, largely with commercial roles, and who had been involved in senior LNG activities. He described the employees as a "core team," most of whom worked on a part-time basis. He expected that once AGDC began commercial engagement those contractors would be tasked with executing a commercial agreement.

Senator Micciche asked whether the contract cost in the Tokyo office was solely for Mr. Shiratori.

Mr. Meyer replied in the affirmative.

[9:27:05 AM](#)

Co-Chair MacKinnon asked whether the contractors incurred Public Employees' Retirement System (PERS) liability.

Mr. Richards answered that there was no PERS liability associated with the contractors.

Co-Chair MacKinnon asked about the aforementioned reduced rate that was negotiated on the Huston office space.

Mr. Meyer replied that the lease had not gone into service until February 2017, and the cost reductions would be seen further into 2018.

Co-Chair MacKinnon understood that the reduced cost was reflected on the slide.

Mr. Meyer replied in the affirmative.

9:28:35 AM

Mr. Meyer turned to Slide 30, "AGDC EXPEDITURES and FORECAST," which showed two tables that detailed the Operating and Capital FY 17 and FY 18 budgets. He explained that the slide showed the consistency between the years for each budget.

9:29:23 AM

Mr. Meyer spoke to Slide 31, "SATELLITE OFFICE COSTS":

- Tokyo
 - 135 sq. ft. office (9'x15')
 - Shared conference rooms
 - Ability for Japan representative to have meetings and work space
 - Japan represents 32% of global LNG purchases
- Houston
 - Occupying a portion of existing AKLNG project space.
 - 6,500 sq. ft., \$2.43/sq ft until July 31 (existing lease), then reduced to \$1.94/sq. ft.
 - Fully furnished space with all desks, conference rooms, and video projection capability.
 - Important asset for the project to be connected to the US energy hub that hosts most LNG commercial and legal expertise.

Mr. Meyer pointed out to the committee that the slide provided more detail on the Tokyo and Houston offices.

9:30:42 AM

Mr. Meyer spoke to Slide 32, "CY17 to FY18 QUARTERLY PLAN BY FUND," which detailed the allocation between the two plans. He deferred further discussion to Frank Richards.

Mr. Richards explained that the table identified spending by individual funds. He said that the top of the table identified the indirect cost allocation, or corporate split, the funding allocation by individual fund sources to cover the operating expenses within AGDC: personal services, travel cost, utilities, and other service lines. He stated that the current FY 17 Operating budget authorization was split 40 percent AKLNG, and 60 percent ASAP. He expounded that now that AGDC was solely

responsible for filing with Federal Energy Regulatory Commission (FERC), the spending would predominately be out of the Alaska AKLNG project fund. He said that AGDC would be looking to have a new indirect cost allocation plan that would be 90 percent AKLNG project fund and 10 percent ASAP. He believed the plan was within the legislative intent for the allocated funds. He continued that the overall operating budget for the remainder of FY 17 was approximately \$5.2 million. He furthered that FY 18, by quarter, represented approximately \$10.4 million. He spoke of the capital spend illustrated on the bottom table, and was listed in allocation by the individual fund sources. He relayed that through the remainder of FY 17, and the full FY 18, a spend rate out of the AKLNG fund of approximately \$78.9 million had been identified, \$7.5 million out of ASAP. He related that the capital and operating spending combined totaled \$102 million. He noted that the last two lines of the table identified the amounts that were anticipated to be taken out of the individual funds.

[9:34:15 AM](#)

Senator Micciche asked why the capital spending reflected 80 percent of the spending for that specific time period of the permitting stage.

Mr. Richards relayed that when the joint venture agreement was terminated at the end of 2016, AGDC had been tasked with the responsibility of advancing the AKLNG project, both commercially and financially, and the regulatory aspects of FERC filing. He said that the regulatory expense over the next year and a half would include the completion of the resource reports, assembly of complete FERC application, and filing the application with FERC. He continued that the National Environmental Policy Act (NEPA) would follow, where the review of the project was conducted with FERC as the lead federal agency. He summarized that AGDC would have the responsibility to provide the environmental, the land, engineering, and program management efforts to be able to advance the project.

[9:36:04 AM](#)

Senator Micciche surmised that the operating costs were essentially AGDC labor costs.

Mr. Richards stated that AGDC had a small number of PCNs allocated by the legislature, and that the operating costs represented the cost only those employees. He said that the contractor costs were paid for out of the capital budget because those positions were project related.

Senator Micciche understood that federal tax status would be important to the project moving forward. He referred to the document, "FY16-FY18 RSAs and Agreements (copy on file)," and specifically cited the Nixon-Peabody RSA, which was \$100,000 versus the Millbank RSA for \$1 million. He asked whether Millbank was assisting with the tax status work, or were they specifically dedicated to commercial and permitting work.

Mr. Meyer replied that Millbank was largely involved in the structuring, the papering of the financial transactions and the commercial agreements. He said that the Nixon-Peabody work would be related to the Internal Revenue Service (IRS) interface and tax matters. He stressed that the tax treatment of the project was not a binary criticality, meaning that it would not make or break the project. He asserted that the third party finance was more important than anything on the project, with respect to lowering costs. He said that a structure would be developed that would allow for tax efficiency, as well as third party, but if a choice had to be made between the two, third party finance would take precedent.

Senator Micciche asked whether the Greenberg Traurig contract was commercial.

Mr. Meyer noted that the Greenberg Traurig contract handled commercial work, had been instrumental in transition agreements, and they had been engaged in the FERC process. He noted that the group had different billing rates than that of Millbank.

[9:39:44 AM](#)

Co-Chair MacKinnon referred to Slides 32 and 28, and the difference of \$2.9 million between the two spending totals.

[9:40:29 AM](#)

AT EASE

[9:40:42 AM](#)

RECONVENED

Mr. Richards responded that the fund balance for the In-State (including Alaska USA account) Fund 1229 was \$26 million, and the AKLNG fund was \$76 million. He said that the capital portion on Slide 32 showed a spend rate of approximately \$78.9 million; the difference was the need for a reappropriation between the funds, to be able to appropriately spend for the work that needed to be accomplished.

[9:41:29 AM](#)

Mr. Richards spoke to Slide 33, "FUND BALANCE RE-APPROPRIATION":

AGDC FUND BALANCES

In-State (incl Alaska USA account) Fund 1229: \$ 26.0mm
Alaska LNG Fund 1235: \$ 76.0mm
Total: \$102.0mm

ANTICIPATED EXPENDITURE BY FUND

In-state Natural Gas Pipeline Fund (ISNGP) \$ 11.7mm
Alaska LNG Project Fund (AKLNG) \$ 90.3mm
Total: \$102.0mm

Capital budget re-appropriation of ~\$14.3mm from ISNGP (Fund 1229) to AKLNG (Fund 1235) will be requested

Mr. Richards said that the \$26 million for ASAP, and \$76 million for AKLNG represented the remaining funds available for AGDC to advance its legislative charges. He added that the bottom of the slide showed the anticipated expenditures. The anticipated expenditures would require a reappropriation from the In-State Natural Gas Pipeline Fund of \$14.3 million to the AKLNG fund.

[9:42:38 AM](#)

Mr. Richards displayed Slide 34, "HISTORICAL AKLNG FUND APPROPRIATIONS, EXPENDITURES and CASH CALLS." The slide identified the initial appropriation from the passage of SB 138, and showed historical appropriations, cash calls, balance and uses of the AKLNG Project Fund (1235).

[9:44:20 AM](#)

Co-Chair Hoffman asked whether additional authorization by the legislature would be required for the project.

Mr. Richards replied that the corporation would be able to live within the means already provided for the work program that AGDC hoped to accomplish over the next year and a half.

Co-Chair Hoffman repeated his question.

Mr. Meyer interjected that the corporation did not intend to request additional authorization until a commercialization event had been demonstrated, either the signing of a viable customer contract, or the engagement of a strategic funding partner. He stated that the capital budget reappropriation would be the exception.

Co-Chair Hoffman clarified the reappropriation mentioned was the \$2.9 million.

Mr. Meyer corrected that the reappropriation request was for \$14.3 million.

[9:45:54 AM](#)

Co-Chair MacKinnon asked whether AGDC needed the reappropriation was necessary, or could funds be transferred internally.

Mr. Richards explained that when AGDC had been created and provided responsibilities under HB 4 and SB 138, respectively, that the intent of the legislature was that the funds should be clearly demarcated. He said that the legislative requirement was that authority to move between the funds should not be granted to AGDC.

Co-Chair MacKinnon stated that the legislature passed a bill in 2016 that requested access to the internal workings of the corporation. She felt that transparency had become worse since the transfer of the funds. She asked whether a bill that allowed a representative from both bodies to participate in closed door AGDC meetings would help with transparency issues.

Mr. Meyer responded that financial information about the corporation was presented at every board meeting. He reiterated his pledge for more openness and transparency

going forward. He said that the previous confidentiality agreement had been restrictive and believed that the latest version would open up the doorway to a more transparent commitment. He asserted that there was nothing in the agreements with producers that was commercially proprietary, which was the only information he believed should be confidential.

[9:49:16 AM](#)

Co-Chair MacKinnon said that action on the senate's request for transparency had been two years coming, and expressed appreciation that the relationship between the legislature and AGDC was going to be more open. She relayed that the committee wanted to understand whether AKLNG and ASAP were independent of each other, or if the funds were being cross pollinated. She lamented that the legislature had not had access to records in order to audit how the corporation had handled the funds, which was why questions were being asked regarding the fund balances; the legislature was trying to determine how the money had been spent and whether it had been spent consistent with the law.

Mr. Meyer stated that there had been segregation of funds and activities. He assured the committee that he would provide the information in detail.

[9:50:47 AM](#)

Senator Dunleavy spoke of additional fund requests by the corporation. He wondered whether AGDC would ask the legislature for additional funding before committing to commercial agreements, or after contacts had been signed.

Mr. Meyer responded that he intended to inform the body of activities as they developed, with the caveat that the corporation had to be careful about the disclosure of individual entities the corporation was negotiating with. He reiterated that he had instructed his communications group to produce a semi-monthly report in order to facilitate transparency and feedback. He expounded that the state being in the lead represented a "new day" with three main areas of focus for 2017: regulatory, financial structuring and engagement with the financial community, and the commercial sales of LNG into the broader market with a focus on Asia and securing tolling customers. He

said that any requests brought before the legislature would be very detailed.

[9:54:43 AM](#)

Senator Dunleavy expressed concern that AGDC could request additional funds without fully informing the legislature of all of the project details.

Mr. Meyer replied that the corporation would provide full and transparent project details before requesting additional funding.

[9:56:04 AM](#)

Senator von Imhof thought that it would be helpful to have regular progress reports on the five "big deliverables": the FERC and pre-feed, tolling customers, tax exempt status, LNG buyers, and the funding structure. She queried how much the corporation had donated to become an Iditarod Sled Dog Race sponsor. She wondered how sponsoring the race's ceremonial start would help the corporation to reach its business goals.

Mr. Meyer responded that the corporation was hosting an Alaska LNG Summit, which would host Asian companies and was timed around the race. He said that the sponsorship was related to commercial efforts and was also in recognition of the corporation's in-state obligation and increased local presence. He asserted that the race was an iconic Alaskan event that would offer wide exposure for the corporation across a broad geography. He revealed that the sponsorship was for \$50,000.

[10:00:06 AM](#)

Co-Chair MacKinnon understood that AGDC spent \$50,000 to sponsor the Iditarod Sled Dog Race.

Mr. Meyer responded in the affirmative. He added that the sponsorship would afford AGDC event seating, which would be enjoyed by the visitors from Asia.

Co-Chair MacKinnon wondered who was paying for the attendees of the planned summit and the total cost.

Mr. Meyer stated that there would be a fee to attend; there were sponsors secured and pending, and AGDC was funding some of the event. He was not able to provide exact detail as to the cost to the corporation.

Co-Chair MacKinnon asked for a report on the conference and breakdown of expenditures. She acknowledged that at times it was necessary to spend money to make money, but that the current financial climate in the state warranted prudence over frivolity.

[10:03:10 AM](#)

Senator Micciche highlighted that the legislature had reduced its spending by 44.6 percent over the past four years, but still faced public scrutiny about its spending habits. He lamented that there had been a lack of transparency between AGDC and the legislature. He threatened that without transparency and knowledge the legislature would fight the corporation "every step of the way" moving forward with the project. He warned that it would be in Mr. Meyer's best interest to keep the legislature informed.

Mr. Meyer acknowledged Senator Micciche's comments. He pointed out to the committee that the corporation had public support for the project. He furthered that once the pipeline was in service people would be able to take gas right off of the line and use it, which would result in a liberation of the north and mining projects launched in the interior of the state, as well of a security of supply in placed like Anchorage and Fairbanks.

[10:07:37 AM](#)

Senator Micciche emphasized the project's importance to his district and to the state. He feared the "lifelong quest to build it at all cost." He hoped that the project would be built on sound economics.

Vice-Chair Bishop pointed out that the AGDC Board of Trustees was equally responsible for providing project transparency.

Mr. Meyer agreed. He said that the commitment for transparency and greater frequency of reporting was strong with the board.

10:10:02 AM

Vice-Chair Bishop commented on the tradition of dog-mushing in the state. He wondered about RSAs, and whether the other project partners had RSA agreements with state agencies.

Mr. Richards stated that what would be reported would be the RSAs that solely AGDC had been funding with other state departments.

Senator Dunleavy asserted that the project was important to his district. He asked about a rumor that there had been a second look taken at a Valdez route for the project.

Mr. Meyer said that a second look was not being taken at the Valdez route. He relayed that there had been an intervention filed by a group in Valdez, suggesting that Valdez would be a better site. He said that there had been so much work done on the current route to Nikiski, the Nikiski site was acceptable, and many alternatives had been discussed. He thought that Valdez was a fine enough location, but Nikiski would be the site; 33,700 pages of resource reports had been filed using the Nikiski location. He mentioned that an inner connect could be established for Valdez, but that there was no intent to switch sites.

10:14:03 AM

Co-Chair MacKinnon said that the committee was still in need of information about the profitability of moving the project forward. She expressed concern that the state would buy from producers. She asserted that the state would take all of the risk by taking lead of the project, some of which could be mitigated by bringing in other partners. She wondered what the actual profit would be for the state, and whether the project would result in energy security for Alaska.

Co-Chair MacKinnon discussed payment in lieu of taxes (PILT) payments. She referred to a working group formed by the administration, Municipal Advisory Group (MAG), and was gathering information on how to divide up the profit from a project that had economic challenges. She spoke of the issue of access to low cost energy. She restated that the concern of the committee was that the project was not economically feasible. She mentioned the idea of allowing Alaskans to donate their permanent funds, and for state

departments to contribute funds, to help finance the project. She wondered when the legislature could expect to see real numbers related to how much the gas would be sold for and what real opportunities were available in actual dollars and cents.

[10:19:35 AM](#)

Mr. Meyer said that he could provide the information at a later date. He said that one of the major work efforts for the corporation as the project transitioned to state leadership, which he clarified did not mean that the state would be assuming all of the risk, was that risks would be managed and appropriately allocated to ensure a viable project and an acceptable risk profile for investors. He said that part of the process was structural, but another aspect was phasing; the lowest unit cost was to build the project all at once, but would be a massive project. He said that the construction profile should be flexible in order to regulate the overall cost. He said that the 42 inch pipe presented the least execution risk and was the optimal design for the future. He lamented that the corporation could not set the price in the LNG market, but stressed that the state had advantages over competing suppliers. Mr. Meyer spoke of the non-price attributes of the state that were attractive to the market. He said that the buyers would be taking a career risk by advocating or recommending the state as a supply source under a 20 year contract. He related that the pricing would depend on the size of the project; three trains all at once was optimal, backing up from that would result in a loss of competitiveness.

[10:23:25 AM](#)

Mr. Meyer said that funding the project with high cost capital would put pricing out of the market, if the majors were required to fund the project with their hurdle rate - the project would not be economically viable in the current market. He said that third-party financing would put the price in the zone of competitiveness, and removing all taxes would make the price point even more competitive. He believed that a PILT would be inevitable, the size of which would be determined by the size and affordability of the project. He thought that the project had three major variables: the rate of return, the PILT payment, and the price of the gas. He said that a new project could not be

built for the Japanese price of \$7/btu, a higher price would be necessary, possible \$70/btu. He noted that the state did not have to link the price of LNG to oil, which meant the AGDC would not need to take the commodity risk associated with a gas purchase. He said that the state would be the pipeline company and the terminal company and that the gas cost would be a pass through. He stated that the gas producers would have a net backed type of price because the price would need to clear the market daily. He discussed the variables for keeping the unit cost for infrastructure as low as possible.

[10:27:31 AM](#)

Mr. Meyer shared that the project benefits to the state were many and should not be underestimated. He said that the reserves in the north would far outlast the debt on the pipeline. He noted that gasoline was not corrosive, and that once the debt was paid off the state could reap billions of dollars per year. He reiterated that the project structure was a main area of focus for 2017.

[10:28:42 AM](#)

Co-Chair MacKinnon appreciated the comments. She stressed that the committee needed to fully understand the financial benefit to the state, the rate of the return to the state, and how well head value negotiations would be handled. She believed all of the scenarios presented by AGDC should be modeled for the committee. She understood that AGDC was currently in search of a financial advisor, and lamented that a financial report requested by the legislature was two years overdue. She said that the corporation should be prepared to provide the committee with models of all of the assumptions that AGDC had put forward. She stated that if the producers did not have risk because they were selling at a particular price point, the details should be illustrated in a graph and an argument should be made as to why this was a good deal for Alaska.

[10:31:01 AM](#)

Co-Chair MacKinnon asked whether Mr. Meyer believed that a 20 year contract with a utility could be secured.

Mr. Meyer replied in the affirmative. He thought that long term contracts were necessary because they were currently common in the industry. He relayed that "larger players" were currently trying to move the market to a shorter term timeframe, but believed that the state would be able to make an offer attractive enough to secure long term contracts. He thought that the demand growth and contestable contracts limited the window of opportunity for the project.

[10:33:43 AM](#)

Mr. Meyer asserted that the financial structuring of the project would be made available to the committee as soon as possible. He pointed out that municipalities and regional corporations were covered under SB 138.

Co-Chair MacKinnon noted the 20 year contracts were in flux and that due to surplus the market was changing. She wondered who the corporation would be using for third-party financing.

[10:35:48 AM](#)

Senator von Imhof thought that it made sense to model the ranges of all of the different inputs of the project in order to locate the "sweet spot" of what would be needed to execute the project.

[10:36:42 AM](#)

Senator Micciche refuted the claim that there was a window of time to consider; sound economic were sound economics. He said that when oil was cheap there was little incentive to convert to LNG. He thought that there would be a "reset" to energy prices and that the long-term horizon of oil and LNG related prices was unpredictable. He asked how the risk of a long-term lower commodity price could be adequately evaluated.

[10:38:34 AM](#)

Mr. Meyer replied that when he talked about the window of opportunity, part of that was not only demand growth, but was the expiration of significant contracts in Japan and Korea. He thought that it would be helpful for the corporation to illustrate on a graph a better picture of

the contracts and their fall off dates. He reiterated that most of the buyers would be utilities, which were conservative entities. He said that in the Asia Pacific most of the LNG had traded on an oil linked basis; if the volatility of Korean and Japanese LNG were to be superimposed over the oil volatility curve it would track identically. He furthered that those companies were tired of that volatility in their gas arena, and were working to separate LNG from the oil. He expounded on the effects of the Henry Hub price assessments on investor confidence. He explained that AGDC was not an oil company, but an infrastructure company, which would be able to offer a long-term, stable price.

[10:42:39 AM](#)

Mr. Meyer believed that the corporation had an attractive product offering to the Asian utilities through their ability to contract for a stable price. He said that part of his enthusiasm stemmed from the fact that LNG could be offered at a stable price, which allowed for leverage over the competition.

[10:43:43 AM](#)

Senator Micciche said that buying countries used to be isolated and in competition. He shared that unanswered supply several years ago resulted in market organization between the countries, and heavy downward pressure on the price of LNG. He agreed that working against volatility was a good idea, but he feared that this would result in substantially lower prices for the long term. He wondered whether the lower cost would prove to be favorable only to the buyer.

Mr. Meyer offered a brief history of oil sales and prices in the world. He thought that current buyers had more supplier choices than in the past. He believed that AGDCs pricing for utility would be attractive to buyers and sellers alike. He reiterated that a long-term, stable price was critical to the project. He stated that large utilities that served millions of rate payers would be attracted to stability, rather than volatility. He thought that because the project was a larger, capital intensive project, that reached hard to access land in the north.

[10:47:43 AM](#)

Mr. Meyer continued that the project was also conventional. He likened shale drilling to walking up a down escalator; you had to keep moving just to keep the production flat. He believed that the LNG reserve in the state was a conventional resource that was unique and attractive.

[10:49:09 AM](#)

Co-Chair MacKinnon asked whether AGDC had submitted the tax ruling letter to the IRS.

Mr. Meyer replied in the negative. He said that when it was done it would be done twice. He elaborated that Millbank and Nixon-Peabody were working together on the letter. He thought that a significant investor would want to see a specific letter on a specific structure. He said that a "straw man" structure letter would be written, as well as a final structure letter.

[10:50:16 AM](#)

Co-Chair MacKinnon expressed concern with a straw man letter. She wondered whether it was like the email that the Alaska Gasline Port Authority (AGPA) had received that stated that Exxon was interested in buying gas from the state. She said that the committee had a letter from the IRS based on that email.

Mr. Meyer understood that only one letter currently existed. He clarified that, if he had a letter from the IRS today giving the go ahead, AGDC would need to compose another letter. He expounded that lenders, equity investors, and other interested parties would talk to legislators, the federal government, and many parties before making an investment. He anticipated multiple request letters.

[10:51:53 AM](#)

Co-Chair MacKinnon asked to view Slides 38 and 39, pertaining to AKLNG acquisition.

Mr. Meyer showed Slide 39, "KENAI LNG PLANT ACQUISITION BACKGROUND":

- **ConocoPhillips announces Kenai LNG plant for sale in December 2016.**

- Data room open from 9 January until 3 March, 2017
- Bids due 17 March, 2017
- **Acquisition of the Kenai Plant fits broader AGDC strategy.**
 - Alternative LNG supply to FNG/IGU; no need to expand liquefaction plant.
 - Encourages Cook Inlet production.
 - Increases waterfront access for the Alaska LNG Project.
 - Early revenue for the Alaska LNG project.
 - Additional incremental LNG production capacity at reduced cost vs greenfield.
 - Enables AGDC early commercial engagement with LNG Buyers and other Alaska LNG participants.
 - Consistent with statutory responsibility "for developing an Alaskan liquefied natural gas project, and other transportation mechanisms to deliver natural gas in-state".
- **Future value increase under multiple scenarios.**

[10:52:53 AM](#)

Mr. Meyer advanced to Slide 40, which showed a diagram that illustrated the future value uplift for the Kenai LNG plant acquisition. Under current use the plant provided a site for in-state LNG delivery by truck and rail, and barge loading for coastal communities, and could export LNG during the summer. He believed that the facility had a high probability of future value increase under two reasonable scenarios: with the gasline, refurbishment of the existing LNG trains at Kenai would result in a low cost LNG production capacity (1.5Mtpa), compared to newbuild facilities; or, without a gasline, Alaska would eventually face a gas crisis as Cook Inlet production became inadequate to supply Anchorage plus Fairbanks; at this point, the COP Kenai plant would have high value as an import facility and the only alternative supply. He admitted that the funds already allocated to AGDC would not be sufficient to purchase the Kenai LNG plant.

Co-Chair MacKinnon asked whether the facility was currently on the tax rolls in the borough.

Mr. Meyer answered in the affirmative.

Co-Chair MacKinnon surmised that if the acquisition were successful, the state would be required to pay PILT to the city of Kenai.

Mr. Meyer thought that it was too soon in the process to determine whether a PILT payment would be necessary.

[10:55:44 AM](#)

Co-Chair MacKinnon understood that the Kenai facility and gas conversion was a huge cost driver inside the overall project. She queried how the purchase would be beneficial to the state.

Mr. Meyer thought the purchase had value under any of the three scenarios listed on Slide 40. He amplified that with the gasline facility would be the cheapest source of 1.5Mtpa because it would be a brown field. He said that the facility would not be a storage area for 20Mtpa. He relented that the asset was not critical to the gasline, stressed that it was important for Alaska to own and control the facility.

[10:58:38 AM](#)

Co-Chair MacKinnon asked whether there was understanding of operating costs when considering purchase of the facility.

Mr. Meyer explained that the site that AKLNG was considering was down the road from the Kenai site, and that the Kenai site could be tied into the AKLNG gasline, because many off-take points were optimal. He stated that the Kenai LNG plan acquisition was a stand-alone idea and would not be included in the FERC application. He furthered that if the plant were going to be refurbished it would have its own application, be reiterated that he thought that the asset would incorporate well into the overall project. He claimed that it was existing capacity and could reduce the execution risk of the LNG facility.

[11:00:34 AM](#)

Co-Chair MacKinnon reiterated her request for information about costs for operating the Kenai plant.

Mr. Meyer replied that he had some confidential information pertaining to current operating costs of the facility, but those numbers would change under different scenarios.

Co-Chair MacKinnon reiterated that she was looking for an estimate of what the projected operating costs would be to the state.

Mr. Meyer reiterated that it would not be appropriate to share the numbers in a public setting. He said that when a case was made for additional funding, the numbers would be included in the scenarios.

[11:03:14 AM](#)

Co-Chair MacKinnon referred to the document "FY16-FY18 RSAs and Agreements," (copy on file) and queried the \$50,000 allocation for a contract involving former Attorney General Craig Richards.

Mr. Meyer said that the contract was no longer active.

[11:04:16 AM](#)

Senator Micciche requested information about the potential for a tax-free status.

[11:05:24 AM](#)

AT EASE

[11:05:42 AM](#)

RECONVENED

Co-Chair MacKinnon expressed hope that the process would continue to be transparent. She relayed that some constituents believed that it would not be in the best interest of the state to move forward with the gasline. She asserted that if an executive session was necessary in order for the committee to view the financial information on the project, then she was willing to arrange the meeting. She stressed that conversations were important, but that the numbers were crucial to the committee, and to the people of the State of Alaska.

[11:08:39 AM](#)

Mr. Meyer appreciated Senator MacKinnon' closing remarks. He understood that the corporation needed to demonstrate to all Alaskans the viability and economic importance of the project to the state.

Co-Chair MacKinnon discussed housekeeping.

#

ADJOURNMENT

[11:10:24 AM](#)

The meeting was adjourned at 11:10 a.m.