

**ALASKA STATE LEGISLATURE  
SENATE RESOURCES STANDING COMMITTEE**

January 23, 2017

3:30 p.m.

**MEMBERS PRESENT**

Senator Cathy Giessel, Chair  
Senator Natasha von Imhof  
Senator Bert Stedman  
Senator Shelley Hughes  
Senator Kevin Meyer  
Senator Bill Wielechowski

**MEMBERS ABSENT**

Senator John Coghill, Vice Chair

**COMMITTEE CALENDAR**

AKLNG PROJECT UPDATE

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

BILL MCMAHON, Sr. Commercial Advisor  
ExxonMobil Corporation

**POSITION STATEMENT:** Provided ExxonMobil's perspective on the AKLNG Project.

DAMIAN BILBAO, Vice President  
Commercial Adventures  
BP Alaska

**POSITION STATEMENT:** Provided BP's perspective on the AKLNG Project.

DARREN MEZNARICH, Manager  
North Slope Gas  
ConocoPhillips Alaska

**POSITION STATEMENT:** Provided ConocoPhillips' perspective on the AKLNG Project.

KEITH MEYER, President  
Alaska Gasline Development Corporation (AGDC)  
**POSITION STATEMENT:** Presented AKLNG Project update.

FRANK RICHARDS, Senior Vice President  
Program Management  
Alaska Gasline Development Corporation (AGDC)  
**POSITION STATEMENT:** Presented AKLNG Project update.

FRITZ KRUSEN, Vice President, Alaska LNG  
Alaska Gasline Development Corporation (AGDC)  
Anchorage, Alaska  
**POSITION STATEMENT:** Presented AKLNG Project update.

LEIZA WILCOX, Vice President  
Alaska Gasline Development Corporation (AGDC)  
Anchorage, Alaska  
**POSITION STATEMENT:** Presented AKLNG Project update.

STEVE WRIGHT  
Upstream Project Manager for AKLNG  
Department of Natural Resources (DNR)  
Anchorage, Alaska  
**POSITION STATEMENT:** Presented AKLNG Project update.

#### **ACTION NARRATIVE**

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

#### **AKLNG Project Update**

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CHAIR GIESSEL announced the only order of business today would be the AKLNG Project update. Nearly three years ago, she said, the legislature passed SB 138, putting in place the framework for the Alaska LNG Project (AKLNG). This is the latest attempt to monetize the state's ample North Slope natural gas and make it available for the people of the state. Section 77 of that bill required the parties to the project to brief the legislature on its progress and this is one of those updates. There have been seven quarterly updates so far.

She said throughout the many turns this project has taken since the bill passed and the many changes in personnel, these updates have been the venue most often through which policy makers, stakeholders, and the public view the status of this pipeline. Today's agenda will start with an overview of the AKLNG Project and status report of the Alaska Stand Alone Pipeline (ASAP).

CHAIR GIESSEL recognized that a long-term participant of this venture, Dan Fauske, was recovering from surgery and wished him well on a speedy recovery.

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She said that seven months ago, the new president of the Alaska Gasline Development Corporation (AGDC), Mr. Keith Meyer, came before this committee and proposed a change of direction whereby the State of Alaska would transition from being a member of a joint venture (JV) to being the sole member of that joint venture. Over the last few months, that transition has begun, and she understands the private companies associated with AKLNG - ExxonMobil, BP, and ConocoPhillips - have left the venture. Today, they will hear one last time from those companies as well as the relevant representatives from the state gas team leads on AKLNG. She welcomed Mr. McMahon, a member of the original JVA, to orient the committee to where the venture stands now.

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BILL MCMAHON, Sr. Commercial Advisor, ExxonMobil Corporation, said he has worked since 1992 on commercializing natural gas and has 34 years of experience with ExxonMobil. His testimony was in two parts. The first part is on behalf of the AKLNG Project and its four participants - AGDC, ExxonMobil, BP and ConocoPhillips. The four parties have worked hard to complete the technical and regulatory hand over and the commercial transition of AKLNG to a state LNG project run by AGDC and he would share that progress since September. The second part of his testimony is sharing ExxonMobil's perspectives on a state LNG project and how they will support the AGDC effort. Following his testimony, the presenters from BP and ConocoPhillips will share their perspectives.

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Following the administration's decision to pursue a state LNG project, ExxonMobil, as lead party under the pre-FEED Joint Venture Agreement (JVA), completed an extensive handover process with AGDC for all the pre-FEED JVA work products including the underlying technical data and information, Mr. McMahon said. In addition, on behalf of the applicants in the Federal Energy

Regulatory Commission (FERC) pre-filing, ExxonMobil also met with regulators and AGDC to discuss the coming changes. On January 4th, the FERC was advised by letter that ExxonMobil, BP, and ConocoPhillips had withdrawn from the pre-file docket leaving AGDC as the sole applicant.

During testimony on August 25, the key components of the technical and regulatory handover and the commercial transition were shared with the committee, and the following are the achievements since that time. All 77 pre-FEED deliverables agreed to under the AKLNG Project JVA are finished and have been distributed to AGDC, ExxonMobil, BP, and ConocoPhillips. The final two draft resource reports, number 11 and number 13, were submitted by the applicants to FERC thus completing the draft resource reports required to advance the Environmental Impact Statement (EIS) pre-file process. FERC and the other coordinating agencies have provided over 2,700 comments on the 12 resource reports that have been submitted. The AKLNG Project team provided a summary of all the comments and questions to all the parties, including AGDC. It also completed dozens of project technical and regulatory handover sessions with AGDC including weekly sessions and extended workshops. These handover sessions, which were completed prior to year-end 2016, provided a smooth and efficient handover of activities to AGDC for a state LNG project. AGDC is now positioned to take on full responsibility for the technical and regulatory aspects of its project.

MR. MCMAHON said agreements were executed prior to year-end as part of the commercial transition from AKLNG to a state LNG project. These agreements provided for the use of historical and pre-FEED data and information by all the pre-FEED JVA parties for any project including a state LNG project.

Work continues on the agreements for AGDC to acquire ownership of an LLC held by ExxonMobil, BP, and ConocoPhillips affiliates and provide interim access to some of its assets. The LLC owns land in Nikiski and the Department of Energy (DOE) LNG export authorizations.

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MR. MCMAHON paused for questions before moving on to his ExxonMobil comments.

CHAIR GIESSEL said the land and DOE authorizations have a value and asked if what the state would pay for possessing those two items is part of the hold-up in completing the transfer.

MR. MCMAHON answered that is one of the aspects of the LLC transaction. Those negotiations continue, and progress is being made.

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Changing hats, Mr. McMahon shared ExxonMobil's perspectives on a state LNG project and how ExxonMobil is supporting the AGDC effort.

One of the motivations for the administration to assume control of the project was to assess the potential advantages that may only be available to a state project. These potential advantages as expressed by the administration, include reducing the cost of supply through a tax-exempt project structure and using low-cost funds from third party investors willing to take a utility rate of return on a government-backed project. Both opportunities could potentially make a significant reduction in the cost of supply of Alaska LNG (as highlighted in the Wood Mackenzie study commissioned by AGDC, ExxonMobil, BP, and as was presented to this committee by David Barrowman of Wood Mackenzie on August 24). Cost of supply is a key measure of global competitiveness in the LNG market, he said.

In addition to opportunities to reduce cost of supply, a state-backed LNG project also has the potential to reduce regulatory risk through government-to-government cooperation. ExxonMobil wants a project to succeed, Mr. McMahon said, and is willing to pursue all commercially viable alternatives to develop Alaska gas resources upon mutually agreed terms. While AGDC is now responsible for advancing a state LNG project, ExxonMobil will still have a major role in the development of Alaska North Slope natural gas: first through continued investment at Prudhoe Bay and Pt. Thomson, and second by making gas available for sale for the project. To date, the producers have invested billions of dollars at Prudhoe Bay and Point Thomson to successfully develop these fields. Investments continue at these field to support their ongoing operation.

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MR. MCMAHON said ExxonMobil will continue to make its gas available to any project under bi-laterally, mutually-agreed, and commercially reasonable terms. In 2015, when Governor Walker sought assurances from each producer about gas availability, ExxonMobil immediately established a negotiating team, executed confidentiality agreements with the administration, and had several preliminary meetings. With completion of the handover to a state LNG project, ExxonMobil remains ready to reengage on

negotiations for gas sales and purchase agreements. These commercial and fiscal terms will need to be predictable and durable, so all the parties involved, including potential buyers and financiers, understand the underlying framework, particularly given the magnitude of the required investments and commitments, which are measured over decades.

In closing, Mr. McMahon said ExxonMobil wants to help make a state LNG project successful. They are pleased to have participated in a successful handover from AKLNG to a state project and they are committed to working towards completion of the required transactions with AGDC on the LLC; they are ready to re-start bi-lateral discussions on purchasing ExxonMobil gas from Prudhoe Bay and Point Thomson. If AGDC can adequately achieve cost reductions, secure regulatory approvals, advance through the project gates to a final investment decision (FID) and complete project execution and construction, everyone will benefit.

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SENATOR STEDMAN asked what kind of manpower was involved in this project.

MR. MCMAHON answered that there were 120 people on the project management team and a "myriad of contractors."

SENATOR MEYER noted that the governor says the buyers of the gas will help provide the financing for building the pipeline. So, it seems that the buyers of the gas who are providing the capital are going to want that gas at the lowest price possible. But the producers of the gas are going to want to maximize the value of that gas. He asked if there will be a conflict between the producers who want to maximize the price and the financiers who are going to want to minimize the price.

MR. MCMAHON replied, "That is the making of a great negotiation." But ExxonMobil as a producer wants to get the best return for its investors, which is aligned with the State of Alaska to have the best deposits into the Permanent Fund and receive the best production tax payments as possible.

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SENATOR WIELECHOWSKI asked if ExxonMobil dropped the project because it was no longer economically viable, if they were asked by the governor, or some other reason.

MR. MCMAHON replied that this all developed last year when the administration and AGDC were adamant about starting the front-end engineering and design (FEED) phase in 2017, and ExxonMobil felt the project was not ready. The cost of supply was not competitive with the global LNG market and commercial arrangements were not in place to govern a FEED venture, nor were the necessary fiscal terms in place to give them confidence to commit the \$1 - \$1.5 billion that FEED would cost. In the discussions around that situation, one option was to remain in the pre-FEED phase and continue working on these items, and ExxonMobil indicated a willingness to work on the regulatory permits at that time to further de-risk the project while the other matters were addressed. Another alternative was the state taking over the project, so it could go into FEED on its timeframe. So, when the administration made that decision for the later, that is when the extensive handover and transition process was started.

SENATOR WIELECHOWSKI asked his sense of the economic viability of the project with the state doing it on its own.

MR. MCMAHON answered that they are encouraged about two things on a state LNG project: the prospect of tax exemptions to reduce the cost of supply that is not available to the AKLNG Project and the possibility of getting low-cost financing. ExxonMobil is also cognizant that a government project can address the regulatory risk through government-to-government cooperation.

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CHAIR GIESSEL followed up on Senator Meyer's question about consumers wanting the lowest possible price and companies wanting the highest price for their gas (and so will Alaska), saying in August, Wood Mackenzie found that this is one of the more challenged projects in the whole world. They said if the state gave up all its taxing authority that would help bring it more into a realm of being competitive, and she asked in his experience with global LNG if he had ever seen a government entity give up its taxing authority to make a project go forward.

MR. MCMAHON answered that he is aware of situations where host governments have adjusted their take, or tax, on a project.

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DAMIAN BILBAO, Vice President, Commercial Adventures, BP Alaska, said he fell in love with Alaska when he first arrived about 10 years ago. He recognized the great work that was done by the

joint project team and the AKLNG Project Manager Steve Butt to deliver the pre-FEED JVA deliverables, work that was completed on time and on budget.

His responsibilities at BP include Alaska LNG, their North Slope fields operated by other companies, and their interest in the TransAlaska pipeline (TAPS). He recognized that along with the Prudhoe Bay field, TAPS is celebrating a 40-year anniversary in 2017. This past December 18, however, Alaska celebrated the 45th anniversary of the signing of the Alaska Native Claims Settlement Act (ANCSA), and without the support of Native communities the state would have a much different history.

He asked that they remember that this state has the luxury of discussing an Alaska LNG project only because of the cooperation shown in establishing ANCSA. Ensuring another 40 years of economic security for Alaska will require collaboration to find common ground. For this reason and the fact of BP's participation in that opportunity, BP continues to support an Alaska LNG project led by the State of Alaska.

MR. BILBAO said that BP's support derives from three important beliefs: first, the resource opportunity in Alaska is strong, the talent is deep, and there is a history of coming together to solve big problems. Secondly, the demand for LNG will continue to grow in northeast Asia beyond 2025, and much of that growth will come from players like China. Third, Alaska LNG can compete for the growing demand as was shown in the Wood Mackenzie study that Chair Giessel mentioned. However, certain nontechnical solutions are required for that to be achieved.

The state is positioned to lead this commercial effort in three focus areas:

1. The competitiveness of a tolling model where gas owners pay a utility-like company to transport their gas to the Cook Inlet, liquefy the gas and load it onto ships.
2. To preserve the federal regulatory schedule, because failure to do so could add years to the overall venture project schedule and impact the reputation of the project.
3. To identify options to fund both the next phase of the project, the FEED, as well as the most financially demanding phase, the construction, which would occur after the final investment decision (FID).

MR. BILBAO said BP does not believe these three areas will require contracting with large companies to begin the process of purchasing pipe or steel, but rather will require a deep

analysis by subject matter experts familiar with commercial aspects of the LNG business.

While BP supports a state-led project, they believe it is also important for BP to do more than sit back and wait for AGDC to answer these questions. "BP must actively support AGDC," he said, and in doing that, AGDC and BP have signed a cooperation agreement that would bring their efforts and resources together on the three focus areas:

1. Assessing a tolling model,
2. Preserving the regulatory progress, and
3. Identifying financing options for the path forward.

MR. BILBAO said BP is committing people and funding to this joint effort although it will be an effort led by a much smaller group of people than completed the pre-FEED deliverables, which Mr. McMahon just summarized.

MR. BILBAO said that BP appreciates AGDC's commitment to working together and looks forward to updating the legislature over the course of the year. He added that this is an important year for BP in Alaska and they look forward to celebrating the anniversary of Prudhoe Bay and TAPS first 40th anniversary. While BP has worked with its co-owners to produce over 12 billion barrels of oil from Prudhoe Bay, there are still billions more to produce at Prudhoe Bay and across the North Slope.

MR. BILBAO concluded that as the governor's chief advisor on oil and gas, John Hendrix, said during his recent speech at "Meet Alaska" on January 13: "We must all pursue our future as one Alaska." BP agrees. It is only as one Alaska that the state will continue to solve big problems. BP looks forward to continuing to work with this legislature, the administration, Alaska's Native corporations and communities, their contractors and upstream co-venturers in support of a one Alaska future.

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CHAIR GIESSEL noted a copy of the agreement in their packet and online.

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CHAIR GIESSEL thanked BP for recognizing that AGDC could use some help, as the legislature had expressed concern over the question of expertise in the past. She also appreciates their emphasis on communication with the legislature as well as the

growth beyond 2025, because legislative consultants have said there actually is no window to race for. Would he agree?

MR. BILBAO answered that he appreciates the kind words and they hope the agreement will lead to some productive efforts in a transparent process as well as some clear deliverables over the course of the year. He is not a forecaster, but it is important to be cautious in chasing a window. He believes very smart people have come up with different forecasts, and rather than debate which is the right one, he believes the first next steps are finding what it will take to deliver a competitive project and how it would be financed, and making sure the regulatory issues stay on track while those questions are answered. If those two first questions are answered, then they will know whether the project will be competitive in the market and how robust their offer will be to the market, and it is important to address those questions in that sequence.

CHAIR GIESSEL asked how he views the tolling model working. Simply put, BP and its fellow companies on the North Slope agree to put the gas into the pipeline that the State of Alaska is working on building. Then it comes down to the LNG plant in Nikiski at the other end, and it sounds like the companies would then repossess the gas to sell as LNG.

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MR. BILBAO answered that there are a lot of different versions of commercial structures and how the risk and value is distributed.

In a traditional tolling model, the gas owner would pay a third party that owns the system a toll (fee) to move their gas through the pipe to liquefy it. They would either take possession themselves to market it or the buyer themselves may take the LNG at the facility and transport it. It's very much the nature of the relationship between the gas resource owner and the facility owner.

In an integrated model like the one that AKLNG had been working on up until the end of 2016, the resource owners would also own the facilities and move BP's share of gas through its share of the facilities. In a tolling model, a third party owns the facilities and one is paying them to move it through their facilities as opposed to one's own. So, the key difference between the tolling model and the integrated model is who is owning the facility through which the gas is flowing.

There are also different versions of a tolling model where another third party could be the one buying the gas and paying the toll to move it through the system.

CHAIR GIESSEL asked how many people will be committed to the work in the agreement.

MR. BILBAO answered they still need to sit down with AGDC and get more specific about the deliverables, the timelines, and the type of benchmarks he expects the legislature to ultimately want to see to measure the progress of a project. For the time being, he suggested the workforce is a fraction of the one that worked on the joint venture deliverables, in terms of both people and funding. This is because the technical product that the JV team delivered is very much boots-on-the-ground data collection, a more labor-intensive effort. Whereas he is talking about a nontechnical, commercially-focused, subject-matter-expert-driven effort. So, BP might leverage more internal resources and there may be an appropriate role for a financial advisor - a big bank perhaps - but it will look and feel different in terms of focus as well as scope versus the pre-FEED deliverables.

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DARREN MEZMARICH, Manager, North Slope Gas, ConocoPhillips Alaska, said he would be brief and build upon his colleague's previous comments, and that ConocoPhillips supports state efforts to try and move a project forward. They support a state-led project, because there are certain things only the state can do, which will make an Alaska North Slope (ANS) gas project more competitive and lower its cost of supply. AGDC has discussed these as key elements in their plan, first structuring for federal and state tax efficiencies including seeking federal tax-exempt status. This could be a significant opportunity and they support AGDC pursuing this, as well as advancing low-cost financing and investor options. These key elements could be foundational to a competitive project even in this price environment, and they could also provide a compelling story to LNG buyers, project lenders, and investors.

MR. MEZMARICH reiterated that ConocoPhillips intends to make its gas available to a state-led project on mutually-agreed, commercially reasonable terms.

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CHAIR GIESSEL thanked him and, finding no questions, invited the AGDC's representatives, Frank Richards and Lieza Wilcox, to testify.

KEITH MEYER, President, Alaska Gasline Development Corporation (AGDC), apologized for not being with the committee today. He added that he would not be listening to the meeting as he had an appointment with a potential large customer. He said that Mr. Richards and Ms. Wilcox had put together a very good presentation.

CHAIR GIESSEL said there is still the burning question of how one can meet with a customer when the project is still as elusive as it is, and she thanked him for joining the committee from Tokyo.

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FRANK RICHARDS, Senior Vice President, Program Management, Alaska Gasline Development Corporation (AGDC), said he would be presenting the project update as required under Section 77 of SB 138. This was done previously by the lead party represented by Mr. Steve Butt, but it is his honor to present to them today from AGDC's perspective. Ms. Wilcox would present on the commercial and financial aspects of the project moving forward, and MS. Rosetta Alcantra, Vice President, Communications was also in the room, along with Mr. Gene Therriault, who is working with AGDC in addition to his role with AIDEA, and will be representing AGDC as a boots-on-the-ground contact able to interface directly with legislators to make sure their questions are answered. Representatives from the Department of Natural Resources (DNR), Department of Revenue (DOR), and possibly the Department of Law (DOL) were on line.

CHAIR GIESSEL recognized Department of Labor and Workforce Development (DOLWD) Commissioner Heidi Drygas, who serves as a board member of AGDC, in the audience.

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MR. RICHARDS began with a background of AGDC's responsibilities that were provided in its enabling legislation and said he would talk about the board of directors and the roles they are playing in providing directions as the project advances, and then he would give the Section 77 update for the AKLNG project. He would also provide some updates on the commercial and financial aspects of AGDC's role in moving this project forward to a successful conclusion.

CHAIR GIESSEL said she appreciated his nice outline, but the committee had already reviewed some slides and suggested that he skip those.

MR. RICHARDS agreed and breezed through the slide of the board of directors, seven of whom the legislature had confirmed and said that more nominees would come before them for confirmation.

CHAIR GIESSEL pointed out that only one original person was left on the board after its three-year existence.

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MR. RICHARDS said many know the components of the AKLNG project are a gas treatment plant (GTP), which takes gas from both Prudhoe Bay and Point Thomson (through a connecting pipeline), and turns the gas into an LNG-quality specification - removing the carbon dioxide and hydrogen sulphide - that would then pass down the 800-mile pipeline over three mountain ranges, through eight compression stations, delivering it to the south side of Cook Inlet where the gas is liquefied (refrigerated and compressed down to 1/600th of its original size and volume), making it available to the market through shipments. Those plants are designed to handle up to 20 million metric tons per year.

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CHAIR GIESSEL asked if AGDC is proceeding with purchasing the existing ConocoPhillips LNG export facility in Nikiski.

MR. RICHARDS prefaced that he was not aware of any confidentiality agreements they had signed with ConocoPhillips on the subject and that Mr. Krusen could better answer that question.

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FRITZ KRUSEN, Vice President of Alaska LNG, Alaska Gasline Development Corporation (AGDC), Anchorage, Alaska, answered that acquisition is a "touchy subject," but there are a lot of ways the ConocoPhillips plant would help the AKLNG mission: it would give the project more waterfront property and give it immediate standing with FERC and with buyers. There is a lot of ways that plant would fit into an Alaska LNG project. It also allows an early production scenario that accelerates revenues.

CHAIR GIESSEL asked what cost would hypothetically be required to renovate that facility if it were purchased.

MR. KRUSEN replied that it needs to be developed by whomever places a bid on the project. He couldn't provide such an estimate.

SENATOR MEYER asked if an export license is part of the sale.

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MR. KRUSEN said he assumed so.

SENATOR STEDMAN asked how the plant intersects with the 600-acre site that has already been purchased by the project and how they are interrelated. Are they mutually exclusive or inclusive?

MR. KRUSEN answered that they are very close to each other, but not exactly contiguous. The ConocoPhillips Kenai LNG site is more to the north than the existing AKLNG lands.

SENATOR STEDMAN asked the scope of the acreage.

MR. KRUSEN answered that the ConocoPhillips site is about 200 acres as opposed to 600 acres owned by the AKLNG project.

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SENATOR WIELECHOWSKI asked if AGDC were to acquire the Nikiski plant, would the idea be to expand it or build a separate plant.

MR. KRUSEN answered that the AKLNG Project has been tasked with advancing a 3-train, 20-million ton per annum (MTPA) project that MR. Richards would be describing. The ConocoPhillips plant is a solid, historic, 1.5 MTPA plant, which is also a good thing although it is quite a bit smaller. So, between having the smaller reliable plant that could be an early production method for the large project, and having the large 20-MTPA, 3-trains, there are all sorts of combinations and permutations making anything is possible.

SENATOR WIELECHOWSKI asked how far down the road the discussion is.

MR. KRUSEN replied that answer would be going too far.

CHAIR GIESSEL commented that she monitors the AGDC board meetings, and the January 12 meeting had 10 minutes of open discussion and then several hours of closed discussion. One of the subjects that was cited as they went into executive session was infrastructure acquisition and that is why she asked the question.

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MR. RICHARDS said at the conclusion of the JVA with their former partners there was a period of transitioning technical and environmental data. The pre-FEED JVA represented nearly \$500 million of investment for design, environmental work, safety and reliability studies to be able to advance this project. All that material was provided to the co-venture parties. Those 77 deliverables and the literally thousands of work product studies that were developed in advance of the project were provided in very detailed one-on-one discussions with subject matter experts sitting on both sides of the table, so there could be clearer insight into the work that was developed.

For the FERC filing they had very extensive meetings with their licensing team who had been working directly with FERC and the regulatory agencies in developing the resource reports that had been submitted to FERC. They were given updates on where those reports were along with the comments that had been made to the regulatory agencies, so that as AGDC advances the project they understand where the agencies were coming from and what commitments or discussions had been held. That gave AGDC a push start to be able to take on those responsibilities; in this case, the primary focus in 2017 is going to be the FERC filing. The three-legged stool they want to advance is commercial, financial, and regulatory to de-risk the project.

MR. RICHARDS said the key to this is that AGDC is now the repository of this information for the State of Alaska. It now has all the AKLNG work product, the work developed under the ASAP, and the work product that was developed and paid for through TransCanada on the Alaska Pipeline Project. They now have a very large repository of information that can be used without any restrictions.

CHAIR GIESSEL asked if the term Alaska LNG is available to AGDC moving forward.

MR. RICHARDS answered yes. In statute and in SB 138 it is called "an" Alaska Liquefied Natural Gas Project; only the colors and fonts used in the description are trademarked. So "Alaska LNG Project" can still be used to advance the project.

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CHAIR GIESSEL asked what he means when he says Alaska now has unrestricted rights to all that data and asked if the companies still retain that right also.

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LEIZA WILCOX, Vice President, Alaska Gasline Development Corporation (AGDC), replied that is true. The agreements that were concluded gave all the participants in the pre-FEED JVA the same rights to use the data. And a letter withdrawing the other participants from the docket went to FERC leaving AGDC as the only party on it.

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SENATOR MEYER asked if the state had applied for an export license yet.

MR. RICHARDS replied that AKLNG LLC had applied and received an export license.

SENATOR MEYER asked who owns it: the state or the partners.

MR. RICHARDS replied that it belongs to the producer partners - BP, ConocoPhillips, and ExxonMobil. That is part of the discussion in terms of the land access and land option rights that Ms. Wilcox will be describing.

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He said that slide 8 identifies priorities for advancing the project: the cost of supply, filing the FERC Section 3 application, which then initiates the environmental process (led by FERC), and talking to potential customers and potential financial partners. The State of Alaska is not taking on this project alone and will not cover all the costs alone either.

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CHAIR GIESSEL said a year ago the board presented the first update and a RACI chart of responsibilities - who was 1) responsible for a duty, 2) accountable for a decision, 3) who was consulted, 4) who was informed. It was very clear the Department of Natural Resources (DNR) would be responsible for marketing and she asked where that stands now.

MR. RICHARDS answered that DNR is actively engaged with AGDC and has been participating in engagements specifically on the last several trips to Asia with the Governor and President Meyer. When they talk about engaging customers, they feel it is AGDC's responsibility to market the project, not the molecules, and let customers know Alaska is in the marketplace to meet their needs in the future. The feedback they received on some of those trips was that folks weren't aware that the AKLNG Project was proceeding forward. They, therefore, felt that engaging the potential customers was necessary to identify what the project

is, what the potential cost might be, and to essentially say that Alaska is ready to meet those market demands.

CHAIR GIESSEL asked how one engages customers without talking about price and if that isn't marketing gas.

MR. RICHARDS answered when they talk about the cost of the project, they refer to the updated estimate given to them at the conclusion of the JVA, previously envisioned as \$45-65 billion. Luckily through the work they did, the cost estimate is at the low end of that range. When they talk in concept they are talking about the cost of the project understanding that additional work is needed to reduce further the cost of supply for the state as opposed to a 12-14 percent rate of return that the producer companies need. Slides further on in the presentation modeled what the tolls would be and that is what is being discussed with the market.

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MS. WILCOX added that "customers" means different things to different sellers. For an infrastructure project, customers are the tollers. So, to the extent that AGDC has been charged in developing a financeable project that is there is their primary focus and the preferred option: to find the tollers that would reserve capacity on the line that would make it financeable at a low cost. Those potential customers come from the North Slope and maybe from other places to the extent that the resource owners do not take a tolling position on the project. So, they would prefer to develop all of it in sequence. Part of the issue is that so many pieces of the puzzle need to come together at the same time.

CHAIR GIESSEL asked if she is suggesting that the people who would ultimately be buying the gas would buy it at the wellhead from the producers.

MS. WILCOX answered yes. That is the case in many projects.

CHAIR GIESSEL remarked that what strikes her is that it has always been emphasized to them that the money is not in the toll of a pipeline; it's in the LNG that is sold at the other end. This is a concern that comes to her mind as the committee acts to guard the best interests of the people they represent and about a third of the population of the state is represented at this table.

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STEVE WRIGHT, Upstream Project Manager for AKLNG, Department of Natural Resources (DNR), said he had been a member of the state gas team for about two and half years as a contractor. DNR Commissioner, Andy Mack, has asked him to reinforce the message that the state clearly retains authority and responsibility for marketing the state's RIK and TAG gas volumes. It is clearly spelled out in SB 138, and the department has a clear understanding that those roles and responsibilities are vested in it.

CHAIR GIESSEL said that was very reassuring. She asked if the commissioner had made the RIK decision.

MR. WRIGHT answered no and explained that he referenced RIK because if there is an RIV decision, then there will be no molecules for the department to monetize or market, and they are very far removed from an RIK decision point at this point. The department needs to understand the full commercial structure of the project - the financing and allocation of the risk and value - before it can go into a formal RIK decision process.

CHAIR GIESSEL said she appreciated that, but reminded him that most of them have sat through this process for multiple years and understand that unless the state takes those molecules in kind - own some gas molecules to sell ourselves - this project doesn't really benefit the state to a significant level.

SENATOR MEYER asked if AGDC's has a projected budget through calendar year 2017.

MR. RICHARDS answered not yet, but it is their responsibility to present to the board for their authorization those expenditures out of the two funds that AGDC has been authorized. It's their goal to present the 2017 outlook to the board at the February meeting. The only thing in it is the authorization for the operating budget which includes salaries, rent, lights, and travel costs for AGDC personnel. When the board authorizes the 2017 budget, he would be glad to provide it to the legislature.

SENATOR MEYER asked how much money AGDC has now.

MR. RICHARDS replied that the legislature capitalized two different funds for AGDC: the first one was the In-state Natural Gas Pipeline Fund, which was used for developing and advancing the state-owned, in-state project. The second fund was developed for the Alaska LNG Project that was to pay the cost of buying

out TransCanada and cover the cash needs through 2016. The combined balance of both funds is approximately \$104 million.

SENATOR MEYER asked if there is a problem with co-mingling those funds.

MR. RICHARDS replied that they aren't being co-mingled; they are separate and distinct. The Instate Natural Gas Pipeline Fund is being used solely to advance the ASAP Project, and for this year that consists of just doing work on the Supplemental Environmental Impact Statement (SEIS). The AKLNG Project Fund is being used to advance the FERC regulatory work. The only place where the funds come together is in the operational budget for AGDC. A cost allocation plan was developed and approved by the board that identifies a portion would come from the Instate Fund and a portion will come from the AKLNG Fund.

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CHAIR GIESSEL said Mr. Richards mentioned that there is a balance of \$104 million in both accounts together and on November 29, 2016, it was \$109 million. So, it sounds like \$5 million had been spent in the last five months. Where was that spent?

MR. RICHARDS explained that a large portion of the spending in 2016 was to cover the cash calls for the AKLNG Project and that cash calls are still coming in to cover expenses of the project management team and all their contractors; a windup cost is also represented. The other portion of the fund is being used to cover AGDC salaries with a small portion being used to advance the ASAP Project.

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CHAIR GIESSEL noted a picture of a Houston Office with five staff members and asked the cost of that office and staff per month.

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MR. KRUSEN answered that the Houston office costs \$10,000/mo. They took over the sublease of a fourth floor Remington office in the ExxonMobil complex, so their rate is being paid up until the end of July 2017 after which it will go down to \$7,000/mo. Add utilities of \$5,000/mo. to that. So, calendar year 2017 will run \$160,000 in round numbers.

CHAIR GIESSEL asked about the five professionals and their support staff.

MR. KRUSEN answered that the five professionals are there, but only one of them is full time; all the others are part time, and they are shopping for an office administrator. He would figure out their rates and give them that figure later in the presentation.

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SENATOR HUGHES referring to slide 8 asked how much more state funding was needed to get to the 2023/25 target date. She also wanted to know if the state would recoup any of the long-term financing.

MS. WILCOX answered in the previous project structure the state had to produce a quarter of the \$45-65 billion project estimate. It was in the process of developing a financing plan and didn't know where all the cash would come from. Similarly, with this project, with just one party they don't have all the answers yet about how much cash will be required and how much of it would be borrowed and under what terms. They do know that for this project to work - to become competitive - it needs to be project financed and to have the advantages of low cost financing. "Unless it has that, it would not be competitive." The majority of it would have to be financed and backed by those tolling agreements by customers either from the upstream, downstream, or otherwise that would secure the debt.

SENATOR HUGHES asked while the state is facing fiscal pressures over the next couple of fiscal years what kind of budget is AGDC looking at for FY18/19/20 to keep this moving forward.

MS. WILCOX answered that until they reach tangible commercial milestones on this project, AGDC will keep the legislature informed on the progress and take it one step at a time.

SENATOR HUGHES said she gets that, but she also wants some numbers to give her some background for the budget spreadsheet.

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MR. RICHARDS replied that the project pace is going to be determined by getting a contract with a finance partner that is willing to help front the bill. It is hard to say what the exact cost will be. If they are going to meet the market in the service window they are talking about, they will be entering the next FEED and execution. This year they are working on the regulatory work and next year they will be advancing the engineering to be able to go into execution.

The FEED estimate ranges from \$1-\$1.5 billion, but that hasn't been identified as the amount they would ask the state for. They need to find partners and see what they are willing to bear in advancing this project.

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MR. RICHARDS briefly reviewed the FERC process. He said FERC has the responsibility of essentially citing and permitting the liquefied natural gas terminals in the U.S. The benefit of FERC is that they come with a very comprehensive citing process that follows a very standard process, which means when they accept an application it goes into the Environmental Impact Statement (EIS) that is very prescribed over an 18-month period, leading to a final EIS usually six months later. That's 24 months from initiation of an EIS to conclusion. Very few transportation projects in the state ever receive an EIS at that record pace. The prefile process AGDC is in right now is really gathering the information to make sure the environment, safety, and regulatory aspects are addressed acceptably for FERC to receive the application. The 13 resource reports cover the flora, fauna, safety, viability, and engineering of the project.

LNG plant citing is what FERC Section 3 is about: sponsors of the project petition FERC to say they have an integrated project - the LNG plant, the upstream pipeline, the gas treatment plant, and associated pipelines to be considered as an integrated project. This is what AGDC is proceeding with.

He explained that the 33,000 page-Resource Report document has gone through two iterations: the first draft and now the second draft. Approximately 2,943 comments have come back; some of which are being adjudicated. Many of them are editorial comments and some will require additional work on the pre-FEED analysis to be able to clarify. Some of the comments are asking for FEED-level information and those can be pushed off until FEED is initiated. The resulting list will be adjudicated with FERC and its third-party contractor, which AGDC will now fund to be able to advance the EIS. AGDC is the sole applicant and the partners have identified this as a sole application to be the Alaska LNG Project. The name stays the same, but the AGDC now is the sole applicant.

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Slide 13 represented what is necessary for fulfilling an application, Mr. Richards said. There will be nine separate exhibits, one of which will be the resource reports. Their

target schedule for completing the application - one that will be deemed by the FERC as meeting all their requirements - is June 2017. It's a little bit later than envisioned, but they didn't get the final comments until January. Those will be adjudicated with in-house resources as well as external ones.

He elaborated that AGDC is a very small organization that provides an owner's oversight, but relies on a lead contractor to be able to advance its work. They are given a specific work scope and when it is done they move off contract.

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The initial approach for the work will be the FERC Natural Gas Agreement (NGA) Section 3 application, but also looking to reduce the cost of the project (through rate of return and/or federal taxation exemption).

CHAIR GIESSEL referred to report 7 dealing with community impacts and asked if it is clear that the state is considering relinquishing the taxation potential and payment in lieu of taxes (PILT) to the communities in this project.

MR. RICHARDS corrected her that she was referring to report 5 and said the tax exemption is a federal benefit and the in-state needs for communities still needs to be negotiated with the communities and the Municipal Advisory Gas Project Review Board (MAGPR) that the legislature set up. He believes they have said they are not going to pay a C-PILT to the communities.

CHAIR GIESSEL said that question was asked of Wood Mackenzie in August, and their interpretation was the state would be relinquishing all taxing authority to make the project lower cost.

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MS. WILCOX responded that the reason Wood Mackenzie represented a no-tax alternative in its study was to show that even with all taxes removed the project still had marginal economics. It was not to suggest that all taxes should be removed. That slide is trying to say that there is a lot more compelling step that makes a much bigger difference than the taxes do: between the chart that represents an equity findings project and a project financed with utility returns.

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MR. RICHARDS said in summation (slide 16) this project has great value to Alaska in terms of monetizing stranded resources and

providing gas to Alaskans. It will generate thousands of jobs and enhance exploration and production across the North Slope and Alaska.

The value of strategic advantage that Alaska has is the proximity to the market - 7 to 9 days by ship to the Asian market - and ConocoPhillips plant has been providing resources to Asian for over 40 years. The North Slope has a proven conventional resource and Alaska provides political stability as a sovereign. There is another slight advantage for production due to cold temperatures in Nikiski.

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MS. WILCOX continued the presentation on slide 19. She said she had been with AGDC since 2011 and had presented part of ASAP's project plan to a joint Resources Committee. Prior to that she worked for 12 years for BP Alaska and before that she went UAF. So, she has been in Alaska for over 20 years working in the oil and gas industry.

She said slide 19 set the stage for the global LNG market using a timeline and a Wood Mackenzie forecast for the Asian LNG supply/demand balance. It is from Wood Mackenzie's projected demand for LNG in Asian and the dropping off contracted demand. Some of the projects may be re-contracting to extend long term contracts and the drop-off represents the contracts that are going off-line. The window will shift over time and one of the challenges the Alaska project has is just the sheer length of time it takes to develop it. One of the challenges they collectively have to overcome is to build something that has enough certainty in it early enough that the project can fit into whatever demand window there is and hopefully be one of the first foundations in it rather than the last chasing it. That is part of the urgency that AGDC leadership is trying to instill.

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Slide 20 illustrated global demand for LNG by country, an internal AGDC forecast. Like any forecast it shifts over time and is never completely correct. It comes from one of the part-time contractors seen on the Houston slide. She explained that the bars represent every importer of LNG. However, the most prominent ones are China, where a lot of growth is expected over the next decade. India has the same story. Japan is still the highest importer and is expected to remain the highest importer of gas by far, although the absolute number varies depending on how much switching between nuclear and gas Japan will ultimately do. This is why AGDC has an office in Japan. It's not only the

largest consumer of LNG, but it also has the most variety of potential customers and the most sophisticated industry developed around it. That is why Japan, in AGDC's view, requires a particular presence.

CHAIR GIESSEL commented that Reuters pointed out today that Japan is trying to sell extra supply now.

MS. WILCOX said that is correct and the previous slide showed the current over-supply from other projects that have come on line. But the demand line has shifted down slightly and now the buyers that have contracted for that demand are trying to sell the cargos.

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SENATOR VON IMHOF asked for a map of the potential projects that may be coming on line in the next four or five years and what their costs are compared to ours.

MS. WILCOX replied that she could do that, yes.

SENATOR HUGHES asked if AGDC is monitoring those other projects that will also hit that window.

MS. WILCOX answered that part of the expertise AGDC has brought on board is John Hattenburger, who provided this forecast. She added that he is among some people who have been in the industry for almost 40 years and have a very good sense of what is going on. It's not a formal process, because they haven't been at it that long and things don't change that quickly, but one of the things they do is a weekly LNG update where they pull together different sources of news and send it out to several parties in the State of Alaska.

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SENATOR HUGHES said it is an important analysis and needs to be figured into the equation of whether or not to move forward.

MS. WILCOX said many parties do that work and they try not to spend money to do something from scratch by subscribing to services that forecast pricing and things like that.

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MS. WILCOX said slide 21 is the core of the objective of what her organization will be doing this year in cooperation with BP and with others: that is focusing on reducing the cost of supply for the project.

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She said this Wood Mackenzie chart represents cost of supply as a combination of upstream, midstream, and shipping (looking at it as an integrated investment) using their estimates. The project estimate is the biggest part of the bar at \$45-\$64 billion. They evaluated what the project structure as it was would deliver and then presented the opportunities. The first structures a project as a third-party tolling utility (getting commitments from customers to ship their gas) and the last scenario was the same thing but with the removal of taxes. The thinking behind this graph was to show that the project is still was not quite competitive at the current price level, which is quite low. So, the step between the first bar and the second bar is really what the focus of the commercial and financing work will be on this year.

CHAIR GIESSEL asked Ms. Wilcox if the no tax scenario refers only to federal tax.

MS. WILCOX responded no; she believed that it also excluded production taxes, state income taxes, and possibly PILT. It did not remove royalty, because this is an integrated project and part of that would be royalty gas.

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CHAIR GIESSEL said when she talked to Mr. Barrowman, the Wood Mackenzie employee who did the study, he said he hadn't considered PILT at all. She asked if it would be logical to say this is a competitive project if oil was at \$70/barrel, but that Lower 48 shale gas could come on line at that price, too, thus making Alaska, perhaps, still the most challenged project in the world.

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MS. WILCOX said that is a macro-economic question that she is not ready to take on in this hearing. She knows a lot of factors go into the volatility of the Lower 48 Henry Hub and it's not all oil based. She has seen EIA forecasts that suggest that at high oil prices the cost of Henry Hub would high as well. So, the Lower 48 projects that rely on Henry Hub as their pricing mechanism would also be expensive.

CHAIR GIESSEL added that the Lower 48 states have a much lower cost of production.

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SENATOR MEYER said it seems like Alaska is "hanging our hat" a lot on the tax-exempt status and asked if there is a ruling from the IRS on that.

MS. WILCOX answered no, but they have received some advice and are working on a preliminary letter with a firm called Nixon Peabody. The point of the slide, however, is that they are trying to not "hang our hat" too much on the tax-exempt status, but rather on the third-party owned tolling utility structure, because that is where most of the savings are. However, they still plan to pursue the tax-exempt status.

SENATOR MEYER remarked that one of her bullet points says tax exempt state ownership reduces cost of supply even further.

MS. WILCOX responded that is true.

CHAIR GIESSEL added that the committee had two law firms opine at the August update about the likelihood of that kind of private letter ruling from the IRS and both were not promising.

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MS. WILCOX said one of AGDC's objectives is structuring for third party financing as part of the work through the cooperation agreement with BP (slide 22) and ultimately securing long-term customer commitments. Not all those things can be done extremely quickly, but as projects frequently do, they are done in stages. So, there may be conditional commitments prior to firm commitments. Reaching some commercial milestones on conditional commitments is what they are striving for in 2017.

SENATOR MEYER said their third objective is to have more transparency with the legislature, which they would really appreciate as they are ultimately asked for funding. He also stated that the Senate had a bill last year that would allow one member to be part of the AGDC board as an ex officio member and the governor vetoed it. So, how will AGDC achieve more transparency with the legislature, the public, and the market?

MR. RICHARDS answered that as sole advocate for the AKLNG Project, AGDC recognizes they have the duty to present information to the legislature twice a year. But they want to do that better with more frequent communications, bi-monthly possibly.

SENATOR MEYER said he looked forward to having that transparency.

SENATOR HUGHES asked if the governor would still veto a similar bill.

MR. RICHARDS said he didn't know.

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MS. WILCOX said slide 23 shows the primary focus for 2017: commercial and financial work in terms of developing a financing plan for the next stage of the project and some regulatory work. She pointed out, in the spirit of transparency, the last bullet on the commercial section, an Alaska LNG Summit that AGDC is planning.

She explained that one of the things that is important in attracting potential investors and customers is establishing relationships with them and giving them a sense of where the project is and what it is. As she started looking at books or publications about LNG, she found that Alaska gets about two paragraphs compared to other projects. Part of the issue the state has, because this is such a long ranging and challenged project, is that it hasn't been paid attention to in the market very much. So, they would like to have some of the companies they are talking to come up and take a tour of Nikiski and the North Slope, and have some informative presentations. That event is planned for March; they are in the process of sending specific invitations. Part of the costs will be covered by those attendees themselves, which does show commitment, and part of it is being covered through sponsorships being raised from potential contractors.

She said one of the things they want to showcase is the engagement of the Native corporations and contractors in Alaska - basically show off the industry bench strength in Alaska to build a project.

CHAIR GIESSEL asked if this is similar to the 2012 Summit that was held in Valdez by the Alaska Gasline Port Authority.

MS. WILCOX replied that she wasn't familiar with that event and couldn't answer that question.

MS. WILCOX reiterated that AGDC's primary objective is to secure tolling agreements that are sufficient to underpin project financing and those agreements may come in stages. This is what needs to happen prior to final investment decision (FID). The tolling structure is very common in the gas pipeline industry

and is becoming more common in the LNG industry, as well. The goals are to make financing cheaper and reduce the risk to the owner.

Who could be the tollers (slide 25)? Ms. Wilcox said producers essentially asked tollers for the model for the Alaska gasline when it was not a LNG project and when it was a pipeline to the Lower 48. It would be a similar structure except under a different regulatory code. Merchant as toller would be someone who buys gas at the North Slope and then sells it either in Nikiski or somewhere further down the line. All of these parties are possible as participants in the project. AGDC talked about concluding an MOU with ConocoPhillips to develop a JV. There are several steps in between, but if a marketing JV is developed, it could be a merchant that purchases and sells gas. A third party is a potential participant in this model: frequently customers like to come up the value chain and bid to make sure they have capacity. If the producers are not willing to be the tollers all the way through for all the gas, then third parties need to be brought in to provide that toller role and provide credit support for the project.

CHAIR GIESSEL said establishing the AKLNG Project had hundreds of hearings with the state as partner and their concern always was that the state have a huge piece of cash prize at the end. They were told throughout, that as a partner owning some of the gas and marketing it was where the biggest prize was for Alaska, which is their motivation. She is not seeing that opportunity as strongly in these models, but they will see what AGDC comes up with the help of BP.

MS. WILCOX said one of the things that has changed since 2012 is the market when this project was discussed. As AGDC tries to reduce cost of supply they are trying make it so that the midstream is delivered as cheaply as possible, so the upstream can realize the value for the state.

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CHAIR GIESSEL said the message she would convey is that while the bill passed with wide margin, she wasn't sure there would have been as much legislative support with this model.

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MS. WILCOX said slide 26 presents potential investors, but there's not too much substance to it at the moment. The Houston-based LNG team is very experienced, and the part-time contractors' biographies were on slide 27.

CHAIR GIESSEL paused to ask Mr. Krusen the cost of the Houston staff.

MR. KRUSEN said he didn't have a full picture, but about \$1 million/year for five employees: one full time and everybody else part time.

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MS. WILCOX said they will continue to communicate with the legislature through the session with more information and more of the specific numbers they are looking for in the budget process. She hoped to convey that a state-led project has value as the one party that bring others (market participants that will ultimately make it work) together into a project.

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MR. RICHARDS concluded that AGDC is actively communicating with the state agencies and working hand-in-hand with them on advancing this effort.

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CHAIR GIESSEL adjourned the Senate Resources Committee meeting at 5:31 p.m.