

**ALASKA STATE LEGISLATURE  
JOINT MEETING  
SENATE RESOURCES STANDING COMMITTEE  
HOUSE RESOURCES STANDING COMMITTEE**

October 16, 2017

1:05 p.m.

**MEMBERS PRESENT**

SENATE RESOURCES

Senator Cathy Giessel, Chair  
Senator John Coghill, Vice Chair  
Senator Natasha von Imhof

HOUSE RESOURCES

Representative Andy Josephson, Co-Chair  
Representative Geran Tarr, Co-Chair  
Representative Dean Westlake, Vice Chair  
Representative Harriet Drummond  
Representative Justin Parish  
Representative DeLena Johnson  
Representative David Talerico

**MEMBERS ABSENT**

SENATE RESOURCES

Senator Bert Stedman  
Senator Shelley Hughes  
Senator Kevin Meyer  
Senator Bill Wielechowski

HOUSE RESOURCES

Representative Chris Birch  
Representative Mike Chenault  
Representative Chris Tuck  
Representative George Rauscher

**OTHER LEGISLATORS PRESENT**

Senator Berta Gardner  
Senator Donald Olson  
Senator Anna Mackinnon  
Senator Gary Stevens  
Senator David Wilson  
Representative Paul Seaton  
Representative Dan Saddler  
Representative Zach Fansler  
Representative Jason Grenn  
Representative Charisse Millett  
Representative Lance Pruitt

**COMMITTEE CALENDAR**

ALASKA LNG PROJECT UPDATE

HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

DAVE CRUZ, Chair  
Alaska Gasline Development Corporation (AGDC) Board  
Anchorage, Alaska

**POSITION STATEMENT:** Provided an outline of AGDC.

FRANK RICHARDS, Senior Vice Chair  
Alaska Gasline Development Corporation  
Anchorage, Alaska

**POSITION STATEMENT:** Provided an update on the regulatory aspects of the Alaska Liquefied Natural Gas project (AKLNG)

LIEZA WILCOX, Vice President  
Commercial and Economics  
Alaska Gasline Development Corporation  
Anchorage, Alaska

**POSITION STATEMENT:** Provided an update on the financial aspects of the AKLNG project.

**ACTION NARRATIVE**

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**CHAIR CATHY GIESSEL** called the joint meeting of the Senate and House Resources Standing Committees to order at 1:05 p.m. Present at the call to order were Senators Coghill, Micciche, von Imhof, and Chair Giessel, and Representatives Parish, Talerico, Westlake, and Co-Chair Tarr.

CO-CHAIR GERAN TARR introduced the House members.

### ALASKA LNG PROJECT UPDATE

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CHAIR GIESSEL announced the meeting as the required update on the Alaska Liquefied Natural Gas (AKLNG) Project. The AKLNG project was constituted three years ago with two objectives: monetize natural gas resources on the North Slope and bring natural gas to Alaska citizens. Many members present today were part of a lengthy process of passing Senate Bill 138 by a vote of 52 to 8. It had tremendous support. Since the State of Alaska was investing significant public funds into the AKLNG project and was one of several partners in a \$45 to \$65 billion venture, the legislature felt the public should know how its money was being managed. A provision requires a quarterly legislative public update. Since the passage of SB 138, there have been five joint interim updates.

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CHAIR GIESSEL listed the dates and locations of those updates, including an infamous meeting in Palmer that lasted six hours. The resource committees have also held updates during the legislative sessions. At each hearing, she said, she would be reminded of changes that occurred in personnel, direction, and scope and framework of the project. She said there have been substantial changes from the original vision of the legislature. The AKLNG project has frequently changed to something quite different. The many reasons include the global drop in prices, philosophical differences, and personality differences. Alaskans have talked about a gasline project for generations, she added, and public money is continuing to be spent toward that goal. She believes that about \$700 million has been spent so far, and she has heard people say that the gas pipeline is too big to fail, so Alaska must complete the project.

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CHAIR GIESSEL said the purpose of this hearing is to learn how close the project is to the stated goal of monetizing the gas to the benefit of the treasury and getting affordable gas to citizens. She asked if Representative Tarr had opening comments.

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CO-CHAIR TARR recognized members who are on line. The House Resources Committee received a brief update on AKLNG at the end of the last session, and she is looking forward to information on two announcements from last summer: the IRS private letter ruling and a solicitation of interest.

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CHAIR GIESSEL explained that the members on line will not be able to speak due to technical difficulties, and she told them they could text questions. She noted that all documents are available online through the legislative website. She said the speakers include Dave Cruz, Frank Richards, and Lieza Wilcox.

#### **PRESENTATION ON AKLNG**

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DAVE CRUZ, Board Chair, Alaska Gasline Development Corporation (AGDC), Anchorage, said the board is composed of five Alaskan CEOs and two commissioners of Governor Walker's administration. Four of the CEOs are actively engaged in major business portions of Alaska. One is retired, and two are affiliated with the pipeline industry, one with finance, one with heavy construction, and one is affiliated with labor. "This is the best board since I've been on," he stated. The board is managed responsibly and actively engaged. Members participate in the board meetings as well as in varying committees. The committees cover technical, governance, communication, and commercial issues, he added. It is a very, very active board.

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MR. CRUZ said AGDC stepped up and took leadership of the AKLNG project in January of this year and began marketing the project in Asian markets. "We have come a long way in a short time." The president, Keith Meyer, is now in Asia marketing our gas, and he has been leading the charge and doing as the board has directed to work tirelessly to get a customer and financing. The board thought it was crucial for him to remain in Asia to work on that mission. He said he appreciates the legislative support to the AGDC this year. He has committed that the board will advance the AKLNG project, and it has. "I would like to highlight the issues of negative comments and headlines that are impacting our marketing efforts." He said the world is watching, and every local news story places a great challenge when the team has to

first defend the project against the negative comments. "I respectfully ask for your consideration when talking to the media," he requested. Today, the committee will hear the successes of regulatory, financial, and commercial efforts. The board is very engaged with President Meyer and the team at AGDC, and he expects the committee to find the progress satisfactory.

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CHAIR GIESSEL said she and Senator von Imhof have a question about the financials. Looking over the presentation, she doesn't see a lot of numbers, yet the update in February 2016 had a very detailed report. In that same meeting, AKLNG created breakout codes with the Legislative Finance Division as it made transfers of money from appropriated money. "We're no longer getting those kinds of reports," she said. Senator Von Imhof asked for the numbers.

SENATOR NATASHA VON IMHOF said she met with certain AGDC staff on Friday regarding AGDC's financial position for its mission over the next 12 to 24 months. "There was a little bit of dancing around that," she stated. Over the weekend, she saw the GeFONSI account activity with about \$16.8 million in one account and \$53.7 million in the second account. This is public information. The other report she looked at was the component detail report, and, being on the finance committee, she looks at it on a regular basis for many departments. The report for AGDC in December 2016 shows a breakdown of travel, compensation, and other expenses, and for every department there is similar detail. "I think our concern ... does AGDC have the money to carry out its mission in the next 18 to 24 months, and what is the burn rate, and where's the money actually going?" She said AGDC received tax-exempt status as a public entity, and that is wonderful, but it means that AGDC must publicly report its expenses.

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MR. CRUZ said, "That is provided monthly to the board, and we openly have that at our board meetings." There are normally 11 board meetings a year, and that is "where we measure that and keep track of it." He did not mean to belittle the legislature in not providing that. It is readily available at the board meetings. He said Frank [Richards] will go into detail.

SENATOR VON IMHOF said, outside of the visual presentation, she is assuming there will be an addendum.

MR. CRUZ said Frank will go into it now.

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CO-CHAIR TARR ask about Mr. Cruz saying the board is the best, and since he has been involved from the start, she asked why this group of people are best positioned to move things forward.

MR. CRUZ said he whole-heartedly agrees with what Chair Giessel said earlier. He has been involved since its inception and has never been involved in a project with as many "twists, turns, ups, downs, spin cycle, meetings, and what have you. We stood a corporation up for the state from nothing." The AGDC was organized under one pipeline project, the Alaska Stand Alone Pipeline Project (ASAP), and was handed the responsibility of AKLNG, and it continued to move both projects forward. Not favoring one over the other, it has tried to monetize Alaska's gas resources, he said. It has been a challenge. The positives include the leadership today. "From looking at this project and how many iterations of a pipeline for the state of Alaska, I would say, if we ever had a possibility, the sun and the moon and the stars have aligned to try and get closure on this, and so we are actively, actively working on it."

MR. CRUZ said that sometimes he talks to his wife using certain acronyms about the project, and with others, he has different acronyms. But when the president of China came to Alaska, he didn't come to look at beluga whales, he came to meet with Alaska, direct from meeting the President of the United States in Florida where he discussed trade imbalances. This project has the potential to help balance that. "This is big time," he said. It is starting to change. The gasline summit in Girdwood included meeting with the end-users, and that's the first. Never has anyone brought up an actual customer to take the gas, he noted. President Xi left his secretary of state to meet with AGDC, which is very important for Alaska. There would not be an oil pipeline today if it wasn't for Vice President Spiro Agnew's one vote in the U.S. Senate. "We're in direct marketing," he said. "We're no longer relying on trying to take a company in Alaska or an international company and tell them, 'Well, we'll help you with your permits. We're really behind you. We hope you can put something together.'" This is the first time Alaskans are engaging directly with the end user, he explained. He said it is phenomenal, and he has had the personal opportunity to meet potential customers. He went to the North Slope with them, and they went up on a phase-2, which means "you can only see 30 feet instead of a little bit further than that." What it showed the customers, he said, is a machine that runs every day, and that is important for reliability. For him, he said, those are

very much successes, and AGDC has done all this since January 2017. He said he totally agrees with Senator Giessel, "and if it's 750, it's 750." The only way to get that back, he said, is to follow through and build something. The board of directors first met at the Dena'ina Center in 2013, and each member was asked their vision, and they all said they were there to build a project, not study it. "We are here to build a project ... and that is our mantra."

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SENATOR DONALD OLSON said people like him who are in the private sector get very concerned about the comment that the project has come too far to pull the plug. He would like to hear that that mentality does not prevail, which could get the state in a worse situation that it is now.

MR. CRUZ said he didn't make that comment. "I just want to make sure I'm not in trouble."

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SENATOR PETER MICCICHE said Mr. Cruz spoke about negative comments from the legislature. He said the legislature has a constitutional job description to be the appropriators, so it has the responsibility to make sure that the state is headed in the right direction. He knows that Mr. Cruz did not say "too big to fail," but the legislature's job is to make sure that's not the case. For those willing to invest in this project, the check and balance is a selling point. He said that's important to remember. He asked if AGDC is going to request additional appropriations for fiscal year 2019.

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MR. CRUZ said that determination hasn't been made yet. He thinks "it's going to result in are we able to deliver a gas customer for AGDC." He said he did not single the legislature out in his earlier comment. He hears negative comments on the public media. About three years ago, the head of Exxon made a statement, "and I want everybody to think about what I'm saying." When the head of Exxon was asked about the gasline project, he said Alaskans are their own worst enemy. Mr. Cruz said he bristled at that. How can anyone from Texas say that? However, being the chair, he shares a lot of that sentiment. Alaska can't stand success, he said, but look at what has been done in the last ten months. He thanked the committee for its support, "but this is not the time when we talk about declining revenue and income taxes when we're sitting on the largest known reserves in North America of natural gas, and all it needs is a pipeline to get it down

here." He stated that he asks a lot of people what Alaska does better than anyone else. He said his whole career has dealt with energy exploration and production in Alaska, and the one thing the state does better than anyone else is energy export. This is just the next phase of energy export. It will have a road up one side of it. It will never be built like TAPS [Trans Alaskan Pipeline Services] was, he said, it has a lot of positives, and that's what keeps him positive.

CO-CHAIR TARR noted that Representative Justin Parrish asked if the discussions of a state fiscal plan, or that lack of a fiscal plan, has any impact on the project.

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MR. CRUZ said the project will either succeed or fail based on its merits. There is a global gas price that it must meet. Certain returns are expected from this project.

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SENATOR ANNA MACKINNON said Cruz Industries has put a lot of Alaskans to work. She thanked Mr. Cruz for his efforts. The appreciation may not seem as much as she wants it to be. "I just hope you will accept the entire legislative body's well wishes and thanks for your service." She explained that she had to ask hard questions because of phone calls from constituents. They are asking to support the project and to ask hard questions. She hears from people who are concerned about "the burn rate of the cash that Alaska's going through." She asked what price will Alaskans receive for the resource? She acknowledged that the cost of the project must be known first? The only value that is being negotiated is the bottom line. If Alaska is successful with the IRS ruling, which she has questions on, there is going to be an amount that Alaska is willing to accept for the resource, and "I've never heard what that is." She keeps hearing that after 20 years, the state will have millions of dollars or more, but what is our bottom line? She asked for the actual numbers from Mr. Cruz, which can be addressed inside an executive session.

MR. CRUZ replied it's a labor of passion. Another thing, he said, this is the crossroads. There is a declining gas resource in Cook Inlet. Depending on what customers sign up under the Letters of Intent (LOIs) and the volume, Alaska could see a 90-year supply of known reserves to the State of Alaska. What other state has a 90-year known reserve? He said Alaska has been on diesel for about 100 years. That is another benefit to the

state. "We'll get into the numbers. Mrs. Wilcox has a very good presentation."

CO-CHAIR TARR said Representative Dean Westlake asked what the costs of not doing anything now. She said he may be referring to the costs of not moving forward.

MR. CRUZ said, speaking explicitly of the market window, there has to be an LNG customer to make it work for Alaskans by 2025. If it cannot be done now, "we probably better put this on the waiting list, and the legislature of 2037 can look at this again." It is cyclic, and it has long-term contracts. He said every Alaskan is part of this corporation. "We do not waste people's time. We use our money in the most expeditious manner that we possibly can." The board has given president Meyer one task: get us a gas customer. There are two good projects that are not technically challenged. He said it is a competitive project, but to do nothing, the project should be considered in 2037.

CO-CHAIR TARR said she understood that there was not going to be a request from the FY19 budget, and Mr. Cruz was not clear.

MR. CRUZ said that is correct.

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FRANK RICHARDS, Senior Vice Chair, Alaska Gasline Development Corporation, Anchorage, said he spoke with Senator von Imhof and she requested some financial information, but the presentation was done, and he could not insert it. He said he brought the information with him, and it is presented monthly to the board. He can share the financials with everyone.

SENATOR VON IMHOF said she would like a monthly or quarterly report of expenses, a simple pro forma, including the FERC [Federal Energy Regulatory Commission] costs, which is a pretty significant hurdle.

CHAIR GIESSEL asked about the personnel and travel expenses.

MR. RICHARDS said the most recent report has information both on an operating budget level by personnel, travel, capital, as well as contractual, similar to what the legislature receives from the state in the 100 through 400 accounts. It also provides

information on the spend rate on the capital side, which is the money spent for FERC regulatory issues and commercial expenses. In the August meeting, the report showed they had spent around \$22 million for both the operating and capital expenditures for AGDC, he added.

CHAIR GIESSEL asked the time of that expenditure.

MR. RICHARDS told the committee that the expenditures are identified by calendar year, because the board authorized "for our 18-month future look out, and that was where they provided us with authorization for expenditure to cover not only our operating expenses but also the major capital expenses." So, that was the 18 months "we were reporting to." The \$22 million was for calendar year 2017, so that would have been January through August, with a projection of August expenditures. Senator von Imhof asked about a burn rate. For the past few months, it has averaged about \$3 million per month, and sometimes more. The board gave authorization to spend \$6 to \$6.5 million per month, but AGDC has taken the board's direction to work smartly, judiciously, and tirelessly and has "not gone out, as we had identified," to bring in a large engineering, procurement, and construction contractor (EPC) to help assist us in advancing the technical and regulatory. "We've kept that in-house," he said.

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SENATOR VON IMHOF asked about November 1 and forward. Regarding FERC, will there be more pressure on the finances? How is the FERC process? She said she believes that AGDC is looking to hire a finance person and asked how that will impact management of "the run rate going forward."

MR. RICHARDS said he hopes FERC is ready to start its environmental impact statement; AGDC has spent the last five months answering hundreds of questions for the environmental review, and he hopes that is now done. The burn rate now will be from continued interactions with FERC on the regulatory issues, but maybe not as much on the engineering. He hopes those expenses will decline. He said Ms. Wilcox will discuss the investment banker and the projections for that.

SENATOR VON IMHOF asked if the January component detail report will be updated, because the last one she has was released December 2016.

MR. RICHARDS said the report from the Office of Management and Budget will have that, but AGDC also provides it on a monthly basis to its board.

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SENATOR GIESSEL asked Mr. Richards to repeat the expenses.

MR. RICHARDS said the \$6.5 million per month is the burn rate the board had authorized ADGC to spend, and it is actually spending about \$3 million per month.

CHAIR GIESSEL said that when Alaska was one of four partners, she heard that in pre-FEED [front end engineering design], usual expenditures were \$10 million per year. In the FEED stage, it is \$10 million per month, and when the project is being built, it will be \$10 million per day. What phase is this project in?

MR. RICHARDS said AGDC is in regulatory permitting advancement. The pre-FEED work concluded at the end of 2016.

CHAIR GIESSEL said that sounds like a new stage-gated approach. She said she is looking at how the project was configured when the state had corporate partners. It was using a very prescribed stage-gated approach and was executed very carefully. As she looks at what she was given in February 2016, she is concerned that \$98 million was spent in 2015 during pre-FEED. She applauds AGDC for being frugal, yet, "I hope we're doing a really careful job and we've considered all the contingencies and we have the right people in place and we're not budgeting for a project that could really sink the state financially."

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MR. RICHARDS explained that when the chairman took over, AGDC was following the stage-gate process for the ASAP, and AGDC adhered to that, "and we followed that through with the AKLNG project as well." In 2017, AGDC needed to somewhat de-risk the project, so it advanced the environmental permitting stage. He said ADGC has been focusing on that for the last nine months, so it could apply to FERC for the Section 3 license and address the issues raised by FERC. They knew that advancing to FEED was going to be an extremely expensive endeavor. The cost is estimated at \$1 to \$1.5 billion, based on the work by its partners. "We did not have the money to do that," so the best way to advance it was to de-risk it by addressing the regulatory issues in Alaska. "As we all know, everyone loves Alaska and we want to make sure its protected." At the same time, AGDC is pushing through with the commercial and financial discussions

with potential partners and investors. By attracting customers and investors, the project can go to the next stage gate.

CHAIR GIESSEL said that the legislature took a course on mega-projects in 2012, and the course outlined appropriate steps for such projects. It is raising concerns if AGDC is not following best practices. She asked to see a timeline like what Steve Butt, the previous project manager on the AKLNG project used to provide for the previous project. For the next meeting, she wants to see where the project is, what is being worked on, as well as the expected burn rate.

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CO-CHAIR TARR asked on behalf of Representative Talerico's office whether the detailed financial information is publicly available on the AGDC website.

MR. RICHARDS said the information is at [www.agdc.us](http://www.agdc.us).

CHAIR GIESSEL said she will also link it to this meeting.

SENATOR MACKINNON noted that Mr. [Larry] Persily sends updates about what is happening around the world on LNG and other hydrocarbon projects. She said that Japan just went into a unique agreement for purchasing that allows them to go to the spot market, and they don't actually have to land all their shipments. It has already been said today that Alaska is looking for a buyer, and it needs long-term contracts. She added that legislators have been through a mega-project course multiple times to tell them what they should be looking for. Their financial consultants have told them the risks and rewards of owning the project, but "we are shifting right now in the global market with such supply on the water that the contracts are changing." She said she is not sure if there are 25 and 30-year contracts, and she asked Mr. Richards if he is following the changes in the contracts.

MR. RICHARDS said he also receives the emails from Mr. Persily, but what she is likely referring to is that these contracts allow [the buyers] to sell the resource to another buyer. Those are new activities that buyers are entering into, and Ms. Wilcox will talk about contracting strategies.

SENATOR MACKINNON said she greatly appreciates Mr. Richards' service. Both he and Mr. Persily are former federal coordinators of gas transportation projects. "We do have an excellent resource available."

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SENATOR MICCICHE said he respects Mr. Richards expertise, but he would like to talk about the deadline to pull the plug, which has passed. He asked him to explain why the legislature should remain behind the schedule. He said a lot of folks expect things to happen in a certain timeline for pre-Feed plus, FEED light, or whatever current stage-gate. He said to explain why Alaskans should remain behind the project despite the date change.

MR. RICHARDS answered that the deadline Senator Micciche is referring to might be from what the governor said about a year ago for needing an activity by September 2017. At the AGDC level, the project has advanced to marketing in Asia in the nine months that is has taken on the project. He said, "Our activities and the responses we are getting have been positive." Positive is relative, he noted, but from within his organization and from the board's direction, they have been told to proceed. The board finds enough significant activity and positive response, and they support AGDC going forward with the project.

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MR. RICHARDS noted that Rosetta Alcantra, another AGDC vice president who focuses on external affairs, is here. Referring to slide 3 of his presentation, he said he will speak to the activity and achievements of the last nine months, which is when the state took sole responsibility for the project. There have been several significant federal actions and a positive response from the administration in Washington DC. In review, the Section 3 application is required by FERC to construct an LNG project. FAST-41 stands for Fixing America's Surface Act of 2015, Title 41, which is a mechanism for major projects to be recognized at the federal level, he explained, and special permits are required through PHMSA, the Pipeline Hazardous Materials Safety Administration. He said he will give an overview of some of the guidelines coming out through the Council on Environment Quality and the new organization called the Federal Permitting Improvement Steering Committee. He said he will also cover a designation in the Yukon River Basin by the Environmental Protection Agency called ARNI, Aquatic Resource of National Importance, and how that would impact the project.

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MR. RICHARDS turned to slide 4, which shows three six-and-a-half-foot stacks of binders with 60,000 pages of information provided to FERC. It was submitted in April and was accepted as a complete application. He said FERC's two roles are to advance

the environmental review process and to assure the safety and security of the project. With the application, AGDC had to ask for an initiation of the environmental process and to start the safety and security part. Section 3 is normally for just an LNG plant and not necessarily a plant, an 800-mile pipeline, a gas treatment plant, and a pipeline to Pt. Thomson. The pipeline has been thoroughly studied on numerous occasions, and he hopes that FERC will push it forward. The issue was getting the application complete and accepted by FERC. The partners had pre-filed various editions of the resource report, and AGDC had to assemble it for the application. At the same time, FERC and other agencies were asking for continued information, so in January it had to work rapidly. Detailed questions are still coming from FERC, and ADGC is still addressing the issues. Many of the questions have been answered before.

CHAIR GIESSEL asked if the project will fall to the end of the line if deadlines are missed.

MR. RICHARDS said he will discuss that along with actions that the federal administration has put in place.

MR. RICHARDS referred to slide 5, which shows a map of the pipeline route from Pt. Thomson to Prudhoe Bay with a gas treatment plant, and then the 800-mile pipeline to Nikiski with a liquefaction plant. The pipeline parallels the oil pipeline for the first 400 miles. There were previous projects, including the Alaska Natural Gas Transportation System in 1976, with an EIS [environmental impact statement] conducted by the US Department of Interior. It would have gone through Canada to the Lower 48. After that, there was the Trans Alaskan Gas System [TAGS] that proposed to terminate in Valdez. That EIS was completed by the Army Corps of Engineers and the Bureau of Land Management in 1988. "Another thoroughly studied environmental process by the federal agencies."

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MR. RICHARDS said, most recently, at the behest of the legislature, "we at AGDC have nearly completed the ASAP project, which runs from Prudhoe Bay down to Pt. McKenzie across the Cook Inlet, which again parallels the same route as the Alaska LNG project." He said AGDC will have a complete environmental impact statement by December of this year. Again, it's the same route as the Alaska LNG project. The route has been studied, the same environmental review has been undertaken by numerous federal agencies that are also working with AKLNG and FERC, so the EIS may be accelerated.

CHAIR GIESSEL noted that it is crossing a lot of waterways. There is a ballot initiative related to salmon, and she asked if it would have an impact on the project.

MR. RICHARDS said the project crosses about 430 waterways, so AGDC will go through the process that it is required to with the State of Alaska and in Title 17, and it will make sure to comply with state laws. He said he assumes that the existing process would suffice for this project. He turned to slide 6 and said there are many federal authorizations needed. He enumerated the major federal permits and authorizations, including safety standards, Section 404 of the Clean Water Act permits to protect wetlands, right-of-way leases for crossing federal lands that are mostly north of the Yukon River, and incidental harassment authorizations for protected species from National Marine Fisheries. The activity is all going on concurrently with what must be provided to FERC, he explained. The normal timeline for FERC is 18 months, so the goal is to accelerate that schedule due to the work done on previous projects.

MR. RICHARDS said slide 7 depicts most federal, state, and local authorities to deal with during construction.

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MR. RICHARDS said slide 8 refers to Fixing America's Surface Transportation (FAST) Act of 2015, which is the reauthorization of the federal highway bill. It authorizes state transportation departments to receive federal dollars. There was a provision called Title 41 allowing for major projects—over \$200 million—to be elevated to an expedited arena of review. Originally, AGDC did not apply but decided to in August and was accepted within two weeks. He said that the AKLNG project is now ensured good communication and coordination, which will provide more accountability with the federal agencies. It also means that the agencies must commit to a schedule, and any slippage of that schedule must be reported to Congress. He said he is hoping that AGDC will have all the federal authorization schedules by next week. "That's a great thing," he stated. He said he met with the [FAST-41 Federal Permitting Improvement Steering] Council executive director and identified the previous efforts that have been done for Alaska projects. He asked to help leverage the work of FERC to reduce duplication and improve efficiency and timeliness. He was assured of that. He said, to be accepted under the FAST Act, the council and FERC had to determine whether AGDC was technically capable of completing the project,

and they determined that in very short order, and he took that as positive.

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CO-CHAIR TARR noted that Representative Millet asked which terminal is being marketed, Valdez or Nikiski.

MR. RICHARDS said it is proceeding with Nikiski.

CO-CHAIR TARR said that Representative Parish asked for the number of fish-bearing waterways that will be crossed.

MR. RICHARDS said about 433 waterways will be crossed, but he will later provide a list of fish-bearing waters. He turned to slide 9, an overview of PHMSA special permits. The AGDC is asking for consideration of the large expanses that are uninhabited in Alaska by obtaining waivers for certain pipeline regulations. Regulations are set to keep people safe from pipeline breaks and explosions, and they involve block valves and crack arrestors. Waivers are requested to reduce costs, so the pipeline can have fewer block valves. Engineering analyses show that the spacing can be increased without reducing safety. The regulations are all based on the number of inhabitants and habitable dwellings. He said he is also asking PHMSA to consider strain-based design, the ability to design pipe that will withstand ground movements for frost heaves and ground settlement, particularly in areas of discontinuous permafrost. This is new for a land-based pipeline, but PHMSA allows for strain-based design on offshore pipes all the time. It would allow the pipe to withstand movement greater than 5 percent strain. [He later corrected himself and said it was 0.5 percent strain.] Another issue is sufficient containment in case of a leak on the pipe leading to the loading berths on the trestle. New technology called pipe-in-pipe has been used, "and we feel we can use it as a major cost savings."

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CHAIR GIESSEL asked the diameter of the pipe.

MR. RICHARDS said it will be a 42-inch pipe.

CHAIR GIESSEL asked if AGDC is testing only one diameter regardless of how many trains are constructed.

MR. RICHARDS said the design is 42 inches, but a 48-inch pipe was tested. The ASAP project considered a 36-inch pipe. "We have a very good repository of pipeline data," he stated.

SENATOR MICCICHE said he won't torture him on the technical aspects, but what are the cost savings on the block valves, coating, and pipe-in-pipe? They will reduce costs significantly, he stated. He asked about the probability of success. He is unaware of a US pipe-in-pipe approval, and, unfortunately, being in remote and different geography like Alaska isn't accounted for by federal regulators..

MR. RICHARDS said, "We feel very good after our discussions with PHMSA" on the probability of waivers on mainline block valve and crack arrester spacing after explaining the project's safety procedures. The external coatings, fusion-based epoxy coating versus three layers of polyethylene, will be a heavier lift, because PHMSA has not had that experience in the US, but pipelines around the world use polyethylene, including pipelines constructed elsewhere by Alaska producers. It's all about trying to prevent cathodic corrosion, and he doesn't know the probability. The pipe-on-pipe is a technology that he feels is warranted and has been used, but not in the US. He said AGDC will contend that it will meet the safety requirements; it's all about spill containment, he explained.

SENATOR MICCICHE asked for the estimated cost savings.

MR. RICHARDS said it is in the tens of millions if not a hundred million dollars or more.

[2:35:46 PM](#)

MR. RICHARDS said slide 10 reviews "establishing discipline and accountability in the environmental review and permitting process for infrastructure." The goals are to identify where there is repetition and inefficiencies in the permitting process. It is an attempt to condense environmental reviews and authorizations to two years, have accountability, and "eliminate redundancy and prevent duplication." He said ADGC has identified duplications, and he would like AKLNG to be the poster child to meet the guidelines. He said he has had good conversations with the Council on Environment Quality and hopes the council will enact the guidelines quickly.

MR. RICHARDS stated that the Departments of Interior and Agriculture can designate energy corridors across federal lands, which may expedite the project. In August, Region 10 of the EPA sent a letter to the Army Corps of Engineers designating the waters of the Yukon River Basin as an area of national significance. This is similar to a designation of the Tanana

River around a significant bridge crossing, the Niqliq channel, and the CD-5 development on the North Slope. It elevates any activities that would impact waters, including wetlands. The EPA protects wetlands, but wetlands will be filled for the work pad along the pipeline. The Army Corps of Engineers is authorizing this fill, which concerns the EPA. He said AGDC asked the governor to chime in, and he sent a letter to the EPA administrator. Mr. Richards is hoping that Region 10 will be directed on how it would like to see the process moving forward. He said an Alaskan may be running Region 10 soon and may "alleviate this issue."

CHAIR GIESSEL referenced slide 10 and asked if the pipeline crosses Native corporation land where there might be objections.

MR. RICHARDS said the corridor crosses state, federal, Native, and other private land. The Department of Natural Resources (DNR) granted AGDC a right-of-way on state lands. Currently, AGDC is applying for the federal corridor, and it will begin negotiating with private landowners.

[2:42:41 PM](#)

MR. RICHARDS turned to slide 12 and said AGDC staff have been in Washington DC discussing federal issues and keeping Alaska's Congressional delegation informed. There is a provision in the Senate energy bill asking for relief from Title 11 of ANILCA (Alaska National Interest Lands Conservation Act) for running the pipeline through Denali National Park. The specific section of the act has an onerous burden of requiring a presidential override to agency objections, which is a very high bar, he said. He is looking at the 2004 Alaska Natural Gas Pipeline Act (ANGPA), because it contained loan guarantees of \$18 billion, and AGDC is working on AKLNG to qualify for that assistance. He said the administration is supporting this project, including from the Departments of Commerce and the Interior.

MR. RICHARDS turned to slide 13 and said he is proud of the team he leads. There is an active board and tried-and-true Alaskans who manage the project and its team of consultants. The timelines are being met, he said, and AGDC is using the people who helped develop the AKLNG project for the ExxonMobil-led team. He noted other entities ADGC is working with. He turned to slide 14, listing the next steps. He noted the FAST-41 schedule, nonduplication of federal efforts, working with commercial folks to align the project components, and developing a contracting strategy that offers the best rate to customers to keep it

economically achievable. That is the conclusion of the technical and regulatory update, he said.

[2:48:59 PM](#)

CO-CHAIR TARR said Representative Saddler asked the turnover rate of AGDC personnel over the last three years.

MR. RICHARDS said the former president, the late Dan Fauske, left at the end of 2015. Three vice presidents left in 2016. Some administrative staff moved on. On the contracting side, where most work is done, people move on when contracts are complete.

CO-CHAIR TARR said Representative Parish asked what would cause the board to recommend the termination of the project.

MR. CRUZ said the deciding factor would be lack of a customer. Referring to the previous question, he said the core technical team is the same as day-one. He said he has enjoyed working with them, and it is a very small circle.

SENATOR MACKINNON said the legislature was told that October was the deadline for getting a customer, and after that, "we would cease and desist."

MR. CRUZ said the board has always used December 31. The administration had a different date. A firm take-or-pay contract will not happen in 2017. The board is seeking a solid LOI (letter of intent) by that time. The gas marketing folks have said that if an Asian entity firms up a deal with a Memorandum of Understanding (MOU) and with a letter of intent—those entities do not break letters of intent—and that is what the board is looking for. It will take time beyond that to get the contract.

SENATOR MACKINNON said there have been multiple letters of intent without follow through. Maybe there are different kinds that are more contractual. She noted that when the pipeline headed towards the Lower 48, it had expressions of interest, and she asked if an LOI is more of a contract.

MR. CRUZ said yes. From the end user, the utilities, it is a solid process and they very much are serious when they issue those type of letters, he stated. One of the Asian utilities AGDC is talking to is in China and is state-owned. They have a million employees and 300 million customers. "Our project is a

drop in the bucket for them to contract with us for a long-term gas supply." He said that is unbelievable volume for a market.

[2:56:43 PM](#)

SENATOR VON IMHOF asked if the LOI would have a price number, like eight or nine dollars.

MR. CRUZ said yes, "We are expecting capacity." That will dictate how much they are willing to take and the price they will take. Alaska must be competitive; it is an international commodity. "Our gas is no better than someone else's, other than we're a lot closer, and that's one of the big, big plusses." The other thing is the IRS exemption.

[2:58:28 PM](#)

SENATOR VON IMHOF said, "What we saw in the end of 2017, let's hope that it holds true in 2025." She referred to flexibility and if the buyer can back out. Is there flexibility with the eight dollars in terms of contractual rigidity? Slide 18 shows a projected demand, she noted. How can Alaska respond to the market changes? "Will there be, in this LOI, or are you actively looking to negotiate some type of out by the buyer in 2025?"

[2:59:31 PM](#)

MR. CRUZ said not that he is aware of. "We are not wanting somebody who wants to go to the dance and then when it's time to go to the dance, she doesn't want to go with us."

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SENATOR MICCICHE said he thinks he will wait for Ms. Wilcox's discussion, because there sounds like there might be a midpoint between a firm gas sales agreement and a LOI. He is unaware of binding LOIs.

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CHAIR GIESSEL said slide 15 begins the commercial update.

[3:00:31 PM](#)

LIEZA WILCOX, Vice President, Commercial and Economics, Alaska Gasline Development Corporation, Anchorage, addressed slide 16 that provided an overview of her presentation.

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MS. WILCOX said slide 17 speaks to balancing three competing objectives. One is clearing the LNG market in the Asia-Pacific. Clearing the market on one day does not mean that is where it will stay, she clarified, so what she really means is clearing

the long-term market starting in the mid-2020s. "That's where every LNG project, at the moment, that is in development, is trying to compete." Another objective is acceptable pricing for debt and equity markets, which means getting the debt at a level where the project can compete and getting the equity at the projected levels. In other words, she said, "Can we get equity investors interested with the level of commitment this project has to receive the rate of return that we've projected?" The third objective is for an acceptable netback. Some of the revenue to the state will be the upstream netback, royalties in-value or royalties in-kind. It also means acceptable netback to the North Slope producers.

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SENATOR MACKINNON asked for more information on what constitutes an acceptable netback. Multiple times, the governor has said having money 30 years after paying back debt is unacceptable. If that is the only return, it is unacceptable to her. It is a huge investment, she said, but she will hold off if it will be covered later.

[3:05:49 PM](#)

MS. WILCOX said she will address the netback, but it is not AGDC's decision to determine if it is acceptable. It will provide the information for the state to make that decision.

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SENATOR MACKINNON said this has been an evading answer by the administration. The legislature has been trying to determine what the governor believes is acceptable, and she and the people of Alaska are worried if the governor can make a commitment without asking the legislature. She said, "We did that, so we would have a project that was viable and could produce long-term revenue for our state as well as affordable energy." She added that the concern is increasing, because a penny is not acceptable, and she is not included in that discussion. "That is why you hear Chairman Cruz sort of probing and poking all the time, because you're in the boardroom and we are outside of the boardroom for the most part when you go into executive session to talk about some of this." It is a huge issue.

[3:07:27 PM](#)

MS. WILCOX noted that the netback will be addressed shortly. Addressing slide 18, she said it has been shown to various legislative committees, so it is a review, but she has an update for 2017. The slide shows long-term contracts for LNG from several months ago, and AGDC has not spent much effort updating

it, because not many new contracts have been made. But in the short term, Asia has a bit of an over-sold market, and that is why flexibility clauses are important to Asian buyers. It is from a record upswing in the LNG markets when the prices were high. Every analyst she has heard from expects the market to rebalance in the mid-2020s. There are not many projects that have taken the plunge to commit to that rebalance, she said, meaning not many projects have achieved FID [final investment decision] since 2015. At the same time, 2017 saw record growth in the trade of LNG. Bloomberg expects the global trade to exceed 280 million tons per annum. It was about 245 tpa in 2016, and that is the highest increase since 2011. She said about 5.7 million tons per year of long-term LNG commitments were made in the first half of the year, which is the lowest since 2010. "So, you see the market increase in use of LNG with new projects coming in and with prices being low, but not a lot of new projects being sanctioned. Part of the urgency is due to the long-term development for this project, and Alaska should be on the front end of that next wave to get the contracts. That is why, she stated, they are working so hard on the letters of intent.

[3:10:43 PM](#)

SENATOR JOHN COGHILL said this is predicated on the market "that we're looking for." He has read that the market using long-term contracts are going more into short-term contracts in 2025. He asked if Alaska has to be more nimble.

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MS. WILCOX said the flexibility of new projects will be limited by financing. It is a question of how flexible the banks will be, and so far, they have not shown a great degree of that flexibility, which means that any project that is constructed will need a portion of it to be debt, and debt needs to come with long-term commitments. The spot market is between 15 and 20 percent of the total LNG trade, and it is expected to rise to 25 or 30 percent. Some estimate it to be higher in the early to mid-2020s. There is no question that spot sales and short-term sales will be a larger part of the market, she said, but it won't be the entire market.

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SENATOR COGHILL stated the "two biggies" are Australia and the Gulf Coast. The Gulf Coast has a lower debt, and by the time this window shows up, Australia will probably be paid off. Does that impact the financing and the market? "Since we're taking a shot at a window, I want to know what our chances are."

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MS. WILCOX said the Gulf Coast started producing LNG a couple of years ago, and many are still in development, so they will likely still have debt by 2025. About half of the Gulf Coast pricing is dependent on Henry Hub, and she believes a smaller percent of the pricing for Alaska LNG can be dependent on a commodity, and that is one of Alaska's competitive advantages.

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SENATOR MACKINNON said some projects have utilities as part of ownership, and she asked if there is a limit on end-user percent of ownership as far as debt.

[3:14:20 PM](#)

MS. WILCOX asked if Senator MacKinnon meant equity.

SENATOR MACKINNON said she means equity, "but then I'm looking at our debt per se after that to actually finance the project." There could be an upstream ownership, a pipeline ownership, an LNG ownership, or a transportation ownership in the same project but with different rates of return and risks. Are we looking at capping a percentage of ownership? Is it wide open where an outside organization could have significant ownership interest in the project?

[3:15:21 PM](#)

MS. WILCOX said there is a balance between minimal ownership with no control of the project and maximum ownership with a lot of financial risk or perceived risk. The goal is to present the options and tradeoffs. Ultimately, the state makes that risk choice. By owning the project, the state could receive long-term stable returns. From the cashflow projections, that can be a foundation of the income to the state, she explained. The income from the upstream may be more volatile, but smaller, because the state only has the royalty plus tax compared to the entire project. The state will have to make that choice.

[3:17:03 PM](#)

SENATOR MACKINNON said a legislative analyst showed projects with a 5 percent utility kind of ownership, or maybe a few percentages beyond that. She expressed concern about selling larger shares to utility owners. Utilities want in the discussion, because they want to know the finances associated with these projects. So, they buy small shares to "come inside the tent and hear the information." If they buy larger shares,

they are more likely to start dictating terms to benefit themselves and not the state.

3:18:07 PM

SENATOR VON IMHOF said slide 18 is the crux of the whole deal, and it should be her first slide. It is the periodic gut-check. It is wildly talked about that Alaska gas is very expensive and not competitive. She said she was looking at the International Gas Union, and there are 15 projects just in Canada that will be coming out in 2020. Two, Grassy Point LNG and Discovery LNG, will come out between 2021 and 2014. Both look exactly like AKLNG in terms of capacity and target market, she said. She asked how Alaska gas compares and what their costs are and their debt. "If you're going to build something you want to know exactly who your competitors are and how you fare," she stated. Is Alaska still competitive?

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MS. WILCOX said that is a good transition to the next slide. She will talk about Alaska LNG competitiveness with at least one set of projects that are the most active at conferences and in the markets, "and that is the projects in the US Gulf." She said those projects have had the same uplifting atmosphere as AKLNG with the US trade policy wanting to export more LNG. They are trying to take advantage of that, but they are structured differently, and their competitive drivers are different. The Gulf Coast cost structure for selling LNG to Asia breaks into thirds: a third is infrastructure cost, a third is shipping, and a third is the price of Henry Hub, because those projects generally don't produce their own gas—they buy gas in the Lower 48. The shale gas revolution has allowed them to enjoy low pricing. Cheniere is the company that started exporting LNG first, and there are many projects that are in development, and they all rely on the relatively low cost of Henry Hub natural gas and the relatively low cost of putting a project together in the Gulf states.

MS. WILCOX said the chart shows the Henry Hub costs in yellow, expressed in 2018 dollars, based on the Energy Information Administration (EIA) forecast for 2025. The low and medium forecasts are generally what AGDC looks at. The range is \$8 to \$10, which is the range of what a Henry Hub-based LNG project might present to the market for a long-term contract, because they don't know what they will buy the gas for in 2025. Gas purchases don't go out that far, because it is a liquid market, she explained, so they have to depend on the market to stay where it's at now to really be competitive in Asia. Spot price

for LNG hovered at \$5 or \$6, and now it is \$8.50 because of the increase in the use of LNG.

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MS. WILCOX said Alaska's structure is different. The cost of infrastructure is higher. The range on the chart represents different financing terms. Alaska's advantages include shipping and gas supply. The Henry Hub price is at liquefaction, she explained. "You have to pay for the cost of the pipeline, tariffs to get there—to get to the liquefaction point from wherever it is produced—and you have to pay for the upstream cost of the gas, which requires ... drilling and fracking, nowadays, in order to actually make the supply happen." So, the cost of Henry Hub does not represent the true upstream netback. Alaska's netback is at the entrance to the pipeline and the treatment system that takes it to the market. She added that 75 percent of Alaska's gas is already developed. It is being produced in Prudhoe Bay and re-injected, so it does not require an extensive drilling program. That one to two dollars "is a reasonable amount to compensate the upstream." She said it would be good to get more, of course, but part of the balance is the other terms and the time it takes to make the contract happen. The graphic is attempting to show that Alaska can compete.

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MS. WILCOX said she has looked at the Canadian projects, and Alaska's project is also on the list that Senator von Imhof referred to. The list indicates the stage of the projects, and many of the Canadian projects that were really going strong a few years ago have run into permitting, economic, or sponsoring issues. Many are on the board but are not moving forward at the moment, partly due to the downturn in the market.

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CO-CHAIR ANDY JOSEPHSON said the issue of competitiveness is what it's all about. Looking at the 2037 market would generate the same discussion. Competitiveness is an important question, but there is no getting away from that, is there?

MS. WILCOX agreed. The cost structure of the upstream may change by 2037. The AOGCC [Alaska Oil and Gas Conservation Commission] ruling said the mid-2020s was a good time to start production of gas in Prudhoe Bay, but it would maximize the recovery of oil. In 2037, the state will still be 800 miles long, and it will still be difficult to export LNG from the North Slope.

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CO-CHAIR TARR clarified that the cost estimates on the graph show the lower and upper estimates.

MS. WILCOX said that is correct.

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SENATOR MICCICHE said he would like more details on her assumptions for the cost of supply. Ms. Wilcox seems to be saying that gas to the liquefaction plant will be \$3 to \$6. "I struggle with that."

[3:30:19 PM](#)

MS. WILCOX said the assumptions will be covered next.

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SENATOR MICCICHE asked for an update of the demand data on slide 18. If the source is Global NatGas Advisors, "I would like to see an EIA. That is a very rosy outlook for projected demand." He said he has talked about this several times. The public needs to know that when looking eight years out, there will be a dropout, but he agrees that there is a contract rollover opportunity. He suggested that her diagram paints a different picture than what really exists.

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MS. WILCOX said she would update the demand data and provide examples of several curves that exist, but "I don't believe this is the most aggressive projection." There is a large swing factor out there and some very large economies with many consumers who still have gas as a very small percentage of their energy portfolio. Even a small variation in the growth rate—those economies are projected to grow—can affect the forecast. She will happily provide some examples. She said she has seen more aggressive projections, and they are usually from companies who want to sell gas so should be taken with a grain of salt.

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CHAIR GIESSEL addressed slide 19 regarding shipping costs, noting that China and India will be demanding the gas. She asked what shipping to them will cost. She said she is assuming that the shipping estimate is to Japan.

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MS. WILCOX answered that the shipping estimate ranges from 60 to 75 cents and covers China. It may be a bit low for India, but that is not the core market Alaska is aiming for.

[3:33:36 PM](#)

SENATOR VON IMHOF asked about gas supply on slide 19. She asked if Alaska has a contract with the big three suppliers and the smaller producers.

MS. WILCOX replied that the producers are interested in selling their gas, but agreements have not been concluded. "What we plan to offer is a price that we view will balance those three objectives of the market."

SENATOR VON IMHOF expressed her hope that the letter of intent and the supply complement one another in the next three months.

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CHAIR GIESSEL said, for slide 19, the Gulf Coast would include Oklahoma, Texas, and Louisiana, and she asked why the cost of their gas would be higher than the cost of Alaska's gas.

MS. WILCOX explained that the Gulf Coast gas price is market based—a balance of the cost of production versus demand. It is an index connected by pipelines. Henry Hub has been very volatile, ranging from \$1 to \$1.60 just in the last ten years. It has been \$2.50 to \$3 for a few years. If the projects in the Gulf Coast are successful, "it might be driven by the pull of those projects versus the ability of the producers to satisfy those contracts at a certain price." The producers are located through the US, they have to drill and frack, they have to ship the gas to the facilities that buy it, "and they have that purchase as a component in their contract." The ultimate buyer of the gas has to pay whatever price Henry Hub delivers. It is not the responsibility of the project itself—it's indexed, generally at 115 percent or so, for the gas portion. Why is it higher? Because the cost of the continual investment in gas production and the cost of the pipeline network is part of that number. The gas is not all associated with oil, and people actually drill for the gas and build the facilities to export it. The netback to the upstream producers, which is part of this pipeline-connected market, is likely lower than Henry Hub.

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MS. WILCOX said slide 20, Financial Model Basic Assumptions, shows what is used to estimate the higher-end cost of the infrastructure, which is close to \$6. It is 75 percent debt and 25 percent equity, the general construction period is six years, and production starts in 2025. The toll is for the full build-out of the three trains, and AGDC also analyzed a phased build-out of two trains. She thinks there may be levers to make the

project work even with the two trains. The financial inputs are 5 percent interest on the debt and 5 percent financing fees charged upfront, so that does have a big impact on the project. Anything with such a long construction schedule that is charged upfront is a concern. It may be misplaced in the assumptions, but the IRR is 8 percent for the equity investor based on the 20-year contract term. The assumption for PILT [payment in lieu of tax] is \$450 million during the operational life, slightly escalated as discussed in the previous reincarnation of the project, "and just under a billion dollars O&M that has inflation assumption in it." The PILT is the substitute for property tax for the project, and "O&M" is operation and maintenance expense, she explained.

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MS. WILCOX said the tolls were structured to have a slight escalation of 1.15 percent, and that means the owner of the project starts out charging a lower toll that goes up slightly over its life, but it is still under inflation. That allows the owner or shipper to have a lower cost upfront when starting production. It basically provides for the O&M portion of the project to rise with inflation, because the O&M will rise too, but, for the fixed portion of the project that has already been expended, it keeps relatively flat. The 25 percent equity investment is about \$10.8 billion in today's dollars and is structured to give Alaska the opportunity to invest. A portion of it could be with municipal bonds as the project enters the next stage.

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CO-CHAIR TARR asked about bond limits. Referring to the last general obligation transportation bond, it seems like those don't get much more above a few million dollars. Are there limitations on what can be accomplished with bonding?

MS. WILCOX deferred to an bonding expert.

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CHAIR GIESSEL asked about the \$450 million PILT estimate, because she recalls that it was much more last year.

MS. WILCOX said the estimate was \$550 million, the midpoint between the \$45 and \$65 billion estimate. The pre-FEED was not then completed, and at the bottom of it all, it was tied to a \$55 billion project. Since pre-FEED, the estimate has decreased, and it is reasonable to put out a smaller number.

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MS. WILCOX addressed slide 21, "Debt Data Points," which is an example from an industry publication. There have been many questions on if the project debt assumptions are reasonable. "Five percent has been there for some time," and knowledgeable and experienced people say, "You will know the debt once you have the contracts and those contracts provide the underlying security for the project, and then you will know for sure what the mortgage rate is." The graph provides some good data points that really put Alaska's project toward the top of other LNG projects that have been financed, and she recognizes that it is a large project. It may have a bit of a premium, but this gives AGDC confidence that "we're in the range on our assumptions."

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CHAIR GIESSEL asked if investors ever bring up the Alaska risk factor.

MS. WILCOX said that is the first factor that comes up in any conversation, and that is what AGDC is constantly trying to work with. Alaska's risk factor is a bit of a lore that is not always justified. She said she has seen that Alaska is viewed as a mystery. The projects that are financed in the state tend to do very well, but it always takes a bit of convincing, including clarifying that Alaska is part of the US. "It is cold, but we can still construct things." However, it is a risk, and part of what our teams are doing is de-risking the Alaska factor. The permitting determines a lot of the costs, and it drives, for instance, how the block valves are spaced and how much gravel needs to be put down. "That is what we're doing to, if not eliminate, at least substantially reduce the Alaska factor."

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CHAIR GIESSEL stated that she sees the "Alaska risk factor" as the political environment, including changing tax policy and having tax certificates "that we don't seem able to pay."

MS. WILCOX said those factors have not been part of the discussion so far.

[3:48:02 PM](#)

SENATOR MICCICHE asked the project view on royalty versus "ROI" of the state. If the state invests, "what is your vision on that proportion?"

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MS. WILCOX noted that she will address what the cash flow could look like if the state was the owner, and that would provide 100 percent of equity investment. She said she is not making a judgment on what equity the state will take, but those numbers can be scaled fairly easily.

SENATOR MICCICHE said he is wondering about the baseline and the right proportion.

3:49:38 PM

MS. WILCOX said if the project is successful in its current state, just by virtue of having invested in it, the state will be a part owner because of the money that has been spent, if it is any good at getting some value for that in the equity model. As far as how much the state should invest, that is the state's decision.

3:50:21 PM

MR. CRUZ stated that the first customer will dictate "so much to us." The state will have to look at the rate of return and if it is worth the investment, or if it uses outside funds. Either way, Alaska will have an equity position. "We're not giving it away, I can tell you that."

MS. WILCOX added that the state's capacity to invest has a large impact. Slide 22 is a review of capacity solicitation from the summer. The solicitation causes a lot of questions, but the reason that the capacity solicitation occurred over the summer is that AGDC and the state wanted clarity of how much LNG they are representing in the market and how much LNG would likely be sold by the upstream owners. It was a broad solicitation, not just for the upstream producers. The marketing effort had started earlier in the year, and normally buyers wait to see what the project owners, sponsors, and resource owners will do. The responses received were from one North Slope producer and one that was not conforming to the solicitation. The LOI that went out is part of the committee materials. Then AGDC responded to its own solicitation as the owner to make sure that it got foundation capacity right on the project, "so the we'd be ready to buy the LNG, ship the LNG to the system, and sell the LNG." Based on the result, AGDC received some clarity that the majority of LNG would have to be sold by AGDC representing the state, and it would have to be through a purchase of gas and a sale of the end product. She said that is not an unusual scenario for an LNG project. Many are financed that way. In fact, ultimately the offtake contracts for many LNG contracts are financed on the basis of the offtake commitments. That is

another reason why many buyers have a keen interest in having a position in the project itself, because they know it's their credit and the value of their contracts that are taken to the bank.

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CO-CHAIR TARR asked about the diagram on slide 21 and if the size of the circle is relative to the value of the debt taken on, and the Y axis is the interest rate for borrowing. All of the dark blue circles represent US projects, but which represents AKLNG?

MS. WILCOX said the AKLNG project has not been financed, so those represent Gulf Coast projects and one East Coast project.

[3:55:11 PM](#)

CO-CHAIR TARR asked on behalf of Representative Parrish if AGDC is considering a debt more than three times higher than any on the diagram.

MS. WILCOX said it is a large infrastructure project, but it has not been a secret, so that is correct. Most of the projects are financed and built in phases. It is the smallest size that can compete in the market, so they start with two or three trains, and that is the size of financing, and then they build up from there. Because of the pipeline that is necessary, Alaska cannot start as small; however, some of the circles may be different phases of the same project. Sabine Pass has already had one expansion, and if they put out two different finance packages, there may be two separate circles, but in totality that project is close to 45 billion [dollars].

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SENATOR MACKINNON asked if AGDC has to be the marketer. When the project was approved, there was a conversation about joint marketing with some of the producers. As she recalls, BP and ConocoPhillips had offered to joint sell. Is that off the table?

MS. WILCOX said AGDC had an MOU with ConocoPhillips on marketing. The concept would be purchasing the gas upstream and marketing. At this time, AGDC has not reached an agreement to execute the marketing. In the meantime, AGDC has been going out to the market representing, potentially, the state's gas, but that would be DNR's decision and potentially gas that Alaska could buy, but, ultimately, under the constructs of the MOU, the gas would still be purchased upstream.

[3:57:56 PM](#)

SENATOR MACKINNON asked if the price of something goes up or down if there are more people selling it.

MS. WILCOX explained that the price would go down.

SENATOR MACKINNON said that is her concern, and she has expressed that to the administration. If a producer is selling in a market that Alaska hasn't been in before, and the producer already has contracts and buyers, for Alaska to create another option and not go in jointly would be negotiating against the state for a lower sale price. She asked why that is a good thing to do.

[3:58:40 PM](#)

MS. WILCOX explained that the state has stated a preference for a joint marketing agreement, but it would be joint with all producers, and no agreement has ever been reached. There are marketing organizations. She said she is not aware of them actively marketing Alaska gas. There would be economies of scale and leverage just having one marketer of Alaska LNG, "but, obviously, we can't prevent other projects competing with us, whether they be owned by Alaska producers or others."

[3:59:34 PM](#)

SENATOR MACKINNON said, "I can only express the concern that I've heard in the legislature about us entering into a market that is very different from a Henry Hub that's in the US and going in—I believe it's called a Japanese cocktail, if I'm recalling correctly." That means that an entity has to go to each individual buyer that might be regional and not centralized. Constituents are telling legislators that Alaska does not have that expertise, and the producers already have those potential buyers out there.

[4:00:27 PM](#)

REPRESENTATIVE JOHNSON referred to the supply chart and shipping "and so on." She has heard that the negotiations with Japan had stalled due to plants being built in Oregon, making the shipping costs go down. "Are those still in the works or are those being stalled as well?"

[4:01:14 PM](#)

MS. WILCOX said the Jordan Cove project in Oregon has just resubmitted its FERC Section 7 application for a pipeline. The previous pipeline route was rejected by FERC on the basis of eminent domain, and FERC needs to be satisfied that enough

demand exists for the project. The situation is different. She said she read the revised application advocacy from the head of the project, and she said there have been maybe 56 reroutes trying to get the pipeline around some of the problem areas. The project is still dealing with over 400 private land owners, and about 30 or 40 percent have signed some letters to agree. That is a different public process situation. She said she believes that Jordan Cove had an LOI with JERA, a major Japanese buyer, and one project does not necessarily change the situation for them in 2015. A number of companies are working with AGDC in Japan, so the Oregon LNG project won't expressly affect things.

4:04:03 PM

MR. CRUZ said ConocoPhillips has clearly stated it wanted to be a wellhead seller. One of the measures that senior management has wanted to see is a tax-exempt status. When AGDC received the status, Mr. Cruz got an email of congratulations from senior management in the main headquarters of ConocoPhillips. He said he took that as a very good thing for the state. The expertise that AGDC is using for gas marketing is the same that sold the Gorgon project in Australia to Tokyo Gas and Electric. Are we getting in over our head? No, we are using players that are real in this game.

4:05:23 PM

MS. WILCOX addressed slide 24, "Gas Supply," and said that the results of the capacity solicitation do not preclude the existence of tollers other than AGDC; all it does is grants those foundation customer rights at the start of the process, but we know that most of the LNG sold would be represented by the State of Alaska. The AGDC buys the gas, and the state could potentially sell its own gas. The diagram shows how AGDC envisions calculating the netback to present to DNR and the upstream sellers. The calculation takes the price received in the market through the sale and purchase agreements for LNG; the price would be free on board in Nikiski and account for the shipping advantage that AKLNG has, "but we would start calculating from Nikiski, and we would subtract the toll and transfer the netback to the upstream owner, DNR or a producer." That is how AGDC is starting to talk about the LNG sales. Part of what makes the project competitive is the infrastructure cost that can be financed—"and if we take advantage of that and include that in the price, we can potentially have a very stable price, but a risk modification factor for an owner of the project, the state or someone else, is that you need a price that potentially has a floor that can cover the toll." It is a slightly different structure, but it is a hybrid for what has

been done in the LNG industry, where the LNG was sold oil-indexed and it would just vary with oil. It would sometimes have some callers on it, so it would have some limitations on the top and the bottom. In the Gulf, they have used a tolling structure where the toll is essentially guaranteed to the project owner, and then the upstream varies with the index. "We're trying to bring the structure into Alaska; we realize that our toll has to be higher, but we do have the advantage on the shipping and, we think, on the upstream, to still meet a competitive price." Other projects are trying to be as creative as possible, so there have been some announcements about making fixed-price deals for a short period of time, because those projects can't guarantee the Henry Hub to stay where it is.

[4:08:57 PM](#)

SENATOR MACKINNON asked if she is correct that the reason that Mr. Cruz has stated that it depends on the buyer is because the first buyer will pay the debt service for the long term.

MS. WILCOX explained that the first serious buyer gives the confidence for the project to really start raising capital. She said that is how she understands it. Once a project starts to have some momentum and there is a reputable party that is interested, that should provide confidence that selling the entire project is achievable.

SENATOR MACKINNON asked for clarification that the first buyer provides a foundation for debt service or other items.

[4:10:20 PM](#)

MS. WILCOX answered absolutely. Once that package is put together, the bank will want to make sure that all the capacity is subscribed, or nearly all. As far as charging each individual buyer, it is done on a nondiscriminatory basis.

[4:10:42 PM](#)

SENATOR VON IMHOF asked how the second bullet on slide 24—netback price where a portion of the LNG price is indexed to commodity and passed on to upstream—affects the yellow portion, or gas supply, of the diagram on slide 19.

MS. WILCOX explained that the long-term fixed price with escalation can be equated to starting at one dollar and escalating to two dollars over the time of the project. On the netback price, there could be more upside at times and more downside, but that is generally the range that it would expect to vary in order to compete.

SENATOR VON IMHOF said they had talked earlier about the flexibility in the range. When taking the individual slides and bringing out various concepts, it is important to finally draw them all together in one diagram and show the flexibility points and ranges of where we have to fall to be competitive. "You are showing this gas supply. We are putting pressure on our competitiveness at the supply wellhead, which is fine, but how does that affect the overall project?"

[4:12:17 PM](#)

MS. WILCOX said AGDC will work on a one-slide presentation. The range for the US Gulf Coast, at the moment, appears to be around \$8 for competing long term. Some projects are higher, and some are lower, but that is viewed as the long-term price, which could change in the future. What AGDC is saying is Alaska has enough advantages to be able to compete with that.

[4:13:12 PM](#)

SENATOR VON IMHOF asked about Gulf Coast pricing.

MS. WILCOX said some contracts are not as transparent as they could be, but their structure is a toll, which in the earlier contracts are in the range of \$3 to \$3.50. It is 115 percent of Henry Hub, so that adds up to around \$6.50 plus about \$2 in shipping. Some are different, and she has seen some that arrived in Asia that were as high as \$12.50 several months ago, but she is not sure how they were structured.

[4:14:28 PM](#)

SENATOR VON IMHOF said, "If you think that this panel right here is a tough customer," municipalities and Native corporations will be very formidable forces, and they will want much clearer answers than what Ms. Wilcox is providing. They will want an annual pro forma to know exactly where the money is coming from and where it is going. The committee is not asking that now, because it is a long presentation. She told her that the transparency that Ms. Wilcox is not providing today will be demanded by Alaskans from around the state, as they will be contributing 25 percent.

[4:15:54 PM](#)

MS. WILCOX said one question was the significance of non-binding agreements, such as memoranda of understanding (MOU) and letters of intent (LOI). There are "outs," but they are taken very seriously by the LNG industry. A final agreement will likely not be signed until the pre-final investment decision. Both sides

will want to know that regulatory approvals are well in sight and that more engineering has been done in order to solidify the estimate. However, those significant LOIs are from the parties that AGDC has been talking to in Asia and they want the supply in the timeframe of the project and they could go for this location. They think they can indicate a term, a volume, and potentially a price. If the price is not in the letter of intent itself, it has frequently been part of the discussions. "So, that price has been broken down for the buyer, and the buyer has reviewed the data enough to have some level of belief in it." It is also important to the large utility buyers that the project rises to the level that allows them to devote resources to it. The relationship with the marketing organization has been established and tested on a trial agreement, such as an LOI or confidentiality agreement. Evidence suggests that it takes one to two years to get to an LOI.

[4:18:54 PM](#)

CO-CHAIR TARR said that Representative Saddler asked if an LOI is a commitment that AGDC can take to the bank. He is getting frustrated that AKLNG success keeps getting redefined downward. Expressions of interest, LOIs, and MOUs are agreements in principle, but none justify continued investment or activity. He asked for evidence that he is wrong.

[4:19:39 PM](#)

MS. WILCOX replied that the best evidence is that under the project structure that AGDC is proposing with a relatively low return on equity for the investment of a utility rate of 8 percent, this project can be competitive. She said AGDC has been spending the last several months trying to get the confirmation from the market itself, and some progress has been made. There is no final confirmation.

[4:20:26 PM](#)

CO-CHAIR TARR noted that the state had signed a MOU or LOI with Korea Gas (Kogas), and that seemed like an important announcement, but [Kogas] had signed a few others on the same day. Will Korea have a demand requiring several contracts, or does it mean that they are just wanting to talk to several projects, but not select them? She asked how Alaska ranks if it is not the only project that Korea is talking to.

[4:21:43 PM](#)

MS. WILCOX said Kogas is a state-owned company. At the time of the MOU with AKLNG as well as three other projects on the Gulf Coast, South Korean President Moon was on the way to Washington

DC and had a very large delegation with him. Part of the drive to sign all the MOUs was a first step toward a change in the trade direction. Korea wants to switch more to natural gas for environmental reasons, and it wanted to show interest in getting it from the US. The fact that AKLNG was the only West Coast project is a very good point for the state. The Alaska project has differences with the Gulf Coast, so it is not necessarily competing. Kogas is looking at whether AKLNG has value or doesn't. The Kogas portfolio has a large drop off in contracts in that timeframe. They have a stable demand and not a lot of growth, but, clearly, they are shopping around. It would be a step in the right direction to be able to prove the value of AKLNG to them.

[4:24:03 PM](#)

CO-CHAIR TARR said she shares some concerns with Representative Saddler. It sounds like it is a case-by-case situation.

[4:24:56 PM](#)

MS. WILCOX said it is specific to the buyers. Texas and Louisiana have several projects each, so the states, themselves, promote the industry in general, and each project gets very excited and makes all the announcements they can, because it adds to the momentum. The State of Alaska with one LNG project can do that, and that is part of the challenge. It is good to be fair and reasonable, but AGDC is trying to grab that momentum.

[4:26:15 PM](#)

MS. WILCOX said slide 26 shows the count of marketing activities. Intensive marketing has started recently. Pre-FEED has been completed, and the FERC application has been made, so the project has something to market with. Marketing has been intense over the last few months.

[4:27:01 PM](#)

MS. WILCOX said slide 27 lists the marketing focus areas, which are large buyers where Alaska has a shipping advantage. Slide 28 shows the number of confidentiality agreements and the buyers interested in investing who want to access the data-room, which is a large commitment of time. It shows the number of LOIs that AGDC is negotiating, with actual drafts going back and forth. There are three executed documents, she explained.

[4:28:09 PM](#)

MS. WILCOX said slide 29 addresses the IRS private letter ruling, which the IRS published today. The letter asked for confirmation that AGDC is a government entity whose revenue is

not taxable. The request described the potential structure of the project, with private parties reserving capacity and selling the gas to it. The project was described hypothetically, but the specific question was if AGDC is tax exempt. The IRS was not asked if the entire project would be tax exempt, because we don't know who the owners of the project are yet, but if the project is set up as a tax pass-through entity to the extent that the state or AGDC owns a part of the project, then part of the income from the project could be passed through to the state without federal tax.

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CHAIR GIESSEL added that the application for the private ruling is included in the meeting documents.

[4:29:53 PM](#)

CO-CHAIR TARR said Representative Saddler would like a response to his concern that he has "heard nothing today that justifies continuing with this project."

MS. WILCOX replied that the signed LOIs are confidential, based on the counterparty's request. There is a way to share confidential documents with legislators, in fact, that is specified in the LOIs. As far as showing proof that further investments are justified, it could be in those documents.

[4:31:07 PM](#)

CO-CHAIR JOSEPHSON surmised that the confidentiality agreements cannot be shared publicly, but AGDC sees signs of progress.

MS. WILCOX said there are conversations and meeting notes that give AGDC confidence, and the tempo of the signing of the LOIs and the tempo of engagement on this project has been faster than almost anything that the AGDC marketers have seen in previous experience, and they have decades of experience. There is the issue of Alaska's credibility as an LNG exporter—location really does matter. Some buyers have experienced Panama Canal issues with Gulf Coast LNG. "I'm not saying it's going to shut down the LNG industry by any stretch," but the general attitude of the meetings is hard to convey, and ultimately it all results in a contract.

[4:32:58 PM](#)

CO-CHAIR JOSEPHSON noted that it is the duty of legislators to be circumspect and raise tough questions. He recalled the August 16 meeting about a positive revenue ruling, and it was met with great skepticism. He said he set through that meeting, and there

were a number of legal briefs presented in detail. Some were more sanguine than others, but as a body, the legislature was broadly unconvinced, and yet AGDC achieved that. He commended Ms. Wilcox and looks forward to hearing more about it.

4:33:54 PM

SENATOR MICCICHE said there is not enough time in this meeting. He noted that Mr. Cruz walked into this meeting with "a lot of people hanging in there with you." He said he is from the district where the proposed liquefaction facility ends up, and he has had peripheral experience in the industry for a long time. He is excited about the project with the cost of supply that is competitive with the Gulf Coast and the Middle East. He added that LOIs and MOUs do not fund projects. "How do we hang in there with you?" He said he understands where AGDC is, and everyone has done an incredible job. "When is a fair timeframe for us to encourage this project to the point of where we say, 'Now is not the right time?'"

4:35:31 PM

MR. CRUZ said he likes those questions. He wants Alaskans to understand this because they are the stockholders. He said he has been involved since Day 1, and when AKLNG was an Exxon project, "not once did they ever talk about a customer, bring a customer to Alaska, even though we knew who know who customers were; it was all about those three partners getting along and prosecuting the work." He added that AGDC has brought the customers and searched them out, which has never been done in the history of this project. There have been LOIs agreed to. TransCanada said it was going to build a pipeline and sell it down south. He said he has renewed faith based on all the things that are coming together. He understands that an LOI doesn't get Alaska a pipeline, "but an LOI gets us a heck of a lot more than we have right now for a confidence level." The fact that there are five LOIs gives him "huge confidence."

MR. CRUZ said, regarding how long AGDC should hang in there, the board has to have something by the end of this year. It has to have something that he can take to Alaskans and say, "We've got an LOI; we've never had that before. These companies have come forward and said we're interested in purchasing X amount per day. We have checked the dots that we actually have people that want to sell their gas, because they do." At that point, he said, the board has to determine what is best for the state. Legislators are all welcome to sign a confidentiality agreement and look at "what we have here," and that's when the board has to make that decision. It is a tough time, he said, and he hopes

he is answering the question. If AGDC does not have substantial LOIs at the end of this year or by January 15, then "we have to look at this and say that this is not going to be a feasible project." He said he doesn't want to sit another two years thinking that somebody is going to knock on the door. What really drives this project is construction, he added, and we have seven years to build this thing.

[4:38:35 PM](#)

SENATOR MICCICHE thanked Mr. Cruz for his answer. There are a lot of people asking that question and he thinks it is a fair answer, and it's the most direct he has heard. He said he understands Mr. Cruz's position. There are things moving this way. That's a fair answer.

[4:38:57 PM](#)

SENATOR COGHILL said he has been as skeptical as anyone, but he is glad to see what is being focused on. He asked at what point does the project become a taxable entity because of the make-up.

[4:39:32 PM](#)

MS. WILCOX explained that AGDC's income, to the extent that it is an owner of the project, will always be tax exempt. That is the IRS ruling. The extent that that benefit is passed on to the entire project in the form of tolls, that is flexible. Some of it could be passed on and some of it couldn't, but AGDC would get a higher return than other owners, but that generally does not land extremely well in the market. The degree of state ownership will determine the benefit of the tax-exempt status; however, the total potential impact is not that material. Consultants, "Wood-Mac," presented about a \$0.45 difference for a ringed-fenced stand-alone project. For owners of other projects in the US that could take advantage of write-offs while the project is having losses, the difference is as little as \$0.20 for the entire tax exemption. That is because of the low return on equity that was projected.

[4:41:18 PM](#)

SENATOR COGHILL said that at one point [the exemption] was shown as a key element.

[4:41:31 PM](#)

CHAIR GIESSEL asked Ms. Wilcox to move ahead to the netback for Alaska. Citizens are asking what is in this for them.

[4:41:43 PM](#)

MS. WILCOX addressed slide 35, "State of Alaska Investment Opportunity," which represents the total potential cash flow. It is modeled as the state being 100 percent owner. If the state made no investment in the project, and all it received is the netback, then one to two dollars would give it \$250 to \$500 million per year. That is outside of the \$40 billion investment decision—if the project just happened. The model assumes that production tax is paid as gas and there is a royalty percentage. Those are the two "thinnest" bars on the chart. The yellow portion of the diagram is the investment decision, and that is a different cash flow; it is if the state actually takes equity going forward on the project and earns an 8 percent return over 20 years. The income is \$1.1 billion per year for the 20 years that the debt is being paid off, and then the income could potentially go up if the tolls can be kept at the same level.

MS. WILCOX said that is the \$11 billion investment decision, if you will. In addition, the operating payments in lieu of taxes would be considered part of the state return, even though some of it goes to the municipalities. It is represented by the light blue bar on the diagram. If the state were to own the project and help it happen, it would start at about \$2 billion per year and rise from there. The investment part is scalable, so by investing less, there is less return. It is not a pro forma; "we're using the data that we have that is all rolled up that has quite a bit more detail to it, but it is still an end-of-preFEED projection of capital expenditure over time and revenues over time." This is not the time that the \$11 billion is being requested, she clarified, this is the time \$3 million per month is being spent to de-risk the project and to get the customers in the door. Then, AGDC will shift to making detailed, month-by-month projections, because it will determine the pace and size of the project.

[4:45:37 PM](#)

CHAIR GIESSEL asked if the diagram assumes no cost overruns, construction delays, or fish initiatives that would create lawsuits.

MS. WILCOX answered correct. The cost estimate of the project is about \$43 billion, and that has a 16 percent contingency.

[4:46:16 PM](#)

CO-CHAIR TARR asked to clarify that if the state makes no additional investment, through the royalty and the tax-as-gas, it would be around \$250 million per year.

MS. WILCOX said yes, and that is with the one-dollar estimated netback for three trains.

CO-CHAIR TARR said if Alaska becomes an equity investor, the yellow part of the diagram is all negative cash flow until 2025, when the project comes on line, but then that brings the return closer to \$2 billion per year. She assumed that the goldenrod-colored portion would be what the state would have to pay back, so in the early years, Alaska would still be looking at the royalty and tax-as-gas until phasing out of the 20 to 25 years of financing.

[4:47:30 PM](#)

MS. WILCOX replied that financing is netted out, so the diagram shows the net income.

SENATOR MACKINNON asked if PILT is included.

MS. WILCOX said PILT is the light blue portion.

SENATOR MACKINNON asked if PILT is included in the \$250 million to \$500 million.

MS. WILCOX said PILT is outside of that.

[4:48:13 PM](#)

CHAIR GIESSEL said Ms. Wilcox alluded to three trains. She asked about two trains.

MS. WILCOX said she has not included that model in detail. Generally, LNG projects try to start as small as they possibly can, which was the genesis of the ASAP project that she started working on in 2011. The size depends on the market. For the two-train model, there can be a case where the cost of the infrastructure is largely similar to this one with some modifications. The modifications could be extending the contracts that financing is based on from 20 to 25 years, stretching out the depreciation. Since they are smaller investments, potentially the payment in lieu of tax portion of the toll could be reduced until the third train is constructed. The property tax is based on the level of investment. With that, you could get close to the same tolls. One of the key considerations in financing is whether you have the gas behind it, and with two trains, because the capacity is less, you could have that gas stretch for 25 years.

[4:49:44 PM](#)

SENATOR MACKINNON said she is a former assembly member for Anchorage and remembers when the Trans Alaskan Pipeline was built. There are huge safety concerns during construction, "and huge waves of people are coming in." It looks like PILT is only being offered after the project is complete, and the negative impacts are during construction. She asked if Ms. Wilcox is taking that into consideration at all.

MS. WILCOX said there is a construction PILT estimate in these numbers. In the current model, it is estimated at an additional \$200 million, and that is to directly pay the communities for the impacts. She said Resource Report 5 indicated a net positive income for the communities over the period of construction, because many communities have taxes. This project will not have as large an impact on the state as the oil pipeline did because the state is bigger, and the project is smaller, "but we recognize those issues."

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SENATOR MACKINNON asked where to find those numbers.

MS. WILCOX replied that they are in the yellow part of the diagram, because it is considered part of the capital estimate.

CO-CHAIR TARR said that in the previous iteration, the dollars before the project came on line were considered "impact aid." That was different from the PILT, but it sounds like those are all considered the same pot of money.

[4:52:20 PM](#)

MS. WILCOX said they are being considered within the capital estimate, so the impact aid, the construction payments in lieu of taxes, are to compensate for impact. It is not there as a profit-making tool. That is why it is not presented as part of the return to the state, because it's just trying to offset the negative rather than be a positive. It is part of the cost.

SENATOR MACKINNON asked if Alaska is going to capitalize that debt. Will there be an expense and carry out across the state's debt load to be able to do impact aid or PILT to advance the project?

[4:53:10 PM](#)

MS. WILCOX replied that the owners of the project would pay for that. To the extent that the state is an owner and there is a local community impact, she expects the community would ask the project to compensate.

[4:53:46 PM](#)

MS. WILCOX addressed slide 36, "Netback," and said it is another way of representing what the range of the netback would be. There is more detail behind the blue-shaded area, which included the entire pre-FEED cost estimate and shipping costs. The blue area is the infrastructure and shipping costs, and the grey bars represent pricing projections. The projections are based on Henry Hub-based LNG, so the only variability in them is the forecast for Henry Hub in 2025. The slide shows that in order to be competitive, the Alaska project needs to at least match a competitive market. If the netback is indexed to something, then it would vary throughout the project life, and if it is not, then it is determined upfront in the contract.

[4:55:25 PM](#)

MS. WILCOX turned to slide 37 and said that the "investment banker" will assist AGDC in defining key financing objectives, such as what type of investor to look for, what return is expected, and where those investments could come from. They will work with AGDC legal advisors to evaluate and execute the corporate structure, so it is financeable on both the debt and equity side. That means the corporate and company set-up and all the contracts. The bankers will evaluate and minimize key risks that are in the contract that AGDC is working to negotiate and will interface with financial agencies and lenders and help raise the capital for the project. They will have the pen, in the end, for the stack of documents that show up at the final investment decision. She said AGDC has taken some time evaluating the investment banker. Part of the issue was brought up by the Department of Revenue who advised that, as a municipality, AGDC requires an independent advisor. There is an issue related to Dodd-Frank [Wall Street Reform and Consumer Protection Act, 2010], where AGDC cannot bring in a financial advisor who will be part of the pool of candidates for the investment banker. To attract a large entity that would want to participate and be with the project upfront, it will take some work to create a compliant structure. She said there are two very reputable entities in the running, and a letter of engagement is likely imminent. The cost of the advisor will likely be fairly low, tens of thousands of dollars per month, but once they actually start the capital raise, it will be a large sum. In the model, it is 5 percent of the debt.

[4:58:37 PM](#)

SENATOR MACKINNON asked about a report on financing.

MS. WILCOX said the DOR is shepherding that report.

4:59:00 PM

CO-CHAIR TARR noted that Mr. Richards was going to provide a list of fish-bearing streams and the monthly financials were going to be made available with the meeting documents.

4:59:23 PM

CHAIR GIESSEL listed the documents linked to this meeting. Ed King supplied a letter related to royalty-in-kind and in-value.

5:00:23 PM

There being no further business to come before the committee, Chair Giessel adjourned the Joint Resources Committee at 5:00 p.m.