

MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD

September 11, 2014
9:38 a.m.

Taken at:
Alaska Mental Health Trust Authority
3745 Community Park Loop, Room 120
Anchorage, Alaska

SUMMARY MINUTES

MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD:

Deputy Commissioner Mike Pawlowski, Chair
Commissioner Susan Bell
Mayor Clay Walker
Mayor Larry DeVilbiss
Mayor Luke Hopkins
Mayor Michael Navarre
Robert Bartholomew
Robert Venables (via telephone)
Mayor Reggie Joule
John Bitney, for Mayor Brower

Others participating:

Bob George, Gaffney, Cline & Associates
Shalon Harrington, Office of Mayor Dan Sullivan
Jim Shine, DOR
Fred Parady, DCCED
Joyce Lofgren, DOR
Tom Williams, BPXA
Dan Seckers, ExxonMobil
Bill White, OFC
Joe Hardenbrook, AMP / FNSB
Marie Evans, ConocoPhillips
Patty Bielawski, TransCanada
Tim Harper, DOR
Laura Pierre, Legislature
Kathy Ahgeak, North Slope Borough
Shawna Siminski, for Mayor Dan Sullivan
Stephanie Alexander, Department of Revenue

PROCEEDINGS

CALL TO ORDER

DEPUTY COMMISSIONER PAWLOWSKI called the meeting to order at 9:38 a.m.

ROLL CALL

MS. ALEXANDER from the Department of Revenue called the roll of board members in attendance.

DEPUTY COMMISSIONER PAWLOWSKI stated that Commissioner Rodell apologized for not being in attendance, as did Commissioner Balash.

APPROVAL OF AGENDA

COMMISSIONER BELL made a motion to approve the agenda.

MAYOR HOPKINS seconded.

There being no objection, the motion was approved.

APPROVAL OF MINUTES

DEPUTY COMMISSIONER PAWLOWSKI moved on to the minutes of August 5-6, 2014. He asked for any corrections.

MAYOR NAVARRE stated that on the second-to-last page of the minutes, at the bottom, his assistant's name is Elizabeth LeDuc not Lisa LeDeaux.

MAYOR HOPKINS asked if the minutes could be numbered.

DEPUTY COMMISSIONER PAWLOWSKI replied that when the minutes are amended, numbers will be added.

MAYOR DeVILBISS made a motion that the minutes of August 5-6, 2014 be approved.

MAYOR NAVARRE seconded.

There being no objection, the minutes were approved.

DISCUSSION OF MAGP BOARD PROCEDURES

DEPUTY COMMISSIONER PAWLOWSKI stated that Mayor Hopkins had asked to go back and look at what the operating procedures would be. He continued that the advisory boards have latitude to adopt procedures determined by the advisory board and are working with the Department of Law to provide the standard ethics presentation about the board members' role and responsibilities around that. He added that the question is how to draft the report and how

to agree on what this first advisory report will come out with. He asked for an open discussion on how to accomplish that.

MAYOR HOPKINS began by going back to points raised at the first meeting about the voting, the content of the report and ensuring it will be written.

DEPUTY COMMISSIONER PAWLOWSKI replied that the intent of the board is to work openly towards a consensus with recognition that there may be issues where a consensus cannot be reached. He stated that in drafting the report, inserting alternative opinions in sections that provide recommendations need to be considered and stressed that the goal is consensus. He added that it is also important to remember that this board lives on and continues to work, and this is the first recommendation. He continued that the initial recommendation was around property tax, support and guidance for communities

COMMISSIONER BELL stated that since this is a report to the Governor and the Legislature, it should be able to capture different recommendations that were considered, alternative scenarios to present a full body of information. She added appreciation in advance to the staff for the work they will be doing to frame things.

MAYOR HOPKINS asked if this report will be covering more than property tax, and then asked if it will get into impact funding.

DEPUTY COMMISSIONER PAWLOWSKI replied that the first thing the Legislature would need to do is to consider what statutory changes need to be made by looking at recommendations.

A short discussion and explanation ensued.

MAYOR NAVARRE stated that in order to get a formula, a sort of valuation would need to be figured out.

DEPUTY COMMISSIONER PAWLOWSKI agreed that the valuation has to be set to the equation, and then run that analysis. He added, that process has started so that the models can be calibrated when running the analysis. He moved on to the report draft stating that the group would issue a draft, bring it to an open meeting, talk about the issues with the language, do another draft with an open discussion about what to include, exclude and any comments. All of that would be included, as opposed to voting up and down to exclude the comments.

The discussion continued on the procedures.

COMMISSIONER BELL introduced Deputy Commissioner Fred Parady, and stated that he will be her alternate on this board. She continued that part of his portfolio is community and regional affairs, and he will bring in the expertise of the State Assessor.

DEPUTY COMMISSIONER PAWLOWSKI thanked Commissioner Bell, and asked that the discussion on procedures be added to the next meeting's agenda.

PUBLIC PARTICIPATION

DEPUTY COMMISSIONER PAWLOWSKI moved on to public comments and public participation. He asked if anyone would like to present comments to the Municipal Advisory Gas Project Review Board.

MR. RICHARDS stated that he is Craig Richards, and was here on behalf of the City of Valdez. He commented the hope that as drafts of various reports went to the board members that they would also be posted online on the Website at the same time. He continued that a lot of communities are interested in the exchanges. He thanked the Board for their work.

DEPUTY COMMISSIONER PAWLOWSKI appreciated that comment, and asked that the future meetings be posted in advance so that other members of the public can plan ahead about the meeting schedule. He asked for any other comments.

MS. AHGEAK stated that she is Kathy Ahgeak and is acting mayor for Mayor Brower. She stated that she was unable to get on voice for the attendance roll call.

PRESENTATION

Gaffney, Cline & Associates

Bob George, Vice President

Nick Fulford, Global Head of Gas and LNG

DEPUTY COMMISSIONER PAWLOWSKI asked Bob George with Gaffney, Cline & Associates to begin, and encouraged the asking of questions during the presentation.

MR. GEORGE began by greeting and thanking all. He started with some objectives for this meeting aimed at getting the big-picture items that are likely to come ahead. He emphasized that the process of developing an LNG project is, from an economic perspective, different than an oil project. He continued that the sales profile from an LNG project is essentially flat, and the proposal at the moment is to build a project capable of selling something over 17 million tons of LNG a year. He explained this more fully, and continued that Alaska is going through the phase of getting buyers' wants, needs, and figuring out the options from both the buyer and seller's side.

DEPUTY COMMISSIONER PAWLOWSKI commented that in looking at the mechanism, it has to be able to deal with what happens in an expansion when value is added that is different than the underlying value of the project.

A discussion and explanation ensued.

MR. GEORGE moved on and stated that this proposed LNG project is a big number, and there are projects of this scale around the world, but not very many. He continued to the PILT suggestion, which is rather than having something which is a percentage based on an assessed value, translated into a mechanism that is directly linked to the project's earning capacity as it progresses through time. He stated that netback is a market that ultimately determines the price someone is prepared to pay for the product with the expectation that it is going to be a contract that is linked to movements in one or another product pricing.

DEPUTY COMMISSIONER PAWLOWSKI called for a break.

(Break.)

DEPUTY COMMISSIONER PAWLOWSKI stated that Mayor Sullivan is represented by Shawna Siminski today. He asked Bob George to continue the presentation.

MR. GEORGE continued his presentation, explaining the slides and answering questions as he moved along.

COMMISSIONER BELL stated that there is a lot of information on DNR's Website, and asked if that information could be included in the minutes.

DEPUTY COMMISSIONER PAWLOWSKI replied that there will be a link to the existing documents included.

MR. GEORGE continued to gas pricing and talked about the conversion between gas and oil and the capital structure.

DEPUTY COMMISSIONER PAWLOWSKI asked Mr. George to explain the chart on slide 21, which is the model that put the 40-cent move into context.

MR. GEORGE replied that it was a fairly simple model, not as detailed as the one used for the royalty study, with some of the same inputs to try and maintain consistency with the numbers illustrated previously. He added that one of the big questions is the length of the project life, and it looked at options of 20 and 30 years as a starting point. He continued explaining and answering questions throughout.

A discussion ensued.

DEPUTY COMMISSIONER PAWLOWSKI called for a lunch break.

(Lunch break taken from 12:00 p.m. to 2:00 p.m.)

DEPUTY COMMISSIONER PAWLOWSKI stated the presentation is back up, and recognized Mayor Hopkins.

MAYOR HOPKINS requested that the agenda be amended to have public comment at the end so people can give their reactions to the presentation.

DEPUTY COMMISSIONER PAWLOWSKI replies that reordering the public comment will be looked at and will talk to the Commissioner about it. He asked Bob George to pick up where he had left off before lunch.

MR. GEORGE reiterated what was talked about and moved on to an unrealistic sampling done for one year to show what the average property tax would be if a one-year life out to a 40-year life was assumed.

A discussion ensued.

DEPUTY COMMISSIONER PAWLOWSKI clarified that the case run in modeling is not 43.56 as it exists today. He continued that it is 43.56 with the inclusion of the LNG facility, which is roughly in order of magnitude 40 to 50 percent of the total cost of that LNG plant.

MR. BARTHOLOMEW asked if the liquefaction plant would not be subject to the State property tax would it be subject to the local property tax.

DEPUTY COMMISSIONER PAWLOWSKI replied yes.

The discussion continued with Mr. George explaining and answering questions as it went along.

MAYOR NAVARRE asked if it might make better sense for an equity investment.

DEPUTY COMMISSIONER PAWLOWSKI replied that looking at this as an integrated project, a 100-percent equity financing, may be the way to go. He continued that in the models it is important to lay cases alongside each other that change the debt-equity stacks and have comparable numbers come together to look at how sensitive it is to the changes and how they drive the value.

MR. GEORGE stated that this is a simplistic model that allows things to be looked at quickly. He continued that at another point a model that specifically models in a more granular fashion will be needed.

DEPUTY COMMISSIONER PAWLOWSKI commented, from the perspective of the Department of Revenue, the intrigue at the idea of an escalating payment. He explained that an escalating payment builds in the ability to meet the obligations and needs over time with a rolling revenue stream as opposed to one that might decline.

A discussion on the subject ensued.

MAYOR HOPKINS asked about the implication of the project having a growing revenue stream.

DEPUTY COMMISSIONER PAWLOWSKI replied that he meant an escalating property tax payment that would be a payment in lieu of tax that grows over time.

The discussion continued.

MR. GEORGE asked if looking at some other mechanism than in terms of the existing statute or as amended to incorporate the LNG plant is a good idea, or is there another mechanism that better aligns with the project and the way that revenue will flow. He added as a level of principle that is a fairly important evaluation stage.

MAYOR HOPKINS asked if the language of putting in that fiscal certainty is an appropriate way to go.

MR. GEORGE replied that they are there to help evaluate all sorts of things and not to say what can or cannot be done.

The discussion continued.

MAYOR DeVILBISS asked if the project could be more expensive than the value. Will it cost more to move the gas than what it will sell for.

DEPUTY COMMISSIONER PAWLOWSKI replied that the volumes the State will have will be contracted, and the contracts will dispose of the State's gas. He added, that is part of the agreement with the Legislature prior to an investment decision.

MR. GEORGE stated that there is a lot of gas, and Alaska is not the only project competing for gas. He continued that there are other countries selling gas that could be potential sources that could supply the Asian market. He added that there are different advantages for each of the sources, and he explained them.

The discussion continued.

DEPUTY COMMISSIONER PAWLOWSKI stated that one of the things going on in some of the Canadian projects are negotiated payments that are worked through First Nations communities. He continued that British Columbia is looking towards developing the type of fiscal certainty framework for their LNG investment to try to get their projects back on track.

MR. GEORGE stated that Australia is another country that has payments to aboriginal groups related to the services and other things that are going on there.

MAYOR DeVILBISS asked for some reports on what is being done in Canada, Oregon, and Australia.

MR. GEORGE moved on and continued his presentation, talking about the principles of maybe modifying the current mechanism in one form or another. He explained as he moved along.

DEPUTY COMMISSIONER PAWLOWSKI stated that the idea is to build a model that is available where the public can draw analysis out of it.

MAYOR HOPKINS asked that the model be live somewhere so the group can look at it.

DEPUTY COMMISSIONER PAWLOWSKI agreed, and added that the caution with modeling is models are limited in the analyses they conduct, and they have limitations in the analyses they conduct, and what they put out.

The discussion continued.

MAYOR HOPKINS stated that the meeting started with impact funds, and asked about the distribution among municipalities.

DEPUTY COMMISSIONER PAWLOWSKI replied that there are property taxes levied on materials during construction, and suggested arriving at a model around what that value would look like.

The discussion continued.

MR. BITNEY asked about the impact the FERC process application will have, and could that be explained.

DEPUTY COMMISSIONER PAWLOWSKI explained that this should be looked at as an opportunity to provide either the recommendations to the Department of Commerce, or more broadly in the report, technical assistance to communities that may not have the same level of resources as a borough or a state government.

MR. BITNEY asked about the fairness that the outcome of this discussion will be part of the FERC process, but will not be done by this group.

DEPUTY COMMISSIONER PAWLOWSKI replied that the Administrative Order did not sunset this group, and the project does not end with the December 15 report. He continued that the project is spending an entire year out in public interacting and working to support other Alaskans engaging in that process. He added that the work of this group will go past a draft report, and was designed to live on by the Administrative Order.

MAYOR HOPKINS stated that his community and a few others have been living with 43.56, and then the whole property tax piece. He asked in the modeling to keep a comparison to the 43.56 as it stands now.

DEPUTY COMMISSIONER PAWLOWSKI replied that any model is going to derive a value based on the assumptions that have been put into it.

The discussion continued.

MR. BARTHOLOMEW stated that it is essential to be able to compare for the communities that are directly receiving property tax now. He recommended making one change, if the group has consensus, and that is the taxing of the liquefaction plants as part of the model.

DEPUTY COMMISSIONER PAWLOWSKI replied that one of the things that was fought for was a much more substantial levy than exists under current statute on what is 40 to 50 percent of the project infrastructure.

The discussion continued.

DEPUTY COMMISSIONER PAWLOWSKI stated that the next board meeting is scheduled for September 30 and October 1. He continued that there was a lot of interest in AGDC, DOT, AKLNG, and some other agencies to specifically give presentations to group. He added that staff is working on making those two days really heavy on those presentations, as well as the Department of Law processes and procedures for the Open Meetings Act for those two days. He stated that the intent would be to have Gaffney come back to the meeting that would follow that. He added that the plan is to get on an every-three-week pace for regular meetings through the fall.

MAYOR HOPKINS asks if the meeting is in Anchorage.

DEPUTY COMMISSIONER PAWLOWSKI replied yes.

MAYOR HOPKINS stated that the last point on the agenda is discussion of future funding models, and he asked for a draft before the meeting.

DEPUTY COMMISSIONER PAWLOWSKI replied that he envisioned a much more iterative model to be discussed at the later October meeting.

FUTURE AGENDA PROPOSALS

DEPUTY COMMISSIONER PAWLOWSKI moved to future agenda proposals.

MAYOR HOPKINS talked about modifying 43.56, and asked what is broken with it and could there be something that could fix it. He states that 43.56 is long established, and he asked if it will be used as a fiscal certainty piece or moved away from to go to some other formula.

DEPUTY COMMISSIONER PAWLOWSKI replied that would be a recommendation for changes to 43.56, which would be up to the Governor to introduce if that is decided, or it would be up to the Legislature to introduce if it is decided against. He asks for any other questions or comments.

MAYOR NAVARRE asked if there was consensus on Mr. Bartholomew's recommendation that he have veto authority.

DEPUTY COMMISSIONER PAWLOWSKI asked for consensus.

COMMISSIONER BELL shared that there is an aggressive meeting schedule ahead and stated that it may be valuable to have a modeling work session.

COMMISSIONER PAWLOWSKI stated appreciation to Shawna and Jim for the time spent, and Enalytica for listening and for the work. He asked for a motion to adjourn.

MAYOR NAVARRE made a motion to adjourn the meeting.

COMMISSIONER BELL seconded.

There being no objection, the meeting was adjourned.

(Meeting adjourned at 3:53 p.m.)