



**ALASKA DEPARTMENT OF REVENUE  
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**REGULAR MEETING OF THE  
MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD  
August 5-6, 2014**

**Location of Meeting:  
Alaska Housing Finance Corporation  
4300 Boniface Parkway  
Anchorage, AK 99504**

**SUMMARY MINUTES**

**Board Present:**

Angela Rodell, Chair  
Joseph Balash, Member  
Susan Bell, Member  
Robert Bartholomew, Member  
Robert Venables, Member  
Jacob Adams Sr., Member Designee  
Larry DeVilbiss, Member  
Luke Hopkins, Member  
Mike Navarre, Member  
Clay Walker, Member  
Dan Sullivan, Member

**Invited Participants and Others Present:**

Fred Smith, Northwest Arctic Borough  
Michael Pawlowski, Department of Revenue  
Matt Fonder, Department of Revenue  
Bob George, Gaffney, Cline & Associates  
Nicholas Fulford, Gaffney, Cline & Associates  
Larry Persily, Alaska Natural Gas Transportation Projects  
John Tichotsky, Department of Revenue  
Liz Leduc, KPB  
Miles Baker, AGDC  
Lieza Wilcox, AGDC  
Paul Quesnel, BP  
Laura Pierre, Legislature

Craig Richardson, On behalf of the City of Valdez  
Joe Hardenbrook, APM  
Jay Hardenbrook, APM  
Pat Burden, Northern Economics  
Leah Cuyno, Northern Economics  
KC Elliot, Office of the Federal Coordinator  
Bill White, Office of the Federal Coordinator  
Steve Pratt, AGDC  
Marie Evans, ConocoPhillips

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## **TUESDAY, AUGUST 5, 2014**

### **CALL TO ORDER**

CHAIR RODELL called the meeting to order at 1:05 p.m.

### **ROLL CALL**

At roll call, CHAIR RODELL and BOARD MEMBERS BALASH, BELL, BARTHOLOMEW, VENABLES, ADAMS, DEVILBISS, HOPKINS, NAVARRE, and WALKER were present to form a quorum. BOARD MEMBER SULLIVAN's arrival was delayed due to a prior commitment. BOARD MEMBER JOULE was not present.

### **APPROVAL OF AGENDA**

BOARD MEMBER BELL moved and BOARD MEMBER VENABLES seconded the motion to approve the agenda. The motion passed without objection.

### **BOARD COMMENTS**

BOARD MEMBER HOPKINS inquired about how this board meeting and future board meetings would be structured. CHAIR RODELL responded that the Governor's administrative order lays out the structure for this board and how things should proceed in the future. Motions made to future agendas will be voted on and, if approved, adopted.

### **INTRODUCTIONS**

CHAIR RODELL invited all Board members to give an introduction of themselves for the benefit of the Board members and the public.

BOARD MEMBER WALKER is the mayor of the Denali Borough. The Denali Borough sits centrally along either proposed -- any proposed gasline. Currently, it goes through about 80 miles of the Borough and possibly a fair amount of Borough land. His Borough is very interested in staying as engaged as can be and participating in this process fully and ensuring that the Municipality's interests are represented.

BOARD MEMBER DEVILBISS is the mayor of the Matanuska-Susitna Borough. He is representing the only borough that doesn't indicate any revenues from the oil industry up to this point and he is hoping that can change.

BOARD MEMBER HOPKINS is the Mayor of the Fairbanks North Star Borough. He wanted to repeat what was just said in that they are one of the boroughs that does receive

revenue from oil and gas properties. Having served for four and a half years as a mayor, spent time on the Assembly, and the Planning Commission, he will be able to represent his community in these issues on this Board. He wants to make sure they have the best possible way forward for the municipalities.

BOARD MEMBER BELL is the Commissioner of the Department of Commerce, Community and Economic Development. She presently lives in Juneau, but has had the privilege of living and working throughout the state, from Nome, Fairbanks, Denali, Haines, Ketchikan, Skagway, and more. In her department they have a number of agencies that these discussions will directly relate to, one being the Division of Community and Regional Affairs who works with all the municipalities across the state, local governments, tribal governments, and nonprofits. Also, energy development is a priority in her department with the Gasline Development Corporation and the Alaska Energy Authority. Her department is also very focused on economic development, consumer protection, and a lot of licensing programs.

BOARD MEMBER BALASH is the Commissioner of the Department of Natural Resources. He has also lived in the interior for quite some time. He has been working on specifically gas pipeline issues for almost nine years now. One thing that will bear most prominently at DNR among its agencies is the sort of divorce between the State's proprietary interests in the gas itself from its regulatory interests. He mentioned he has a fair bit of understanding and experience in the various facets here, but his primary task is going to be focused on the State's proprietary interest in the gas and maximizing the value for Alaskans.

BOARD MEMBER BARTHOLOMEW is originally from Anchorage and has lived in Juneau for approximately 25 years. He started his career as a CPA and he has worked for the State Departments of Revenue and Transportation, and for the Permanent Fund Corporation. He is currently the Finance Director for the City and Borough of Juneau, but he is occupying a public member seat on this Board.

BOARD MEMBER NAVARRE is the Mayor of the Kenai Peninsula Borough. His goal is to look out for the interests of municipalities and the constituents served in those communities. As a part of that, he is also helping the State as they align their interests in looking out for the State's interest, because not only is there a local tax base that could be impacted, but revenues that go to the State are shared with all the Municipalities in a variety of ways.

BOARD MEMBER VENABLES is the Energy Coordinator for Southeast Conference and has spent a lot of time in both the private and public sectors. He also had the opportunity during the Murkowski administration to serve on the Municipal Advisory Group for stranded gas projects. He has a lot of exposure to the concept of impacts and benefits of the pipeline to the municipalities and residents. He looks forward to seeing how this moves forward.

BOARD MEMBER DESIGNEE ADAMS is the Chief Administrative Officer for Mayor Charlotte Brower. The North Slope Borough encompasses the entire north of the Brooks Range. The North Slope Borough has a huge interest in the outcome of the gas project

that's about to be reviewed. They hope everyone will be able to work together to iron out differences and our interests between the State and Municipalities.

CHAIR RODELL is the Commissioner of the Department of Revenue. She is tasked with chairing this illustrious body. She looks forward to the work that this group is going to do, because she thinks this is going to be a very important component in moving this project forward. This is a project that everyone is excited by and somewhat daunted by at times.

She went on to mention the ground work that is being laid so that they are all working from the same basic knowledge of what the expectations and needs are of the project, both from the Municipalities' side, from the State's side, and from the project's side, so that they can prepare a balanced recommendation that will work for the State of Alaska and that will realize commercialization of this important resource.

BOARD MEMBER HOPKINS requested confirmation that they will be following the Open Meetings Act and for some clarification on how they are supposed to react to the Open Meetings Act. He also requested guidelines for their communication outside of the meetings. BOARD MEMBER NAVARRE also requested more clarification.

CHAIR RODELL responded that the Open Meetings Act will be followed and there will be some clarification and a potential presentation from the Department of Law on this topic. The expectation is that all of these meetings are open to the public. If this board decides it wants to create subcommittees to do particular tasks, then that is something they will have to consider. As this meeting continues, she wants all of the Board members to feel as though they can ask questions and ask the presenters any questions they might have, not necessarily waiting until the end of a presentation for a particular question.

### **HEADS OF AGREEMENT, SB 38 & AO269**

*[A copy of the slides for this presentation are located at*

*[http://dor.alaska.gov/Portals/5/Docs/MAGPdocs/Intro Presentation HOA 138 and AO 269.pdf.](http://dor.alaska.gov/Portals/5/Docs/MAGPdocs/Intro%20Presentation%20HOA%20138%20and%20AO%20269.pdf)*

This presentation is to help better explained the importance of knowing the background context around the Heads of Agreement, the Alaska LNG project, and Senate Bill 138. It also covers AO269 in more detail.

MR. PAWLOWSKI is the Deputy Commissioner for Strategic Finance for the Department of Revenue. Prior to this appointment he served as petroleum fiscal systems advisor to the commissioner.

### **MR.PAWLOWSKI addressed the Board's questions:**

*Is DNR going to find buyers and shippers for the gas? Is it only represented by TransCanada? Is TransCanada doing it for the State or on behalf of the State? - TransCanada is providing shipping services to the State. So it actually has no role in where the gas markets -- those are contractual arrangements of molecule custody. They will naturally be working with offtakes, expansions to provide access for infrastructure for gas, but the State management of the molecules will stay with the State or another*

producer party. Taking a step away from the in-state question of how gas is being delivered in the State, the heads of agreement contemplated some alternatives. The challenge the State looked at was currently the State takes a share of its tax and royalty in value.

*Will it be agencies or will it be consulting firm that they hire to evaluate? Is that road visible at this point?* - BOARD MEMBER BALASH responded that DNR would statutorily have the responsibility for this, and would be managing not only the royalty gas, but also the taxes gas on behalf of the Department of Revenue. As part of the fiscal note that was attached to the legislation, DNR has included a handful of positions that are fully exempt from the salary schedules, so that they have the ability to hire directly the types of professionals engaged in this particular market. They are in the process of hiring personnel for those positions to help us not only evaluate the various opportunities, but also to make contacts in the marketplace directly on their own. MR.PAWLOWSKI added the State does have contractors and consultants both at Revenue and at DNR. Particularly, in the area of disposing of gas, because it is so critical to the value that the State will receive.

*Will they have an option or part of the suite, with their 25 percent, the ability to negotiate and sell for value adding within the State?* - He responded the full suite of opportunity will be available to the State to make decisions with its gas and that will go through a public process, through legislative approval, and ultimately, on what is the best and highest use and highest value to the State. There are some statutory obligations that DNR goes through in the disposition of royalty that has a long history. What they did in the development of Senate Bill 138 is rather than re-create the wheel, they built upon that history in process that DNR uses to dispose of royalty oil today to say, they should just continue to use those processes for the ultimate disposition of gas. The question of in-state use, particularly for domestic utility, was referenced in Senate Bill 138 in a few places. He thinks it is not resolved yet, but it is an important part of the project's obligation at large to ensure that domestic utility needs are met, particularly in expansion. This was a discussion that happened during the legislative process and it is not just about what were domestic needs on day one.

*What percentage of royalty revenues currently go to the Permanent Fund?* - 30 percent. 25 percent is constitutional and the additional is statutory. There is a statute that triggers, depending on certain conditions, payment of up to 50 percent of certain leases. They are in this stage again where certain leases have a higher royalty rate going to the permanent fund.

*How does he, BOARD MEMBER BALASH, maintain objectivity within the confines of the heads of agreement, which he is a signatory to, and the heads of agreement saying whatever he agrees to with the other parties to the heads of agreement, he is committed to supporting before the Legislature and it is a ratification process?* – BOARD MEMBER BALASH responded that the concern here is supporting the ratification of contracts that are developed. Those contracts will be developed, but only to the extent that certain other interests of the State are satisfied. He certainly takes this point with regard to whether they might be in a position to take on the Legislature once they have developed these agreements, but there is a negotiation that is going to take place here

between now and the submission of these project contracts. If for whatever reason they are not ready in 2015, then it will either take longer or it will not happen.

*Where does PILT fall in all of this? - In the legislation there is not a requirement for a PILT agreement. It is referenced in the heads of agreement. It is an expectation, but there is nothing specific about it that their hands are tied on at this point.*

*When SB 138 talks about utility use, what does this mean in terms of communities that have utilities? Who does that? When does it happen? - The meeting of domestic needs is a key part of any export application. It is part of the federal export process. The provision he will look for in Senate Bill 138 spoke about an obligation, after the project is in place, to meet those additional needs when it is grown for access to gas. There is a gas demand on day one, but what happens on year five when businesses proliferate in the community and there is a higher demand for gas? More people have moved in, but they have committed gas to export. There needs to be an assurance that the domestic needs will be met through additional gas coming into the project even though gas is committed to export.*

*Will the State's 25 percent be the only source of gas to satisfy in-state needs? – BOARD MEMBER BALASH responded that it is his sincere hope and expectation that the answer is no. The reason for that is because of the tremendous swing between winter and summer demands would have a disproportionate impact on the State's overall supply and ability to meet customer needs. LNG buyer needs could harm the State's fiduciary interests when it comes to selling our share of the LNG.*

*Are the revenues modeled in this presentation based on PILT or based on existing 43.56 properties? - They are modeled based on a 20 mill across the board, so he cannot say they are based on existing 43.56 because they assumed that the LNG plant was subject to the statewide property tax. Under current 43.56, liquefaction plants are excluded from the oil and gas property tax. So they assumed that that would be brought into a statewide property tax, and that the State would receive overall revenues in the equivalent of the 20 mill levy that the State does on oil and gas property when they did that modeling. It is based on the existing system with that modification.*

*The State is based on ad valorem of a current statute and then the municipalities get a PILT rather than being part of that; is that true? - That is right. When this was described to the legislative branch, the discussion was around State, because they were looking at government take numbers. So that is dividing between what the producer parties keep versus the State capital X case. The point he is making is that all share in this pie, and then the property tax component in any evaluation is actually a substantive part of what comes to the State all inclusive. They also looked at federal government when they do government takes. It was what goes to the State, what goes to property tax, what goes to federal government, for government-take numbers. Municipalities are part of that. They are within this 20 percent share.*

*Has any modeling been done -- if they reduce that as a result of a PILT, then does the 12 percent project ownership share then go up, thereby sort of creating a potential conflict? - No. It is actually part of the way the move in 138 was done to minimize that conflict by*

creating a share of the gas produced rather than doing a netback calculation. Because as they have under the existing taxes, a sort of adversarial impact where an increase in assessed value at the local level has an impact on statewide production and royalty. If the gas is based on percentage of the production at the wellhead, not a value converted to production, but actually a percentage of production, they do not have the same impact. Now, property tax is a cost in the transportation. That will have an impact still on the State, but it is not the same impact that they have been used to. The conversion here, he thinks, was that in their work the State never looked at or bought into the assumption that they would be looking at a reduction in value associated with the PILT.

*The State has not entered into that (PILT) contractual payment, correct? Therefore the State gets whatever 20 mills is, however the value is assessed, and then the municipalities have a contractual property tax payment. Is that accurate?* - The ultimate structure is part of the challenge of this group. They are going to have to decide how they want it to look. Part of the challenge is that current statute does not enable any type of PILT under the State level. So this group will have to come to consensus around recommended changes to statute. Within those recommended changes to statute, they will have to come to consensus around what they actually want that to look like to make recommendations to the Governor. The Governor will forward those recommendations to the Legislature and then, go into the process of debating through them. He does not want to close the door on any structure yet. It is important that they keep their minds open about how they want that structure to ultimately look. CHAIR RODELL added from her standpoint, the State's property tax, not just the local property tax, but the whole tax structure, can be on the table for discussion. That may be the final recommendation this group comes up with, but she thinks if they create a new system, she does not think there is any preconceived notions as to how this is going to look in the end.

*Was the modeling done assuming based on long-term contracts?* - Yes.

*At the end of those contracts, there will be a renewal period or something depending on the availability of gas and then if there is some type of alternative structure, including the PILT, there should be a reopener at that time just based on value of the contract?* - Reopeners are in anything critical. Those are things that they want to talk about as well. But he would echo what the CHAIR RODELL said. He does not think there is any preconceived thing.

*Do the heads of agreement state that the State will develop a PILT agreement to the municipalities?* - The heads of agreement says "subject to consultation by the administration with local governments." He reminded them that as BOARD MEMBER BALASH said, when this issue of local taxation came up, the State said, they have to talk to local governments about what might be the right way to take value, for communities and the State to share in value around this project. This is an idea, but it is the administration's agreement to be subject to consultation with local governments. He would also point out that one of the key things in the heads of agreement was in the back, in the miscellaneous articles is 1341, that there is nothing in this agreement that "requires any party to reach or execute any legally binding or enforceable agreement." They are not required. They look at and will be interacting with the project on, ultimately, whatever gets done has to enable the project. That is part of the openness of this group is to talk

through what is the right way to meet the needs of making a project happen, to create a competitive environment in Alaska while meeting the needs of the communities? They did not want to do that in isolation without creating a process to bring communities, not just those along the route, but those that are not on the route, to the table to have a conversation. They saw it as a starting place, recognizing that something like this would have to take a long time to walk through and talk through to see where they end up. BOARD MEMBER BALASH added in general, the one thing they did agree to, and they think this is consistent with the State's interest as a landowner, mineral owner, and having an interest in all of the gas, not just that which has been discovered in Prudhoe and Thomson, is they think having a per unit PILT makes the most sense. It makes clear for anybody evaluating additional gas being brought to the project to know ahead of time what that property tax implication and impact is going to be on them as a shipper or producer and the communities, in turn, have some certainty as to additional benefit as a consequence of any expansion.

*On the graph, total cash is shown to flow through 2041. Why that date? Is that the anticipated end of the project knowing the reserves they have today? Also, why is there an uptick in '41?* - The project is in the 20- to 25-year range. What is seen there in that modeling is the decline. The uptick is the addition of the incremental reserves at the end. There is other additional gas developed at the end as the capacity is available in the project. We cut it off there. There are versions that run longer. The expected useful life of the project is definitely longer than 20 to 25 years.

*Over the course of this, has the contribution to the Permanent Fund been calculated?* - He can get that for the group. It is all going to depend on ultimately market price. They have that broken out in cash flow statements, where this is turned into numbers and run out at a longer time.

*The assessment of infrastructure needs and costs, is that the broadbrush of State infrastructure and Municipal infrastructure? Are they talking about railroad, roads, or just the gasline structure needs?* – During the legislation there was a bit of conversation around DOT and studying State infrastructure needs. That is in Senate Bill 138 and, he believes, AGDC in consultation with DOT. The project itself will be undergoing some infrastructure assessments. The key there was the delineation ultimately between what is general use infrastructure versus what is project infrastructure. They should start from that point in the infrastructure reports. They will be assessing that infrastructure, but the State and the project will need to be working through and having this group make recommendations about how impact payments, so it is not just about PILT, but also what a project responsibility is versus what our State responsibility is.

*In SB138 there was the establishment of an advisory planning group that has deadlines to meet. Then there is A.O. 269, which does not reference those same deadlines in it. The intent is that this group acts as the same advisory group that was created in statute, and that they take on some of these responsibilities of meeting some of these deadlines in SB 138. Can that be explained a little more?* – That is correct. The advisory group is Section 74 of SB 138. On Page 64, Lines 18 through Page 65, Line 21. The recommendations required in the legislation at the end of the day were consistent with the timing reports by December 15th of every year. That is still in the A.O. It originally was different. In the

legislation, the members of the advisory planning group could include representatives of the municipalities, but also representatives of the oil and gas and lessees, so the direction from the Legislature authorized the inclusion of oil companies. The administrative order did not go down that road, rather kept it to mayors, their designees, commissioners, and public members from areas outside. Another important thing is that the administrative order talked about at least once in a calendar year and, he believes, the legislation did not provide that direction. CHAIR RODELL agreed it is their intention to have this group meet, work, and recognize that on December 15th, 2014, the first report will be due. The work may be somewhat intense this fall, but then it may get more predictable thereafter.

*CHAIR RODELL called a short break at 2:45 p.m. The meeting resumed at 3:00 p.m.*

## **PROPERTY TAX 101**

*[A copy of the slides for this presentation are located at <http://dor.alaska.gov/Portals/5/Docs/MAGPdocs/PropertyTax101.pdf>]*

This presentation is an overview of property tax and the major role this Division has when it comes to oil and gas in Alaska.

MR. FONDER is the Director of the Tax Division for the Department of Revenue. The Tax Division is responsible for collecting and administering over 20 different types of taxes or fees, revenue sources, of which property tax for oil and gas property is one.

### **MR. FONDER addressed the Board's questions:**

*Can the board get a definition of oil and gas property, and how it is laid out by the Department of Revenue and in statute? -* For the Board's purposes, the oil that is flowing through the pipeline is not considered property, so to speak. However under the current statutory framework it is one of the many knobs and levers that can be turned, because it talks about the economic life of the pipeline, and proven reserves and technically recoverables. But when someone is talking about property itself, the statutes talk about used or committed by contract for the exploration, production, or transportation of oil and gas. Exploration is drilling rigs and things of that nature. All the production facilities, things that are used strictly for the production, and the transportation are the pipeline. These are the basics. This is where they start each year.

*In a gas pipeline, would the pad gas be considered part of property? -* This is definitely something for this Board to consider moving forward. As Deputy Commissioner Pawlowski indicated, currently under the statutes the LNG facility is not subject to tax under the current framework. CHAIR RODELL added that this could be something the Board might want to add when it comes to scoping. Certain definitions, what they mean by oil and gas property, and what should be included and excluded.

*Is land or leases part of the property tax or does it exclude that? -* The property tax strictly covers everything that is for the exploration, production, and transportation. So, that would not include the actual physical property or real estate, the land.

*The words "ad valorem" are not in the PowerPoints, for those who do not necessarily deal with ad valorem all the time. Can this be explained? -* The most basic definition of

ad valorem tax is on the value. So an ad valorem tax, a property tax is based on the value of the property, much like a house. So, if a house is worth \$100,000 and the home owner pays 2 percent on it, they are paying \$2,000 a year in property taxes.

*Has the Department of Revenue produced any projected PILT payments or any type of analysis?* - He was not aware of anything.

*As they talk about property value, how does that value get set where it goes up and down in the valuation?* - It is important to remember that obviously oil and gas are volatile commodities in and of themselves. So if someone was just basing everything on oil prices, they would obviously go up and down. The property tax, for instance, is based on the full and true value of that property and based on all of the levers and knobs that one can move in property taxes. Certain things like technically recoverable or economically viable, those things can change every year, and they can change substantially every year. Each year they have to look at it new and basically start over. They will get different analysis, different opinions that are shared with them, and new information. That is why it has been able to go up and down each year.

*When looking at this major gasline and the property tax value, 20 mills, has the Tax Division been looking at a formula that has similar dials in it to get that, or are they just looking at volume?* - There has not been anything done formally. Everything that has been done is more discussions and brainstorming about what may or may not work. But, then again, that is for this board and this committee to consider. He believes the State petroleum property assessor would be visiting with this group at some point in the future and may have some ideas on what knobs and levers might be easier, which ones they can work with, and maybe some of the City folks also have ideas. BOARD MEMBER BALASH also asked the group to consider how this LNG project differs from an oil pipeline that has been part of their history and part of obviously some legal disputes over the years. CHAIR RODELL also asked the Board members how much flexibility they want to build into this process to allow for those changes, and how much certainty and rigidity do they need for their own comfort? Given the information they have received, think about the direction they want to take this group, ideas for future meetings, who they want to hear from, whether it is AGDC, Department of Law, the producers, the project itself, et cetera.

#### **BOARD MEETING AJOURNED FOR THE DAY**

CHAIR RODELL adjourned the meeting at 3:40 p.m. This motion made by BOARD MEMBER SULLIVAN and seconded by BOARD MEMBER HOPKINS. The Board meeting was put on recess until 10:00 a.m. on August 6, 2014 in the same location.

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#### **THURSDAY, AUGUST 6<sup>th</sup>, 2014**

CHAIR RODELL reconvened the meeting at 10:02 a.m.

#### **ROLL CALL**

At roll call, CHAIR RODELL and BOARD MEMBERS BALASH, BELL, BARTHOLOMEW, VENABLES, ADAMS, DEVILBISS, HOPKINS, NAVARRE, and

WALKER were present to form a quorum. BOARD MEMBER SULLIVAN and BOARD MEMBER JOULE were not present.

## **GLOBAL LNG MARKETS**

[A copy of the slides for this presentation are located at

<http://dor.alaska.gov/MunicipalAdvisoryGasProjectReviewBoard/MAGPBoardPriorMeetingArchive.aspx>]

This presentation is a brief introduction to Gaffney, Cline & Associates, and then a series of three or four sections dealing with fairly high-level issues on LNG projects in general, and some issues of State take, particularly as it may relate to property tax and how this fits within the economics of LNG projects.

MR. GEORGE is a Vice President with Gaffney, Cline & Associates. He and his company have been working with Alaska since 2007, when they became involved in the production tax debates and going forward subsequently into AGIA, and other issues of support for the Department of Revenue and the State generally. Outside of that, they have done a lot of work with other governments on petroleum policy, licensing, and fiscal contractual information. Countries such as Brazil, Colombia, Iraq, Kuwait, Saudi Arabia, Venezuela, large in scale, but also a lot of others on a small scale.

MR. FULFORD is the Global Head of Gas and LNG with Gaffney, Cline & Associates. He has worked in LNG for about 30 years. 10 of the last 14 years have been spent in North America. More recently, he has been involved on the buying side of the LNG equation with talking to Petronas and some of the other LNG sellers.

### **MR. GEORGE and MR. FULFORD addressed the Board's questions:**

*On the shipping boil-off, is that used to fuel the ships, or is that in addition to fuel for the ship?* – It is not sufficient to drive the ship 100 percent. But typically many of the ships have geo-fuel engines which can burn gas as well as diesel. It depends on the economics. The new generation of Pitari (ph) ships, for example, have onboard re-liquefaction, but given the economics at the moment they are typically not using it, but they can re-liquefy it.

*If they are not re-liquefying it, are they using it to fuel the ship?* – Yes, rarely would any of this boil-off be vented and it would very rarely be flared, just under unusual circumstances. But in terms of the revenue from the customer, they are quite right to express it as a cost because it is something that has to come out of the economic equation between the seller and the buyer.

*Are most of the LNG plants refrigeration compressors reciprocal, or the power trains? Are they reciprocal engines as opposed to turbines? What is more efficient?* - Mainly gas turbines. A modern train like Qatargas II, for example, would have a series of sort of General Electric modified aircraft engines. They are more efficient.

*Which delivery system is being favored?* - Delivered ex-ship. For example, most of the big oil companies typical strategy would favor delivering ex-ship because it gives them more control further down the supply chain. So-called destination flexibility is usually a

very hotly negotiated topic in an LNG contract, because it does enable the seller to a kind of arbitrage different pricing trends in different parts of the world. The original ships for the Kenai project, 82,000 cubic meters, when they were built, actually were the biggest.

*During the labor market discussion, does this happen in international waters?* – It is far enough offshore Australia to be noncoastal. He could not comment on the particular kind of regulatory arrangements which would apply, but fundamentally a big driver towards building this was to avoid some of the substantial cost inflation and elements of taxation.

*Is Russia is not into liquefaction at all?* – The major Russian liquefaction center is Sakhalin where, he thinks, there are two trains now exporting to Japan. Perhaps one of the other gas affiliates announced FID on the Yamal LNG project about six months ago. They say they are going to press ahead and build that. In terms of exports to Asia, the factor that will influence things is the Russian to China pipeline that he mentioned earlier, because that may well divert gas that otherwise could have been used for additional LNG trains in Asia.

*If they coupled the receiving terminals that are existing (on Slide 22) and they threw those pipelines out into the countries that have these receiving, and they have a different color of those that have pipelines coming from other countries as export, would they be able to see any ground under those lines?* – One of the interesting points here is that LNG is a material, but it is by no means the dominant international trade medium for natural gas. So typically you have this very large sort of east-to-west flow in Western Europe. You have a sort of south-north flow by pipeline from North Africa up into Europe. You have a complex array of flows in Latin America. Perhaps less so in Asia. In Asia, typically LNG would dominate.

*How do they see the large LNG plant that would be built for this pipeline, is it seen as traditional?* - That is a very complex discussion and negotiation, which will involve probably many months of deliberation and discussion between the partners and exploring what buyers' requirements may be.

*What is a big contract usually, volumetrically speaking? How does that compare to the total output of this project? How many contracts are they talking about?* - A typical LNG contract might be 4 or 5 million tons per annum. A million tons per annum is about 135 cubic feet per day. Every million tons of LNG export requires a feed of about 135 cubic feet per day. So that is also interesting in that from the projections they have seen, they think the in-state demand in LNG terms comes to about 3 million tons just as an aside. But, yes, so 4 or 5 million tons might be a typical contract. Often contracts are for whole trains or half trains. So some element of this may depend on the final size of the plant that is installed, but certainly with a plant of this size, three or four contracts or more would be typical at least.

*How closely were the demand projections that made, say, in the '90s have dovetailed with what has actually happened? Because in looking at what they are trying to fill and what the demand would be, oftentimes increasing supply creates an increasing demand.* - Yes, certainly with LNG there are probably two or three key drivers as to how accurate that demand forecast will be. A fairly important one is kind of geopolitics and the security of

supply, because for the countries that depend on LNG, frankly, price is only part of a wide array of policy decisions they make about where their gas comes from. Essentially there are a number of countries now whose economies depend almost completely on their LNG imports. So that is a factor. The other big unknown at the moment is the success or otherwise of unconventional gas technology globally. For example, if the shale gas initiatives in China were to become successful, then that would make a very big change in LNG forecasts. One comment to make in terms of whether people got their supply forecasts right in the past or not, essentially what has happened in the last seven or eight years, the U.S. demand for imports, which had been underpinning several of the Qatari liquefaction trains has obviously disappeared, but at the same time the earthquake in Japan and the unfortunate consequences of that around the stations meant a very big jump in demand. So, in effect, the quantities ended up about the same, but the routing of the gas changed quite substantially in terms of much more gas going to Asia and much less into the Atlantic. So that would give you an example of how some of these supply projections can vary.

*Since they have approved for non-FTA, what about the countries that have free trade agreements?* - He could not recall offhand, but he thought Korea was one of them. But in terms of accessing the vast majority of the LNG market, that would be non-FTA countries, which is why the non-FTA approvals are fairly key for most of these projects. Obviously the filing went in just last week for the Alaska project, so that is a key step in progress. One thing to mention about the U.S. in terms of the way buyers are looking at it, although there has been this phenomenal success in unconventional gas, there is a degree of buyer unease in terms of whether that is sustainable pattern, particularly over a 25- or 30-year contract. The same could be said of Canada where a lot of the gas resources which will feed the LNG exports will ultimately arise from unconventional sources. Again, there is an array of projects which could come to fruition. There was discussion about the Russian situation, so they crossed over that one. With Australia, they talked about the substantial cost overruns that they believe are a big concern by investors. That will be one to watch as well as this FLNG project. East Africa, technically very appealing, very strong gas resources, relatively short distance offshore, but clearly a complete lack of infrastructure, the supply chain, and arguably quite a long journey, that some of those governments will have to take in terms of regulatory backdrop and fiscal regulations. So, a lot of hard work.

*This Alaska LNG gasline, is it just another one of these large projects that something has to be successful to fulfill that demand gap that they show?* - He ventured that the project has a number of advantages over many of its competitors. It has reputable, experienced companies behind it. It has the participation of the State government. It is a single project, unlike Canada, for example, where he thinks buyers are getting quite confused about the array of projects and sponsors and so on. The other thing which he thinks might appeal to buyers is the nature of the gas resource in the sense that it is largely proven. He knows that it is a technical description, but ultimately this is not unconventional gas that people are unsure about. It is gas that has been produced and re-injected. There is a very high degree of confidence in the upstream. Alaska itself has a long history in oil and gas development unlike, for example, British Columbia, where he thinks the provincial government had a bit of a journey to go on. From kind of a security of supply perspective, that mix represents a very dependable offering. He thinks the other side

which he is about to come onto, which is the economics, is an area which he is sure the project sponsors in the State will be looking at very carefully. Because ultimately those advantages that he has mentioned, whilst they might compensate to some degree for some elements of economics or price, the key thing is for the gas buyers to be able to sell that gas to their consumers, whether it is a power station or whether it's an LEC, whoever it happens to be.

*The question about the Panama issue; is that because of the construction upgrade problems?* – He was unaware of any specific problems, but about three months ago they came out with a maximum width of ship that they were going to allow through the canal, which rules out the Q-Plex ships which a number of Japanese buyers had been counting on using. It did, he believes, prompt a protest by the Japanese government in terms of the fact that the width was actually less than what had originally been suggested. Because of the exclusionary things, he thinks there is also going to be a limitation on the number of gas ships that can go through a day or per week. Those are the two issues he is aware of.

*What percentage of the existing gas that is being produced is on the floating spot market? And is it on the seas, ready to buy at any time?* - About 25 percent. The LNG spot market is much less transparent, but if someone made enough phone calls, they might be able to arrange for one to turn up in maybe four to six weeks, or something like that. Of course it depends how much they are willing to pay.

*When they said 25 percent of the market, that is the LNG market or that is the gas market?* - The LNG market.

*If they have to wait six weeks, then they are ordering it ahead of time on the spot market?* - Yes. It is so heavily influenced by the logistics, because not all ships can go into every re-gas terminal. The thing is that the liquefaction terminals have to run all the time, so if their tanks are full, they can not stop the liquefaction plant. So it is absolutely essential that you have a ship turn up at the right time to take gas away. So that is one of the reasons why the spot market has not developed as much as it could have done, but the operational constraints are so important. It is a very complex business because of the shipping side of it.

*Has compressed gas fallen out as far as a significant player?* - There have been some CNG proposals particularly in the Caribbean with CNG-based ships, particularly on short runs between gas fields and power stations, but none of them have been successfully financed yet.

*When they are talking about on the sponsor side, on the seller's side or on the buyer's side?* - At the end of the day certainly on the seller's side, because assembling everything together to make it happen is really critical. But it is more that they can not separate on a project like this entirely the buyer and seller, because they are entering into pretty much a 20, 25 no-divorce arrangement. They want to be fairly comfortable from the seller's perspective, the buyer is going to still be there and is still going to be able to take their product. It is not, again, a liquid, fungible market where they can just switch anything to anywhere. So they want to be comfortable. They have some very experienced buyers out there as well. Both sides of the equation are going to require experienced, skilled people

with knowledge and understanding of what it takes to have these big, long-term, connected projects to make them happen.

*For the Alaska LNG project the investor is going to be the stockholders for the producers? Who are the investors?* - At the front end, this is absolutely right. It is the producers who will also be involved in this sort of midstream component of this and all the way through the market depending on their stake. Ultimately for them is their shareholders when they go down the chain, but there is also the banks, financial institutions. There is large components of this that are capable of third-party financing. So choices on that are still a long way away, but it is not unusual for projects like this to have financing, 70, 80 percent of it in there, which is billions again. There is a multitude of different ways. So, again, the confidence issue is really important there, because before the markets are going to start advancing, 20, 30, \$40 billion plus, they are going to need to feel very comfortable that this thing is not to be the metaphorical hole in the ground that does not go anywhere thereafter.

*When the Board talks about their government take, particularly municipal property taxes, they are concerned with and also state property taxes. How do they get to the information that allows them to make informed decisions on behalf of their constituency?* -

Everywhere and obviously with a particular history and structure and just the sheer importance of oil and gas to the economy up here is a very high focus. That is a key area. They are absolutely correct there is, an imbalance on resource capability from one side to another. That is fairly common around the world, and Alaska is by no means at the bottom of that situation. There are so many trust issues that come into play, good trust and bad trust that send things one way or the other, and why it is really important for all parties to think about how big the pie can be made. Not trying to grab a bit of someone else's. Again, the ultimate point is they can have 100 percent of nothing very quickly if they do not actually manage to progress the project to a point in there.

*Does the total government take, as part of this project, include multi-jurisdictional total government take and how that is divided?* - At the end of the day the decision, yes, it involves everything from what the costs there are upstream all the way and what was the sort of right-hand side of the mix waterfall chart in there. But at the end of the day, they have got a selling price in there. They have got costs all along the way.

*If they can figure out a way to ensure predictability, which is of great concern to investors, including the majors; should not they also be able to figure out a way to get some of the upside if other factors change along the way?* - Again, it is a balance issue, is it not? When they trade this type of arrangement for that type of arrangement, there usually is some taken away from the downside. Usually they have got to give away some upside if they have greater certainty that it will never fall through the floor, or they decide, okay, they have to take so much of this; they need that; there is a tranche in there where he prefers a little bit of exposure, so they can look to trade that in. In his view, none of that is off the table.

*Where would they say the State of Alaska lands in these as they described in this?* - The State of Alaska, in fact, they would probably say the whole of the U.S., has a fairly

distributed form of governance and fiscal collection in there. There is always some similarity on any of these things as to the level at which they can go and the level of which individual jurisdictions can do it. But they also see it in many other countries where they have a lot of autonomy or dispute between regional bodies and central authority as well where people are tugging at the same dollar, at the end of the day to see who can collect it, and who can control it. That can have big negative impacts, again, because as far as the investor is concerned, ultimately they want to find somewhere that is simpler for them to operate and spend their dollar and get their return.

*But the State has that 43.56, 20 mills.? -* They set their own structure, the way they are used to it. It is based on political history of the country overall and the State and everything else like that. Again, it is not particularly a right or wrong issue. It is what it is, and they deal with it. If they want to change it, they change it.

*Is anybody thinking in terms of reinvestment or sustainability after the nonrenewable resource is gone? -* Part of the consideration in trying to answer a question like that, which is not straightforward, is what time window they would be talking about. Yesterday Deputy Commissioner Pawlowski was asked the question on the life of the project, 20, 25 years. What they are really looking at is initial contracts in there. The expectation is that the overall scheme will last a lot longer. He does not know when the original Alaska LNG plant went in, what the expected life was, but maybe 20 years and it has kind of gone up to 40.

*CHAIR RODELL called a lunch break at 12:00 p.m. The meeting resumed at 1:00 p.m.*

*In reference to Slide 25, could they explain what they are meaning by the term "front-end loading" to create an uneven nature of expected tax revenue? -* The front-end loading really was just a reference to the discussion about the project depleting over time and, therefore, with that the tax base depleting over time.

*Does "planning over project life" mean the planning of tax revenue, or what are they planning? -* Yes, planning of how they would use the revenues that they would expect to receive over the course of the lifespan that they would expect to have on it.

*So that would be the owners or the investors? -* Or as municipalities, how they would expect to receive revenues over the course of the project's life. CHAIR RODELL pointed out that one of the things, as they are considering these different constructs, is to remember that the State will be paying this along with the other three primary sponsors. So it will affect the State's take, general fund revenue at the end. So as a reminder to everyone that when they are talking about the different options, whether it is a price construct or a unit construct or some other type of construct, that at the end of the day they are going to need to recognize that this interest is going to have to be balanced in some ways, because the State is going to be a taxpayer like the others in this particular instance because of the way they have established equity into this project. That is really unique to something they have not done, at least in this state, and it is unique, worldwide in some ways. MR. FULFORD added that there are, as he would said, the local participation, which is the term you might often hear on there; it does take place in there. If you look at LNG projects in Indonesia, for example, they would be taking gas from an

upstream form of production chain contract, and the State effectively participates through that, although it is not an equity participation there because 100 percent of costs and everything are always paid by the participating company. Maybe they have a bigger share of the pie overall by taking some of the participatory risks up front as opposed to just taking a layer off the top or some combination of those things, depending on how everyone gets comfortable that this is the right way to participate for us in local circumstances.

*In the example of a fixed charge on the throughput, is that in lieu of other charges on the fixed assets, in other words, property taxes?* - In the context of the way this is being put here that would be the suggestion as to replace this type of arrangement, which is a percentage of deemed value and however they arrive at that assumption of value with something that is based on a physically measured quantity, if they like. Their challenge up front is to agree what's the equivalence of the two. But nevertheless, yes, to answer the question.

*So thinking of the municipalities here on that last bullet, would they see the municipalities being part of the equity investment? If they are saying that they are going to direct equity investment, they are becoming part of the group?*- If that were to happen, then, yes, they would be part of the group there. A discussion and decision that they need to make is the nature of how they as municipalities but also as part of the State's participation taking place in there. One small further comment, there could be other forms of participating in the financing and results of it that would also come out of there as well.

*They made a statement that the State would be paying a property tax. Has it been structured so that the State as being an investor in the overall line along with the producers is going to have the exact same cost structure? They are not going to be exempt from property tax like they would normally think a government was exempt, or is there some change in the cost structure because of the State of Alaska?* - BOARD MEMBER BALASH responded that he thinks part of the discussion from yesterday is being referenced here. Right now the present plan is for TransCanada to be the State's transportation service provider and actually hold the equity in the transmission lines, the GTP, and the pipeline, the main line. So in that case there is no question; they are a taxpayer. Part of what they are charged for property tax will flow through into the tariff and essentially reduce the netback for purposes of royalty calculation and production tax. Those payments, they come out of their pocket whether it is through TransCanada or if they for whatever reason chose not to have them as a partner, the project will be paying the same amount to the municipalities and they will have to pay our share, or they will not pay and the municipalities will get less of a payment. So somewhere the payments either flow through directly or indirectly, and it is a zero sum game to a large extent. BOARD MEMBER NAVARRE mentioned once again, the devil is in the details, because there are a lot of conflicts that are built in to try to decide just how they split the piece of the pie, including setting a valuation as based on the total value of the project and factoring that into the tariff and paying it as a tariff. Because cutting out the municipalities -- not cutting them out, but paying less to them, particularly the areas that are directly impacted -- because they have direct impact; they have indirect impact and they have no impacts. The ones with no impact would just as soon it go to the State

because the State allocates out to municipalities for all kinds of things. Indirect, maybe -- the direct would have them decide how to share it. BOARD MEMBER BALASH mentioned that this is exactly why they have the broad cross-section here to try and represent all of those perspectives. What happens with that value, how it gets parceled out between the State, the Municipalities, the citizens, that is a function that the Legislature ultimately gets to decide under the Constitution. BOARD MEMBER ADAMS also mentioned that they have the experience of the National Petroleum Reserve where the impact to communities would get to funding, but the State had different ideas. The impact to communities was that big, and while there were five or six communities in the BIA, they never got more than half the funds that were designated by the feds for impact to communities. So they need to be careful of how they approach, because it has got to be fair and equitable to the municipalities and these projects and their boundaries. MR. FULFORD also added a couple of points to reinforce on that. This is not sort of a cost-plus opportunity where they figure out how much it is going to take you to do it and then add on a bit for the profitability, and that is what it is going to cost someone in the market. There is a finite market out there. They are going to have to -- to pick up the second point, all of this has to kind of take place up front, because they do not start the project without the least minimum level of fixed contracts in place before they start on this thing. So there may be a little bit of opportunity at the top end for some variability or some spot or something like that, but by and large the decisions are going to be driven by getting the contracts in place, which is having both buyer and seller happy that all the moving parts are coming together before you can actually press the button and say, hey, let's start spending the money.

*On the word PILT, payment in lieu of taxes, have they looked at 43.56 as the structure and how that would be modified? Have they talked amongst themselves or with the administration on modifying 43.56? - No, they have not had any discussions like that at the moment. All the discussions have been at a very high conceptual level as to things that might be done.*

## **FEDERAL PERMITTING / EIS**

[A copy of the slides for this presentation are located at <http://dor.alaska.gov/Portals/5/Docs/MAGPdocs/Municipal Advisory Group August 2014.pdf>]

This presentation is to discuss the Federal Energy Regulatory Commission, the Environmental Impact Statement (EIS), and how it directly relates to municipalities and the work this advisory board is doing.

MR. PERSILY is the Federal Coordinator of a federal office created some years ago by Congress to assist with permitting an Alaska gasline project, to kind of, corral federal agencies to ensure the federal government does not do anything that would make a difficult project any more difficult than it needs to be.

### **MR. PERSILY addressed the Board's questions:**

*On the Alaska Pipeline Project, were there any entities in the State of Alaska that were allowed to be cooperating agencies, or had they not got to that level of decision? - No, it was all federal.*

*Were there applicants?* - Were there entities who wanted to be cooperating agencies? BOARD MEMBER BALASH added that this was something DNR had pursued in that context. There was confusion on the part of FERC and suspicion as to the proprietary interests of the State of Alaska versus their regulatory interests and expertise. So one of the things that they have been pursuing here as an equity participant is that divorce between those two interests. Whether that is going to be sufficient to satisfy FERC this time around, they do not have a formal answer on, but they certainly are trying to structure their business in a way that would be acceptable. This will require agencies, specifically his agency, to have some protocols in place. The other proprietary party would also want his agency to have those firewalls. So at the end of the day, they are going to find a way to get that environmental expertise incorporated, whether it is from DNR, whether it is from Fish & Game, or DEC, or DHSS and Public Health. Exactly when those decisions get made is probably sometime closer to next year. They are making every effort they can to make sure that the people they have in State government with that environment expertise are able to fully participate as a cooperating agency, because there are things about the arctic that FERC and other federal agencies do not necessarily get.

*In the beginning of this presentation it was mentioned where this process is at the moment, so what has been filed again?* - The project applicant, Alaska LNG, LLC, has filed with the Department of Energy for an export authorization. In that document it was mentioned that they would be starting the pre-filing with FERC this year. They did not provide a specific date. The Department of Energy does not do an EIS. What they look at is: Would allowing these molecules of gas to leave the country be in the public interest? In the case of the Lower 48, sending all that surplus gas overseas, will that diminish the availability of supply? Will it drive prices up in the Lower 48? Will it hurt or help the public interest? It is a little simpler in Alaska. Here in Alaska there is more than enough gas, they just cannot get it to where everyone lives. There is no connection between Alaska and the Lower 48, so sending North Slope gas overseas is not going to hurt the Lower 48 market. Companies apply for that export approval hoping that the Department of Energy would look at it as a separate case, as opposed to the Lower 48 debate. Look at it separately as they have done for the ConocoPhillips Nikiski plant. That is the only application that has been filed. We do expect a pre-file with FERC to commence sometime this year.

*Is there approx. 25 export applications around the country, around the United States?* - He is pretty sure the Department of Energy has approved seven. There are 25 more export applications waiting for a decision at the Department of Energy. He would be surprised if more than one handful got built in the next ten years. Back in the 1990s, early 2000s, when North America thought they were going to run out of natural gas, pre-shale, at one point there were more than 40 applications at the Department of Energy for import terminals. Not that many were built. A lot of those 25 are purely speculative. Some are serious. These are import terminals that would like to generate some cash flow and become export, but there just is not the market. There is the capital and the gas, but there are a lot at the Department of Energy waiting.

*Could he tell us or define specifically who exactly the applicants are?* - The applicant is Alaska LNG, LLC, which is ExxonMobil, BP, and ConocoPhillips. Steve Butt is the project manager at the moment. He is an ExxonMobil employee assigned to this project.

*When is he expecting resource reports? Are those filed with the EIS all together, or when does he expect to have some reports for them to start looking at?* - These are just his personal conjectures. First, the project applicant would have to pre-file with FERC, which would sign off on their timeline, their development plans. It would go over the outlines for the resource reports. They are still doing field work this year. They will be doing more field work next year. He cannot imagine that the draft resource reports would be ready before 2016, and that is just guesswork. They have to have the data. They have got to finish their field work. Then they have got to go back and write it up and analyze it. BOARD MEMBER BALASH added that what they saw in the APP was draft resource reports submitted to the agencies that went out for review and comment at the agency level before the formal application was filed. Sort of the line of demarcation between pre-FEED and FEED involves the formal application, not just the pre-filed in the process, there will likely be some drafts. But exactly which ones and specifically No. 5, how quickly that will be available he does not have an estimate to give. But the purpose of pre-file is to check with the agencies and see if they are gathering the right information for that NEPA process to proceed. So it is intended to be kind of a look at draft reports to see if they are adequate to begin that formal process. MR. PERSILY added that this gets back to the scoping, to make sure they are represented there, so that as they gather the data and start with the blank papers and fill out the draft reports, that they are addressing issues that state, federal, municipal, regulatory agencies want addressed and communities. Even if it is January 2016 before that set of 12 draft resource reports gets turned into FERC, there will be give and take before then.

*When do they foresee the scoping meetings happening?* - There it would depend how soon they start pre-file. It will be in the Department of Energy application or the application to the Energy Department. They said they were commencing in 2014. Is it September? Is it December? But it would seem to him that you probably would not have scoping meetings until 2015. Even if there was pre-file late fall, no one is going to have scoping meetings come November, December, holiday season, would be his sense. That is up to FERC, not to him.

*Since Alaska is a partner in this project, they assume they are involved in the application process. What phase are they on?* - BOARD MEMBER BALASH responded that when they think about the State's participation and who is actually a member of the venture, it is not DNR or DOR; it is the Alaska Gasline Development Corporation. So this is one of those things that they are trying to do to divorce our proprietary interest from regulatory interest. AGDC is the arm of the State that is engaged in that participation. During this pre-FEED phase, he does not have a specific awareness of when certain things are going to get filed. As they might imagine, when they have got four or five parties that each have their own particular interests, there is a little bit of head-butting that goes on from time to time. It may be that three parties want to file, but one or two don't, or vice versa. He does not think there is a calendar that they can all live and breathe by on this right now. MR. PERSILY added for consideration of the export application at the Department of Energy, their procedure now is they want to see a pre-file before they will make that decision. To

them, that pre-file means someone is serious. That is a lot more expensive, a lot bigger commitment than just filing for an export application. The project sponsors have filed with the Energy Department for an export license. Energy will not take action on that until they see the pre-file, so he is sure the companies would like to get it in as soon as they can, as BOARD MEMBER BALASH said. Certainly they have got four companies, who have different calendars they are working from, and issues they have to resolve before they can put down this kind of detail on a public filing at FERC.

*Does the pre-file happen before Alaska has actually consolidated their projects? Because they have got two going on right now, and there's a little bit of confusion. Both agencies are in certain boroughs talking to different property owners about two different right-of-ways. - This would be a pre-file for Alaska LNG. It has nothing to do with the Alaska Gasline Development Corporation and its project. The AGDC, Alaska Gasline Development Corporation, is going out in public hearings and their supplemental EIS. Yes, you have two EIS's you're going to have to read. The consolidation is nothing that the federal government is going to do.*

*CHAIR RODELL called a short break at 2:30 p.m. The meeting resumed at 2:40 p.m.*

### **SCOPING FOR FUTURE MEETINGS**

CHAIR RODELL began the scoping session by asking Deputy Commissioner Mike Pawlowski, to come forward to help assist with this discussion. She reminded everyone that the presentation slides are available on the Department of Revenue website. To make sure that they all understand the tasks and charge that they have been given by the Governor. CHAIR RODELL read Administrative Order 269 (AO269) out loud for the public and the board members. She mentioned there is no limitation on this advisory group and it does not sunset with any particular deliverable. It is something that will, as needed, continue to meet. She reiterated that they are required to deliver, so long as they continue to be organized, a report by December 15th of each year. That report includes those recommendations in AO269.

BOARD MEMBER HOPKINS observed that in AO269 it talks about "the Department of Revenue and other State agencies are not required to create new information in response to a request from this review board." If they, as Board members, ask for something, do they have to get it themselves? What is the process? MR. PAWLOWSKI responded that when the administrative order was passed, no funding was contributed to the Department of Revenue to support this effort. So that is fairly boilerplate language to recognize the fiscal impact on the Department. CHAIR RODELL added that they are going to have to make determinations on a case-by-case basis. This was the purpose of reading AO269 and really focusing on what is the top priority of this group. It is really important to focus the energy and the time and the resource for this group on the initial request that the Governor has of them and start with that. If they find that there are avenues for other conversation, they can pursue that, but it is really important that they drill in and focus on the initial request at this point.

MR. PAWLOWSKI commented that a deliverable to bring back to this group at a future meeting would be the Department of Law's input on the Open Meetings Act and how they are going to procedurally handle that with guidance. Also, with modeling being

expensive and time consuming, they need to address how requests for specific modeling will be handled and be advised in that.

CHAIR RODELL agreed that the Open Meetings Act is very clear that a membership of three, or the quorum, whichever is less, so in their case it is three, constitutes a meeting of this group and is subject to the Open Meetings Act. She went on to mention that as a group putting together something as a collective and that they need to work together.

BOARD MEMBER VENABLES emphasized he would really hope that they would not get bogged down trying to solve and answer all of the issues of the day in their initial report, because he thinks even though they are afforded an opportunity to deliver reports every December 15th, he does not think that precludes them from making a report or request during the legislative session when they have more information or they have something that they would like to issue. But he would hope that their next series of meetings would really maybe be segmented according to these five objectives that they have read in the administrative order. He would kind of break those down into agenda time frames and focus on any number of those at our two-day gatherings. He likes the format. There is a number of agencies that he thinks they still need to hear from with some updated information.

CHAIR RODELL thinks in terms of hearing from additional groups, she definitely heard a desire to hear from AGDC and to understand what AGDC is doing both with regards to the ASAP line and the AKLNG line. To the extent that they can -- she does not think it is anyone's desire to create duplicate processes and duplicate work, and obviously the federal process requires a separate EIS process.

BOARD MEMBER HOPKINS asked if she anticipates this group hearing from Alaska LNG, LLC? He means, they are trying to figure out what the project is.

CHAIR RODELL agreed that they can definitely invite AKLNG to come make a presentation separate and away from AGDC's presentation on the project, if that is a desire of the group.

BOARD MEMBER NAVARRE mentioned he thinks something that would be helpful for him would be to get a breakdown on the way the gasline is anticipated to go and what portion of value of the projects are going to be sited in the various municipalities. Because from there, they can go to what is not touching the project and what is adjacent to it, so when they start doing their own modeling, their discussion about direct impact, indirect impacts, and outside the impact area, but still in the state, he thinks, it would be valuable to have that.

CHAIR RODELL responded that she wants to be careful with that, because with the EIS process, that is something that the project -- and they will have an opportunity through that venue for their specific community and arena. They are trying to create a more global framework for deciding some of these things. She thinks this information is valuable. She is not sure today how far into the details they will be able to get to satisfy that. That is her only concern.

BOARD MEMBER NAVARRE gave an example, talking about the number 60 million, which about 15 million of that will be within the Kenai Peninsula Borough. He can already do the math on what the tax base is for that for the Kenai Peninsula Borough. But he guesses in looking at the conflicts between the total government take and how it affects different municipalities, that is the perspective that he is trying to look at.

CHAIR RODELL agreed that is fair. She misunderstood his previous question.

BOARD MEMBER BARTHOLOMEW mentioned that related to that, he guesses one of the things that he is looking at that would help him would be some kind of high-level summary of what have been the impacts on the communities from the oil line. Because that has been quantified, the cost impacts, and socioeconomic impacts at a high level. Whether it related to just property tax or whether there were other revenues that went to those communities related to those impacts.

BOARD MEMBER VENABLES suggested that they review some of the work that the Municipal Advisory Group ten years ago did and review the whole series of resolutions that were passed by the group that Mayor Thompson led.

MR. PAWLOWSKI suggested that they have a phenomenal group of interns and access to all the historical record data. This is the type of request that he thinks would be very easy for them to assign to one of their college interns to just go through the historical record by distribution and put that together for one of their chief economists to review.

BOARD MEMBER HOPKINS asked if maybe they could have the oil and gas tax person here. His overarching question that he would like to have answered is obviously what is broken with 43.56 and what fixes might be there? The second part of that might be their discussion.

CHAIR RODELL agreed that they can have that discussion.

COMMISSIONER BALASH mentioned at the risk of inciting a real fight, would it be helpful to identify those points that have been litigated by the parties here recently, that if they are talking about 43.56 and, quote, unquote, problems with it, he certainly has a perspective on it even though he is not directly involved. So those parts of the statute that are either clunky, ambiguous, and outdated. It was put on the books back in '73 in a special session, and he thinks he would say for himself, things that are done rapidly in a special session do not always come out right. He is not necessarily saying it needs to go this way or that way, but just these have been the parts of the law that have caused municipalities, state taxpayers to all fight.

BOARD MEMBER HOPKINS noted that certainly there are lots of pieces in there and parts of that should included in their scoping discussion. Can that be added to, subtracted from, as opposed to, say, payment of taxes?

CHAIR RODELL inquired back to a question BOARD MEMBER HOPKINS had yesterday, about simplicity and what does the framework look like. Are they looking for

something that just tweaks the existing law and takes into account this new major project, or are they looking to scrap all of that?

BOARD MEMBER HOPKINS replied that they should start anew.

CHAIR RODELL emphasized that they should start anew, scrap the whole thing, start all over. She thinks that is the framework. So the idea that they have a more robust discussion about the items within the property tax statutes currently that they all have issues with, she thinks, would be helpful.

MR. PAWLOWSKI responded with a direction that might be more focused for that conversation would be to look at 43.56 in the context of the level of impact a property tax, as BOARD MEMBER BALASH and their consultants described, as a cost, and the unpredictability of that and the inability to go out in the market and actually market gas. Those are some of the things they need to put on the table in context of the actual project.

MR. VENABLES mentioned he personally would like to hear, maybe not for an hour or two, but a synopsis from the folks at DOT on highway impacts and conditions, the railroad, and the Department of Labor on workforce readiness. He thinks having some overview information would be helpful as they look at grappling with those areas of responsibility on impacts and benefits to their communities.

BOARD MEMBER BALASH noted that the contractor for the study that was done on the TAPS impacts was Information Insights, Brian Rogers, now chancellor at the university. He does not know if he would be prepared to come talk to them about all the things that historically he looked back on, that were not necessarily wrong, but caused the major impacts associated with TAPS that they have learned from. There are things the Department of Labor has done with regard to a strategic training plan that hopefully will address some of the concerns about workforce and whether or not they are ready to have Alaskans on that force, or if they are going to have importation of workers hopefully for a temporary period of time, those kinds of things. So he certainly would be willing to reach out to Chancellor Rogers and talk about that as a potential.

MAYOR NAVARRE added one thing he thinks is important for the communities is sort of the ramp-up and the timeline, because they have a great deal of lead time before the socioeconomic impacts are really going to manifest themselves.

CHAIR RODELL agreed that it would be helpful having AGDC and AKLNG make their presentations and then to put that to them and say, one of the things they want to make sure they cover in their presentation is what their expectations are in terms of timelines, when they foresee workers, and what do they foresee.

BOARD MEMBER BELL observed that what they are trying to do is think about how they are going to cover these things, school, housing, transportation, and the sequence of events. Maybe that is something that the four of them can think about, she means, even as they are asking AGDC and AKLNG to come forth and talk about what is done now. Because as they heard from the two presentations today, these are the kinds of needs that they are trying to have the tax base to cover, but also the very robust socioeconomic

analysis is out there in the future. So, again, it is the sequencing of information and construction horizons. Maybe they should start really broad-brush, and it is something that this body could work at refining, but it is their first task. They are thinking about how to collect something when they do not know what they are trying to accomplish yet. It is sort of ready, fire, aim. Let's tax it.

CHAIR RODELL addressed that one of the things she wants to propose for this group is that she really appreciated BOARD MEMBER VENABLES' suggestion of taking the five tasks and building the agenda around really drilling into each of those. She thinks that is an in-person meeting like this. But prior to that, they could set up a video conference or a WebEx for people to dial into for AKLNG to make a presentation or for AGDC. These sort of informational presentations that are not formal meetings with -- formal in the sense of there is discussions, motions adopted, minutes, that type of thing. They are purely informational, WebEx, where this group is gathering with notice to the public so if the public wants to watch, they can watch at the same time. They can do that, but that might facilitate the sharing of information before coming together in a separate meeting. She does not know how the group feels about that.

BOARD MEMBER HOPKINS mentioned he prefers to have all of the Board meet in Anchorage and discuss things together. He would like to meet every few weeks. He thinks it is important for them to sit here looking at each other rather than him sitting in his office WebExing them or something like that. That is his opinion. An example of this being when he was at the community meeting for Alaska LNG, it was much more productive to have individuals there, having different discussions popping up and down, as opposed to him sitting in his office when he does not even know who is out there.

BOARD MEMBER VENABLES agreed that especially with the first few meetings of this group, it is really important to have the interaction. Especially, when they are bringing on the information that is forming the basis for what they are going to do. While they are still grappling with their five points, he finds it beneficial to be able to eyeball and figure out where they are all coming from.

CHAIR RODELL responded that they would put together a proposed calendar of meetings to send out to the group and go from there. She believes most of the meetings will be here in Anchorage, because it is the central point for those coming from north, southeast, middle. And the other thing that her office will do with agendas going forward is that Stephanie Alexander will send out draft agendas in advance. Also, is it this group's preference to have these sort of two-day meetings like this, to just keep meeting, or would it be a preference to have just like a half-day meeting, a series of half-day meetings that are smaller in scope?

BOARD MEMBER VENABLES stated that he likes this format personally.

BOARD MEMBER WALKER agreed for those traveling a distance, it is helpful to accomplish a lot of business at one time.

CHAIR RODELL and BOARD MEMBER BARTHOLOMEW both agreed that this group needs to prioritize the next meetings with presentations from the agencies and get busy moving forward.

MAYOR HOPKINS asked if the report being written by MR. PAWLOWSKI?

CHAIR RODELL responded that the Department of Revenue staff will be writing the report and will be providing drafts for this group once there is direction for what needs to be included in that report, which she thinks will be the priority of the next meeting.

MAYOR HOPKINS asked whether they are a consensus board or whether they vote, those types of things. This was his original question early on about whether they are following Robert's Rules of Order.

CHAIR RODELL responded that she does know the Open Meetings Act has very specific rules about that. So if they are meeting by WebEx, it must be a roll call vote. Voters need to be identified. They cannot make consensus motions unless they are general in nature, like to adjourn. If there are resolutions, if there is specific direction given; resolutions, they will be motion, amendment, second, some Robert's Rules of Order.

MAYOR NAVARRE asked the group if they send an alternate, will that alternate be allowed to vote? Will they be allowed to participate in the same fashion?

CHAIR RODELL pointed out that this is actually something they had to look into. Those of the Board who are public appointees, which is BOARD MEMBERS VENABLES, BARTHOLOMEW, and JOULE, they are not allowed to designate or delegate their responsibilities. The mayor's representatives in specific jurisdictions that were identified and the Commissioners are allowed to appoint a designee and give them all the rights and responsibilities that they themselves would have. So they can send a designee, and they would be entitled to vote and participate fully in the meetings.

BOARD MEMBER VENABLES added that Mayor Joule did send someone that was present at the meeting. He recognized Fred Smith's presence here and the he appreciated the fact that he had been present both days on behalf of Mayor Joule.

COMMISSIONER RODELL suggested they just use one point of contact, Stephanie Alexander, for any questions for the board, but also that these questions be brought back to the Board at their meetings so everyone has the same information. She wanted to make sure that all the information brought forth benefits the group as a whole and what the group has to eventually deliver.

## **PUBLIC COMMENT**

CHAIR RODELL first opened up the meeting to the public in Anchorage for comment.

MR. SMITH with the Northwest Arctic Borough is the assistant to Mayor Joule who was not here today. From the Northwest Arctic Borough perspective, one thing that he is sure

Reggie would ask is: What's in it for them? Under an economic structure, economic framework, and as an owner, what is the value to their Borough, and how do they recognize that fair value of revenue or resources or whatever it may be that would benefit their part of the state. He says that because under their current resource production, their portion of the 12-and-a-half percent ownership interest is currently a cut of 200,000 as presented by the Deputy Commissioner. So that's on the revenue side. On the expense side they are paying -- or he is paying 7.65 at the pump. So in terms of what is -- his best interest would be a combination of revenue and affordable access to energy. So part of his question would be and the challenge is: How is the State a better partner in the gas development project versus what they currently have under an oil production royalty? So those are the statements that he wanted to share with the group. Thank you for the group's time.

CHAIR RODELL added a thank you to MR. SMITH for coming to Anchorage and attending on behalf of Mayor Joule. It was appreciated.

CHAIR RODELL opened it up again, for public comment in Anchorage, and with no others requesting to comment, she then opened it up to anyone who was calling in to comment. After a period of listening and waiting, she asked for the members to leave with their wrap-up/closing remarks.

## **WRAP-UP / CLOSING REMARKS**

BOARD MEMBER WALKER: Thanks. It was really informative. Thanks for bringing an excellent panel of speakers. Thanks to the speakers. Appreciate it. We do have a lot of work in front of us. Look forward to being a part of it.

BOARD MEMBER DeVILBISS: I too would like to thank the Governor for kicking this off and the Commissioners for enabling it. I would just like to challenge us, and maybe I should have mentioned some of this under scoping because -- especially with mayors that are drooling over potential tax revenue and what we could do with 15 mills on \$15 billion. But I would like us to rearrange our thinking a little bit in thinking about the benefit of not just our municipalities and our municipal governments, but the people at large and how we can take this resource, nonrenewable resource and reinvest it into an economy and a lifestyle that will survive when the pipelines are empty. To me, that is a responsible way to think. It mandates not just thinking what we can get out of the people that are investing in the pipeline, but how we can maximize and value add the in-state use of the gas. I know that's in the legislation, but it's not too much a part of the conversation that I'm hearing here.

And how we can invest in -- you know, I think the Permanent Fund was a perfect example of how it was done before. I don't think we're going to have probably the luxury of being able to do that now, but I think one of our cards is how we facilitate and enable the in-state use of this product. Not just for utilities, but value adding and industry that could come out of this resource. So I challenge us in that respect, and also to not forget the fact that in the process we are here to try to make sure a project happens. Because we're all pretty much aware at this point that we're in a pretty tenuous situation on the world stage and totally bleeding the golden goose at this point. I mean, no goose at all at the end of the day.

BOARD MEMBER HOPKINS: On our process we modified some of our public meetings to have public comment at the start, so that we hear from the public as we go to take action. This meeting we were just -- we're going to be a sponge for a while, soaking it all up. But as we get going on that, I would think that the body should consider hearing from the public before we dive into things. We may only hear from one, and then at the end of the meeting just to hear their reaction. It really works well for the public, as they want to participate to have avenues at the beginning and at the end. It's helped in our public meetings.

I think we have a lot to do. I think we should certainly consider meeting often. I don't know how we're going to get there in three-and-a-half months to have a report. There's probably been some discussion, maybe it's only been in the Governor's office, of these five priorities. Is there something that takes precedent or do we decide that? What's the -- so I look forward to those discussions. I look forward to all these discussions. It's good. It's not a fight. It's good, healthy discussions on what we're going to do.

BOARD MEMBER BELL: I think putting our work as a group in context is what I think has the potential to be very transformational for Alaska in terms of community development, economic development. We've touched on it in the last couple of days. We're part of a conversation trying to make sure that we're getting affordable energy to Alaskans. The fund was mentioned yesterday by Mike Pawlowski and touched on today; Fred's comment about gas at the pump at 7.65 in Kotzebue. There's communities where it's 9 and 11. When you think about what we're trying to do for Alaskans, it's really exciting. So we have something where we're trying to get affordable energy, transport of our economy, have a commercially viable project, especially for the State coffers and what it means; it's really exciting. It's a privilege to be part of this.

BOARD MEMBER BALASH: I just want to welcome all of you to my world and having to weigh out the various elements here and what it means to Alaskans. The decisions that have to be made collectively by the people of Alaska through their representatives, through the Legislature are big ones, and as leaders in your respective communities, you're going to have a role in that, and I'm happy to see all of you and happy to see the geographic balance that we have here.

So I know all of us won't be able to make it to every meeting, but the more of them we make, the more inclusive our decision-making as a body is going to be. So I want to thank all of you for being here today and look forward to seeing more of you.

BOARD MEMBER BARTHOLOMEW: I just echo Mayor Walker. I appreciate the information that was provided, and I look forward to working through the issues and the challenges to move this forward.

BOARD MEMBER NAVARRE: Thank you. I also want to say thanks. I thought the presentations were good, and I want to thank all three Commissioners for being here both days. I think it reflects the level of seriousness with which you take the concerns of the municipalities and incorporating us into this process. I greatly appreciate it. Quite frankly, I was a little suspect after some of the discussions in the Legislature this year, but I didn't have all the information either. So I appreciate you being here both days.

I do take a statewide perspective. I served in the Legislature for 12 years. I can't disassociate myself from that. I'm not just looking out for my community, but there are conflicts built into this and I know what they are because I've had to deal with them before. We're not going to solve all of them, but I think that we can lay a pretty good framework. I'm glad to be part of the process. Liz Leduc is here from the Kenai Borough, and she'll be here when I can't make it.

BOARD MEMBER VENABLES: I would just echo the appreciation for a good working group. In my mind, this first December 15th report is much like drying in a house. We want to get it done before winter. It's not going to have everything inside there to move in and say we're done, but I think that we'll get started framing the discussions that we want to engage the Legislature and the public and the industry. But, too, as the mayor said, make this thing happen finally. I know it will be a challenge to get everybody together. There's a lot going on in everybody's world, but I look forward to participating. Appreciate the opportunity.

BOARD MEMBER DESIGNEE ADAMS: Thank you, Madam Chair. I'd like to thank the Governor for creating the Municipal Advisory Group that gives us the opportunity to express our concerns and our recommendations about how municipalities get treated in the gasline project. The North Slope Borough wholeheartedly supports the gasline project, but I think we need to recognize that the municipalities need to be kept whole. We're looking forward to working with the administration and the Legislature to achieve a project that's going to benefit all of us. Thank you.

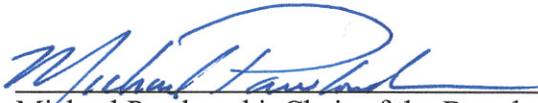
CHAIR RODELL: I just want to take a moment to thank each of you for your participation in this. It's a tremendous amount of work, but it's very important. Hopefully we demonstrated over the last two days how important this piece is to the success of an Alaska LNG project. This project is for the benefit of the entire state, and as Commissioner Bell said so eloquently, it's a very exciting time. It really does benefit all Alaskans in some way, shape, or form.

It's great to be a part of this group. We've got a lot of work cut out for us, but I know this group can get it done.

#### **ADJOURNMENT**

There being no further business, CHAIR RODELL adjourned the meeting at 3:45 p.m.

#### **APPROVAL OF THE MINUTES**

  
\_\_\_\_\_  
Michael Pawlowski, Chair of the Board - Designee

  
\_\_\_\_\_  
Date