

## MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD

November 12, 2014

10:08 a.m.

Taken at:

Alaska Industrial Development  
And Export Authority (AIDEA)  
813 West Northern Lights Boulevard  
Board Room  
Anchorage, Alaska

### **MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD:**

Commissioner Angela Rodell, Chair  
Commissioner Susan Bell  
Commissioner Joe Balash  
Deputy Commissioner Michael Pawlowski  
Mayor Clay Walker (via telephone)  
Mayor Larry DeVilbiss  
Mayor Charlotte Brower  
Mayor Michael Navarre  
Mayor Reggie Joule  
Joe Hardenbrook, Board Member Designee  
Robert Bartholomew (via telephone)  
Robert Venables (via telephone)

### **Others participating:**

Lacy Wilcox, Department of Revenue  
Bob George, Gaffney, Cline & Associates  
Nick Fulford, Gaffney, Cline & Associates  
Robert Elkins, City of Barrow (via telephone)  
Craig Richards, Walker & Richards

### **PROCEEDINGS**

CHAIR RODELL calls the meeting to order and asks for a roll call. She stated that there was a quorum and asks for a motion to approve the agenda.

MAYOR NAVARRE makes a motion to approve the agenda.

COMMISSIONER BELL seconded.

*There being no objection, the motion is approved.*

CHAIR RODELL moves on to the minutes and states a correction that her name is Angela, not Susan. She asked for a motion to approve the minutes.

MAYOR NAVARRE makes a motion to approve the minutes, as amended.

COMMISSIONER BELL seconded.

*There being no objection, the motion was approved.*

CHAIR RODELL states that the first item on the agenda is to go through the model that Gaffney Cline has put together. She turns the meeting over to Nick Fulford. She adds that this is available on the Department of Revenue website for anyone to work on and download.

MR. FULFORD thanks the Commissioner and states the hope for a fairly interactive discussion. He asks Bob George to provide some of the background to some of the methodology.

MR. GEORGE begins stating that the easiest way is to go through the presentation first which refers to the model. He starts with a recap first looking at part of an exercise to look at moving from the current legislation on property tax to find a suitable basis for collecting or recognizing value for that in the context of the proposed Alaska LNG project. He states that in this meeting he will go through the model that was distributed around the end of October so everyone understands it. He plans to get an updated version done in the relatively near future. He continues that they worked very closely with the Department of Revenue and Department of Natural Resources teams and stakeholders trying to find areas where the basic principles of what was going on were agreed to. He adds that the model allows users to change a number of the inputs and is simple. He states that the model allows a user to adjust several inputs and has the ability to put in mill rates for three project segments. He explains in greater detail.

MAYOR DEVILBISS asks about depreciation.

MR. GEORGE replies that in this model it is fixed, but that issue of alternate rates or forms of depreciation is one of the issues that will be looked into to build in a subsequent phase of the model. He continues his presentation, explaining as he goes along.

MAYOR JOULE asks for clarification on the project life and if it is part of the contract or how long the gas will be there.

MR. GEORGE REPLIES that it is not intended to be project life; it is intended to be reflective of typical contracts.

MAYOR NAVARRE asks if the property tax is calculated on a depreciated value, not an assessed value.

MR. GEORGE replies that this model works that way. He continues explaining his presentation. He also explains how the property tax calculations are done.

A discussion ensues.

MR. GEORGE moves on to some next steps and looks at some alternative profiles. He talks about moving from the dollars to a PILT, and explains some of the different PILT structures.

A short discussion ensues.

MAYOR DeVILBISS states that the feasibility of the project would look even better for it to go out 50 years, but will make the annual payments go down.

A discussion ensues on the subject.

MR. GEORGE explains that the model is not exactly saying that this project will last only 20 or 30 years, but is the basis for the initial calculation. He adds that it is a fairly simple model and issues of how to deal with project expansions, extensions and all the other things that can come into play. He states that different places may have different needs, and there may be some issues that are not a simple escalation. He continues the presentation and the discussion on PILT.

MR. HARDENBROOK asks if there is any formula for calculating in the replacement cost escalation of the line in going forward with the contract.

MR. GEORGE replies no to this model, but in the next version something like that can readily be included.

MAYOR DeVILBISS asks about the decommissioning cost.

MR. GEORGE replies that any allowance for decommissioning has been included in either cost or provision in the way this runs, but there are a number of potential ways that anticipation of decommissioning costs could be done.

MAYOR BROWER asks about the assessed value versus PILT, and what would happen if everything changed and the pipeline is rerouted.

CHAIR RODELL states that point is very well taken. She continues that the report needs to be clear that any recommendations of this board only applies to the project as it is currently conceived, and that if that project changes in any form, this board continues to exist both under SB 138 and under Governor Parnell's Administrative Order. She adds that there will be an opportunity for this board to reconvene and make changes to its recommendation.

MR. GEORGE concludes his part of the presentation and turns it over to Nick Fulford.

MR. FULFORD states that the ultimate goal of this panel and the wider community in Alaska is the end result of a successful major sort of global standard LNG export project. He continues that the project has challenges on all kinds of levels, which he highlights.

CHAIR RODELL asks how many of these projects are sensitive to what is going on in terms of the oil markets and with the fall-off in oil prices. She also asks if there is a linking going on that makes these projects uneconomical if oil prices continue to stay where they are currently.

MR. FULFORD explaining the contrasts in pricing and states that what is happening now is that gradually the differential will be eroded unless there are changes to the way the pricing is addressed. U.S. Gulf Coast gas will look less competitive. He continues his presentation. He states that the plan was to essentially collect some of the things talked about today and think about what is needed to do to essentially address some of the questions and queries of this group.

MR. GEORGE summarizes that at the beginning some of the guiding principles on the production tax alternative PILT were laid out and what is thought to be appropriate in driving it. He states that they are here to solicit input and feedback and incorporate it, to the extent possible, within another version of the model. He thanks all.

CHAIR RODELL asks for any questions. She states that the most immediate feedback is making the adjustment to the Kenai Peninsula Borough mill rate in terms of the near term.

COMMISSIONER BELL asks if there are still open work sessions on Monday and Tuesday.

CHAIR RODELL replies yes, and adds that there will be videoconference between Juneau and Anchorage in the Commissioner's offices of Department of Revenue. She states that it is an opportunity to go in and really work on the model.

DEPUTY COMMISSIONER PAWLOWSKI states that the intent of the work session was not just the modeling, but also to go through the outline and start to actually write and have the opportunity to do that openly and collaboratively.

CHAIR RODELL recesses for lunch.

(Lunch recess taken from 12:15 p.m. to 1:03 p.m.)

COMMISSIONER BELL calls the meeting back on the record.

CHAIR RODELL turns the meeting over to Deputy Commissioner Pawlowski, and states that intent of this outline is to start a conversation and figure out what is wanted in the report.

DEPUTY COMMISSIONER PAWLOWSKI states that the board and, through the board, the Department of Revenue have the responsibility for a deliverable December 15 to the Governor and the Legislature in a report on recommendations. He continues that the point is to do the best as a group to get to a consensus report. He adds that the board does not sunset; it continues on under Senate Bill 138. He begins going forward in describing how property tax is approached for the project, and reminds all that these are recommendations to the Governor, the legislative branch and, ultimately, the public. He states that the revisions to 43.56, the statewide property tax, and 29.45, should be limited to the scope of Alaska LNG project or Alaska Standalone Pipeline. He continues that the recommendations do not include other taxable property. He states that, in making the recommendation, we are not saying that any individual municipality should not be able to negotiate any individual deal that they would like. He continues that for the purposes of what the State is going to do, the State is going to look at the Alaska LNG project, and only that, in these recommendations. Next is the basic principle that actual impacts

on communities and the state of Alaska incurred during construction should be compensated by the Alaska LNG project starting off with the basic principle that the community impacts or impacts on the State, as a whole, be covered by the Alaska LNG project. He states that third is that revisions to 43.56 and 29.45 should improve the competitiveness of the Alaska LNG project and the Alaska Standalone Pipeline. He continues that it is very important to keep in mind that there is a difference between enabling the project from the initial investment and the recovery of that initial investment and long-term commitments by either a community or the State as stability and predictability. He adds, fifth, is that revenues from the development of the Alaska LNG project should be shared with communities expected to have ongoing impacts from the project and with communities statewide to reflect the statewide nature of the project. He moves on to another section of the report, recommended changes to AS 43.56. He suggests building out an outline of what has been identified, and then start to build a text and have people agree to the text as it is developed. This can be done at the work sessions that have been identified.

MAYOR JOULE asks how to address issues where there may be opportunities for other large projects to become developed because of access to energy.

A short discussion ensues.

MR. HARDENBROOK states that he is interested in fleshing out the impact payment side. And potentially using the FERC process to identify those potential impacts is great.

The discussion continues.

MAYOR BROWER states that one of the items of responsibility is the State of Alaska's permitting process. He continues that they have a memorandum of agreement with the State of Alaska on the permitting process where both the State permitting department and the North Slope Borough permitting department sit and discuss issues from the permittees. He adds that this is an important area and should be part of the report.

MR. HARDENBROOK asks for a discussion on how exactly the dollars flowing from the project to the State coffers are flowing, distributed, and what the chokepoints will be along the way for legislative appropriation and distribution and the Governor's budget recommendation.

A discussion ensues on the subject with a focus on property tax.

DEPUTY COMMISSIONER PAWLOWSKI states that an important part of the recommendation should be to include contingencies. He continues that if the project sustains any changes, there should be recognition of a sort of reset button. He adds that if the project does not happen, then no recommendations should be necessary.

COMMISSIONER BELL moves on to Public Comment, and asks for anyway to come forward.

## **PUBLIC COMMENT**

MR. RICHARDS states that he is with Walker & Richards and is here on behalf of the City of Valdez. He shares some thoughts on altering or modifying the way the LNG project under

AS 43.56 and 29.45 is taxed. He continues that he thinks of it in terms of three different types of property and three different types of taxes. There are taxes on existing property; taxes paid during construction of an LNG project; and taxes paid during operation of an LNG project. He addresses his comments to each of those areas, explaining and giving examples as he goes along.

COMMISSIONER BELL thanks Mr. Richards and asks for any questions from the board. She asks for any further Public Comment. There being none, she asks for a motion to adjourn.

MAYOR DeVILBISS makes a motion to adjourn the meeting.

MAYOR NAVARRE seconds.

*There being no objection, the meeting is adjourned.*

(Meeting concluded at 2:08 p.m.)