

## MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD

March 13, 2015  
10:01 a.m.

Taken at:  
Alaska Gasline Development Corporation Board Room  
3201 C Street, Suite 604  
Anchorage, Alaska

### MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD:

Commissioner Randall Hoffbeck, Chair  
Acting Commissioner Fred Parady  
Mayor Clay Walker  
Mayor Larry DeVilbiss  
Mayor Charlotte Brower (via telephone)  
Mayor Mike Navarre (via telephone)  
Mayor Reggie Joule  
Robert Venables  
Robert Bartholomew (via telephone)  
Joe Hardenbrook

#### Others participating:

Stephanie Alexander, Department of Revenue  
Rob Elkins, Department of Administration and Finance, North Slope Borough  
Howard Nelson, Greenberg Traurig (via telephone)  
Sharon Long, Senator Huggins' Office (via telephone)  
Nick Fulford, Gaffney Cline  
Loren Crawford  
Mike Fisher, Northern Economics  
Tim Harper  
Dan Seckers, ExxonMobil  
Marie Evans  
Larry Persily, Kenai Peninsula Borough  
Joe Reese, BP  
Paul Quesnel, BP (via telephone)  
Chris Gates, Mat-Su Port Commission (via telephone)

### **PROCEEDINGS**

COMMISSIONER HOFFBECK calls the March 13, 2015, meeting of the Municipal Advisory Project Review Board. He asks Ms. Alexander to call the roll.

MS. ALEXANDER calls the roll.

COMMISSIONER HOFFBECK states that there is a quorum, and asks for a motion to approve the agenda.

ACTING COMMISSIONER PARADY makes a motion to approve the agenda.

MAYOR WALKER seconds.

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

COMMISSIONER HOFFBECK asks all in the room and then online to introduce themselves. He appreciates all for their attendance this morning. He states that the schedule will start with an overview of the FERC NEPA process. He explains that it is an introduction on how to possibly deal with impact payments during construction. He asks Nick Fulford to carry the discussion on the process.

MR. FULFORD states that he is a consultant for Gaffney Cline, which has been providing support for the Commissioner, Department of Revenue on the AK LNG project. He introduces Howard Nelson, an attorney with Greenberg Traurig in Washington, D.C. He continues that Greenberg Traurig is engaged by the Alaska Department of Law to advise the State with respect to federal regulatory work. He adds that Mr. Nelson has a background in other federal LNG filings and is very familiar with the process.

MR. NELSON states that he has been representing clients at the FERC and related Court of Appeals for almost 30 years. He continues that he previously worked at the El Paso Corporation and was in private practice before that. He adds that he has been at Greenberg for the last ten years. He states that the firm has been representing the State for a number of years now in relation to the projects to get gas out of the North Slope.

MR. FULFORD moves to Slide 2 of the presentation, which is posted on the website. He states that the focus this morning will be about the impact of the project during construction. The first explicit reference to impact payments in relation to the AK LNG project was set out in what is called the Heads of Agreement. It was signed over a year ago by the AK LNG sponsors, ExxonMobil, BP, ConocoPhillips, and the State. It is a public domain nonbinding agreement which was envisioned as the administration working with local governments on two items: A flat or escalating PILT; and the impact payments to offset construction-related costs, which might be summarized as socioeconomic impacts. He continues with some additional background information. He asks Mr. Nelson to run through the process, talk about the nature of the timeline and the opportunities for participation.

A short question and answer ensues.

MR. NELSON states that the National Environmental Policy Act requires an analysis of the environmental impacts of federal actions, including interstate pipelines, LNG facilities that are authorized under Section 3 of the Natural Gas Act. Projects such as these must be permitted by several federal, state, and local agencies, in addition to the FERC. He continues that included is the Department of Energy, who issues an export license, Department of Transportation, Coast Guard, Corps of Engineers and the EPS under the Clean Water Act, BLM, if there are rights of ways that are needed on federal lands, the Bureau of Indian Affairs, and Fish and Wildlife. State regulatory agencies are also involved in the process. He adds that, in this case, DNR and

Alaska Department of Fish & Game are involved; as well as localities to the extent of zoning and land use permitting requirements. FERC acts as the lead agency in preparing the EIS, and it coordinates with all the other permitting agencies. He talks about the FERC's pre-filing process and its benefits. He then explains the rest of the process. He states, in terms of the requested timeline, that January 2016 is when the project plans to have the second draft of resource reports filed. He adds that FERC staff has not yet committed to this timeline. The idea is to have the major issues worked out prior to the filing of the application to prevent major changes which would entail a great deal more environmental work and more analysis. He moves on, explaining the time periods where the public can participate in the process. He states that the first phase has already occurred and is now in the phase where the FERC has issued a notice of intent. He continues that for the next nine months there will be scoping meetings, and the public will be able to provide their comments orally at the meeting or submitted in writing to the FERC. He states that once the application is filed, the Commission will issue a draft EIS. He adds the issuance of that draft triggers more meetings and another public comment period which the Commissioner will read and respond to when the final EIS is issued. He moves on and talks about cooperating and participating agencies. He explains that FERC is the lead agency for the NEPA process and the preparation of the EIS. He states that everyone that participates in the process is a participating agency, and then there is a subset of agencies that are called cooperating agencies. He adds that there are going to be workshops held next week with all the cooperating and participating agencies. He then talks about resource reports and states that listed under each of the resource reports are what are considered to be the primary issues that may arise based on gathered information. He moves on, explaining Resource Report 5, which describes the existing socioeconomic conditions and seeks to quantify the project's impact on those conditions. He goes through this in greater detail. He states that much of the subsistence data comes from public reports available at the Alaska Department of Fish & Game. He moves on to potential mitigation, explaining that mitigation measures are dependent on the facts of each project and goes through a few that were listed.

A discussion with questions and answers ensues.

MR. FULFORD states that the nature of this FERC EIS process is extensive. He continues that it is the most complex, detailed process that the State would ever have witnessed in terms of the context of any kind of infrastructure project. He adds that there is an opportunity for the municipalities and other municipality-oriented organizations to participate. The other way of participation is for this board to participate directly with FERC. He states that FERC has been made aware of the existence of this group and its role in the context of representing municipality interests and the project. He suggests looking at some scheduling through the rest of the year, which may coincide with some of the scoping meetings. He adds there will be an opportunity to interact directly with FERC on this. He states that there are three routes that this group could go down. One would be to engage with the FERC process and review the very detailed recommendations that will result; and for each municipality to look at its own unique situation and consider what additional financial payment should be required to address what that particular municipality is focused on. He continues that the second alternative would be to look at a combination of the environmental impact statement and the way it is affecting the different municipalities. He states that the third approach is to just acknowledge that this FERC process is going on, but that there are other mechanisms to arrive at the conclusion; one of which is posted on the website in terms of the prior work that was done with various other pipeline projects.

MAYOR DeVILBISS states that one of the biggest facts that involve direct impact is the labor force that is going to be involved.

MR. FULFORD states that part of the engineering process that the project would embark upon would involve quite detailed planning around workforce.

MR. NELSON states that the project is required to discuss the impact of the influx of workers on employment and on the labor force in Alaska and the various municipalities.

MAYOR JOULE states concern on the experience of the workforce that is going to be required to actually get those jobs.

The discussion continues on the subject.

COMMISSIONER HOFFBECK asks to walk through, one more time, the kind of areas where the board could actually have input in the process as far as scoping and where the output from this process could feed into some of the decisions made here.

MR. NELSON explains the process more fully, creating more discussion.

COMMISSIONER HOFFBECK opens the floor to any public comment.

MR. PERSILY states that he is Larry Persily and represents the Kenai Peninsula Borough. He adds that he is also a former federal official on the gasline project. He states that FERC is required to hold government-to-government consultations with all of the affected tribal entities in Alaska. He continues that at some point in the process an invite will be sent to the 229 federally recognized tribal entities in Alaska asking which ones want to participate in the government-to-government consultations with FERC. He believes the project sponsors have contracted with the Alaska Department of Fish & Game Subsistence Division to do community surveys. He continues that those surveys will not only look at who shoots how many animals and who nets how many fish, but the importance of it to the culture and to the communities. He adds that the results of the surveys will be turned over to the project sponsors and incorporated in their resource reports and in the EIS.

COMMISSIONER HOFFBECK thanks Mr. Persily, and asks for any other comments.

MR. GATES states that he is Chris Gates with the Mat-Su Port Commission. He continues that in a prior life he was chairman of the Regional Citizens Advisory Council for Prince William Sound after the oil spill, and had to deal with the impacts of that catastrophe. He states that one of the big key things was that there was no baseline established of the socioeconomic impacts of an oil spill, a gas spill, or a catastrophe of any kind. He encourages the board to look carefully at the socioeconomic fabric of the affected areas so that impacts can be measured against those in a court of law and win.

COMMISSIONER HOFFBECK thanks Mr. Gates, and asks for other comments.

MR. VENABLES states that not all impacts are negatives. It is just that impacts are impacts and just need to be mitigated. He adds that it is just something to prepare for and take care of.

A discussion ensues.

COMMISSIONER HOFFBECK asks for any other comments. There being none, he calls a ten-minute break.

(Break.)

COMMISSIONER HOFFBECK calls the meeting back to order. He states that the discussion on the operational PILT will be now begun. He adds that it is posted on the website. He asks if all have access to the slide deck, and begins the slide presentation. He states that Slide 2 is a review of the end of the discussion a few weeks ago and what was put out for comments within the sponsor group for AK LNG. He continues that it was a very productive way to deal with it. He continues reviewing as he goes along. He states that the term of the PILT was not talked about, but a durable formula that could last beyond the life of the PILT was discussed.

A discussion ensues.

COMMISSIONER HOFFBECK asks Mr. Fulford to walk through the comments, the initial feedback from the AK LNG sponsored group.

MR. FULFORD states that he has received both verbal and written feedback from the AK LNG producers; ExxonMobil, BP and ConocoPhillips. He continues that his first summary slide focuses on overall approach and strategy; the second deals with some specifics around the formula and its contents, on which the producers have provided feedback. On the feedback, he states that a number of factors match with the objectives that this board has set out. He continues that the producers would prefer a formula that is general in nature and would be enacted as a law of general application. He thinks that the objective would be to set out a framework with sufficient adaptability to be applied to the project as the engineering and economics evolve. He moves on to the specifics, a number of which have been covered at previous meetings, and goes through them.

A discussion ensues for more clarification.

MAYOR WALKER comments on the mill rates.

The discussion continues.

COMMISSIONER HOFFBECK breaks for lunch.

(Lunch break taken from 12:02 p.m. to 1:30 p.m.)

COMMISSIONER HOFFBECK asks Mr. Fulford to continue where he left off.

MR. FULFORD states that next on the list was the question of costs. He continues that in the interest of simplicity and clarity, an alternative approach suggested by the sellers is a cost determined either at FEED, which is the front-end engineering design, or at FID, the final investment decision. He adds that at the point of final investment decision, there would be a relatively accurate figure around capital cost, which for the purposes of the PILT, could be used to drive it. He moves on to depreciation and obsolescence, which are both acknowledged

features of the current methodology. He states that the producer view is that some kind of factor should be included in the formula to address them. He moves on to flow adjustment, and then continues onto inflation. He states that the producer view is that a fixed escalation factor could be a better approach. He continues to the final on the feedback, which is adjustment factor. He states that the preference is to remove it.

COMMISSIONER HOFFBECK states that next is a comparison of the initial formula that was moved forward and the refined formula that came back. He continues that the refined concept was that rather than actual cost, to use capital cost. He explains this.

A discussion ensues.

COMMISSIONER HOFFBECK states that some things that came back worked more in the board's favor, and asks Mr. Fulford to pick up on the graphs.

MR. FULFORD states that the first few slides look at the effect of inflation, depreciation, and how that impacts the PILT going forward. He continues that the broad conclusion of that is if there is a 2 percent inflation rate on the one hand and a 50-year rolling depreciation on the other, the two, more or less, cancel each other out. He moves on to Slide 10 which, for illustrative purposes, shows what that PILT would look like on a per-mef basis.

A short explanation follows.

MR. FULFORD states that next is a discussion around flow rate effects. He moves on, explaining five projects that had characteristics worth considering.

MAYOR DeVILBISS states that there must be limits to what the pipeline could grow to, and he asks what that would be.

COMMISSIONER HOFFBECK replies that a lot of it has to do with what pipe diameter is selected to be as far as what the ultimate capacity would be; but a capacity is reached, eventually, with any diameter.

A discussion ensues.

MR. FULFORD continues his presentation, explaining and answering questions as he goes along. He moves on to the question of duration which, in terms of policy, this group could hopefully address the extent to which the goal would be to set a PILT which would last more than 20 years.

COMMISSIONER HOFFBECK asks for any questions on the slides that have been presented. He takes a break until 2:55.

(Break taken.)

COMMISSIONER HOFFBECK states that he asked Mr. Fulford to bring in the interactive spreadsheet that he put together to look at the effects of various modeling scenarios. He begins with a depreciation factor and if it should be included. He states that the general consensus was

that it was necessary in order to keep this durable over time. He asks for a consensus on fixed or floating.

MAYOR DeVILBISS replies floating.

MR. VENABLES replies floating.

MAYOR WALKER replies floating.

COMMISSIONER HOFFBECK states that the next question is how many years. He continues that it was artificially plugged in at 50.

After discussion, consensus was to leave 50 in there.

COMMISSIONER HOFFBECK moves on to the 2 percent inflation factor. He asks if all are willing to recognize the uncertainty that introduces into the economics and live with a fixed inflation factor.

A discussion ensues.

MR. REESE states that the overarching principle No. 9 is actual impacts on communities. He continues that whatever impacts will be paid with actual dollars. He suggests using actual CPI; adjust it every year as an overarching principle.

The discussion continues.

After discussion, a basis was found, and the 4 percent will move forward.

COMMISSIONER HOFFBECK states that next is the actual gas flow divided by the design throughput. He continues that both parties agree that is a reasonable way to look at the functional aspects of the project. The question is: With an exponent and without an exponent and go with multi-year average or instantaneous, or 3-year, 5-year average, all those kind of components. He begins with the averaging which was introduced to take away some of the risk associated with interruptions in the throughput of the project. He continues that, on the upside, as it goes up, it reduces the PILT. On the downside it would slow the decline. It also has some impact on how to deal with it in the initial five years of the pipeline.

During the discussion, the model compares the numbers. The group agrees to a five-year average.

COMMISSIONER HOFFBECK moves to the idea of the exponent. He explains that exponent is used in this case to really look at the relationship between capital cost and capacity of volume that something can handle. Pipe is easy to explain.

A discussion ensues.

MR. VENABLES asks for a recommendation.

COMMISSIONER HOFFBECK replies that he is fine with not having an exponential modifier, but would like to leave it in the formula and recommends setting it to one. He continues that it is a formula that then has broader application besides just this PILT, and that optionality is still in the formula. He moves on to how to deal with the 20 mills versus the mill rate and how to deal with places that do not have a mill rate.

MR. ELKINS states that the first question to answer is the purpose of the PILT to reduce costs to industry. If the answer is no, then the 20 mill is what it should be. If the answer is yes, then, obviously, further discussion is needed.

A discussion on mill rate ensues.

MR. VENABLES states that there is still a distribution issue that needs to be addressed.

COMMISSIONER HOFFBECK states that it is in the record that it still needs to be resolved. He asks if all are comfortable with the idea of just using mill rate and then defining that to what the statutory language provides.

MAYOR DeVILBISS asks if that statutory language excludes the gasification terminals.

COMMISSIONER HOFFBECK replies that the liquefaction would fall under the different statutory language, which would not have the 20 mill levy on it, assuming that is how it continues as it moves forward. He states that it will be written out as that issue is not resolved. It is just the total amount of impact on the project, not on how it impacts the various jurisdictions. He opens a discussion.

MR. ELKINS states that he does not see doing anything other than actual cost to share in the risk.

The discussion continues.

COMMISSIONER HOFFBECK states that it is still nearly impossible to model the economics.

MR. REESE suggests building the model based on final investment decision because that is what the banks are using, and then do a single catch-up.

The discussion continues.

COMMISSIONER HOFFBECK asks if there is still a quorum. There being seven members present, he asks Mr. Fulford to go over the notes on what has been proposed.

MR. FULFORD states that Question No. 1 was depreciation, and the proposal from the board was to having rolling depreciation with a 50-year horizon.

Question 2 was inflation, fixed or actual, and the proposal was to fix inflation at 4 percent.

Question 3 was around averaging, and the proposal was to maintain a five-year averaging of the flow rate.

Question 4 was exponent, and the proposal was to leave it in the formula, but to set it as one.

Question 5 was the mill rate, 20 mills versus a mill rate. The proposal was to say that the mill rate would be based on current statutes. In other words, if it was captured by 43.56, it would be 20. If it was captured by 29.45, it would be the locally set rate.

Question 6 was the adjustment factor, and the proposal was to leave that out of the formula.

Question 7 was the capital cost versus actual cost. The proposal was to use the FID, Final Investment Decision, available number times 1.1.

MAYOR DeVILBISS makes a motion to approve the seven questions.

MAYOR WALKER seconds.

*COMMISSIONER HOFFBECK calls the vote, Board Members, aye, unanimously. The motion is approved.*

COMMISSIONER HOFFBECK states that the last item on the agenda is final comments.

MAYOR DeVILBISS requests that the letterhead include board member names.

MAYOR WALKER thanks the Commissioner, staff, and Mr. Fulford for all the work they did on this. He states appreciation for the discussion on the Denali Borough's situation, and that it is on record that those negotiations will be had to move towards an agreement at some later date.

MR. HARDENBROOK echoes Mayor Walker's comments, and adds that it has been a good meeting and a good process. He brings up, with the State looking at changes to the standalone pipeline project, it might behoove the board to consider how impact payments or PILT payments would affect the municipalities.

MR. VENABLES makes an analogy on the NFL free agency picks, and thanks Mayor Navarre for the best acquisition, and is glad to see Mr. Persily in the wings.

COMMISSIONER HOFFBECK concurs.

MAYOR BROWER thanks the process used and the fact that the North Slope Borough is involved. He thanks the Governor for appointing Commissioner Hoffbeck, and adds "Let's move forward."

COMMISSIONER HOFFBECK asks for a motion to adjourn.

MR. VENABLES makes a motion to adjourn.

MAYOR DeVILBISS seconds.

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

(Meeting adjourned at 4:05 p.m.)