

MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD

October 1, 2014

9:30 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
Mayor Clay Walker
Mayor Larry DeVilbiss
Mayor Luke Hopkins
Mayor Michael Navarre
Robert Bartholomew
Robert Venables
John Bitney

Others participating:

Deputy Commissioner Mike Pawlowski
Stephanie Alexander, Department of Revenue
Frank Richards, Alaska Gasline Development Corporation
Miles Baker, Alaska Gasline Development Corporation
Tim Sullivan, Alaska Railroad
Dale Wade, Alaska Railroad

PROCEEDINGS

COMMISSIONER RODELL called the meeting back to order and introduced Frank Richards with the AGDC to make the presentation on the Alaska Stand-Alone Pipeline Project.

MR. RICHARDS stated that he is the Vice President of Engineering and Program Management for Alaska Gasline Development Corporation. He introduced his colleague, Miles Baker, Vice President of External Affairs and Government Relations. He continued that they will provide an

update on one of the two projects that they have been authorized to proceed with. He stated that he will focus on the Alaska Stand-Alone Gas Pipeline Project and how that will be developed. He began with some background, stating that the project was originally a concept developed by ENSTAR in the 2006-2007 time frame. He continued that there was a steep decline at the reserves in Cook Inlet and there had to be an alternative to meet the needs as a public utility to provide energy for their customers. He added that in 2010 the Legislature enacted House Bill 369 which authorized the Alaska Housing Finance Corporation to take over and develop the project concept plan to be delivered to the Legislature in 2011. He stated that the plan was delivered and the project was identified as an economic project that could provide energy to Alaskans in a time frame and at a cost that was going to be competitive and economic. He continued that in 2013, House Bill 4 was passed and signed which gave the authority to develop the Alaska Gasline Development Corporation into a stand-alone public corporation to enhance pipeline projects, including ASAP. He added that ASAP was the primary mission, and the funding as well as the authority was granted to meet the needs for the in-state energy. He continued that AGDC was granted very extensive authorities to develop and expedite a North Slope natural gas pipeline which was to advance other pipelines as were deemed economic or necessary to meet the needs for Alaskans, as well as for the ASAP project. He stated that they were granted confidentiality to proprietary and commercial information; exemptions from many of the administrative codes; expedited review with the Regulatory Commission of Alaska to change the law; essentially, priority within the State permitting process with the ability to get those permits expedited to advance field work. He continued that the bonding authority that was provided to AGDC for advancement of a natural gas pipeline is very large, and if deemed economic and approved, there will be the ability to bond projects. He added that under House Bill 4 there is the provision for the exclusion of the property taxes under AS 43.56.020 for the ASAP project, which is just during construction.

MAYOR NAVARRE asked if that also includes the gas processing on the North Slope, and if AGDC is now involved with Alaska LNG.

MR. RICHARDS replied that the specific language is for projects owned, financed, or in partnership with AGDC.

A discussion ensued.

COMMISSIONER RODELL asked Mr. Richards to continue his presentation.

MR. RICHARDS stated that the ultimate goal is to provide for Alaska's long-term best interests for an energy pipeline. He moved on, explaining the ASAP design objectives. He stated that there are two major components on the project description: a gas conditioning facility which would take the gas from the Prudhoe Bay operator, condition it to utility-grade gas, which is currently burning under the ENSTAR system.

COMMISSIONER BALASH stated that it is important to note the distinction between the ASAP requirements for conditioning versus AKLNG.

MR. RICHARDS explained that the conditioning design is different between the two projects: ASAP is using a physical solvent process; and AKLNG is using an aging process. He continued that one requires a tremendous amount of water, while the other one does not. He added that one provides gas to LNG quality, and the other does not.

MAYOR HOPKINS asked about the gas take-off out of a line, a valve.

MR. RICHARDS replied that included in the design concept is essentially an off-take point which will include a metering station and a depressurizing station. He continued, that would be up to the local community to develop or, if authority is granted by the Legislature, done by us. He added that currently it is not part of the design process.

MR. BAKER stated that the statute has several missions for the corporation, and this one specifically gives the direction to develop a specific in-state pipeline to serve Fairbanks and Southcentral. He added, that is the basic statutory authority that is being operated under to develop the ASAP project. He explained that there are other authorities, including the ones to uphold the State's interest in the LNG project, and also develop other transportation mechanisms for getting nonoil hydrocarbons out to Alaskans, the communities that are off the alignment. He added that both projects are going to have to identify where the off-takes are, identifying what local communities need to start doing or will need in terms of infrastructure authority, through conversations with the Regulatory Commission. He continued that part of the job is to help walk communities through that process.

COMMISSIONER BELL stated that, from an AGDC board member perspective, it is important to recognize the statewide responsibilities and the statewide focus, and the need for AEA to coordinate with AGDC, AIDEA, and Department of Revenue as the next piece. There is work ahead.

COMMISSIONER RODELL stated that it is important that both of these lines continue to be evaluated and moved forward. The ASAP line is about getting that gas to Alaskans; AKLNG is about commercializing and exporting. She asked Mr. Richards to continue.

MR. RICHARDS added that there are conversations with AEA and AIDEA in terms of looking at their charges and the joint charges, and then looking at the distribution network in Fairbanks, and learning how to proceed in how to collectively work with them.

MAYOR DeVILBISS asked for a description of any significant pressure difference between the two lines.

MR. RICHARDS replied that the line is 1,280 psi, a 36-inch diameter of X-70 steel with a yield strength of 70,000 pounds per square inch. He continued that AKLNG line is 2,075 psi, a 42-inch X-80 pipe with a yield strength of 80,000 pounds per square inch. He added that their line is 727 miles from Prudhoe Bay to tying into the lateral at Fairbanks and tying into the ENSTAR system. He continued, there is currently designed a 29-mile, 12-inch lateral leading into Fairbanks with off-take points to communities. He stated that the key to the utility-grade gas is that it will allow communities to access that gas without an expensive straddle plant, which was

the original premise which would require the removal of natural gas liquids out of the line and back into the line. He explained, that was a plant running approximately \$250 million. He stated that there is a three-year construction window with approximately 8,000 peak employment during construction, with approximately 13 camps up and down the line.

MAYOR HOPKINS asked if there was a contract agreement for the gas.

MR. RICHARDS replied that there are commercial discussions with the gas producers, and there is no contract agreement at this time.

COMMISSIONER BALASH stated that in the Point Thomson settlement an agreement was entered into with the working interest owners in 2012 that if a major gas sale project is not moving forward by 2019 there is an obligation by the Prudhoe Bay working interest owners to make gas available to sell. He continued that an eye has been kept on gas supply issues for an in-state project for some time now to make sure that options are being provided for those future commercial arrangements.

MR. BAKER added that the expectation is not to have those contracts right now, at this point.

MR. RICHARDS stated that Point Thomson gas will hopefully be available at some point in the future. He continued describing the existing facilities in place now.

MAYOR NAVARRE asked about any modeling regarding gas reserves on the North Slope.

A discussion ensued.

DEPUTY COMMISSIONER PAWLOWSKI commented that the export license application has a third-party independent reserve estimate on the North Slope that was done to a standard that the U.S. Department of Energy would find acceptable, as well as an analysis of Cook Inlet. He added that it is in the export license for review.

MR. RICHARDS continued his presentation, moving on to a 3D model of the gas conditioning facility and stated that the models have essentially identified the level of advancement in the engineering that has been done. He moved on to the pipeline stating that the project will be a buried pipeline except at major river crossings and essentially at four major fault crossings. He added that a common design that the TransAlaska Pipeline used was successful in 2002 with the major earthquake along the Denali Fault. He explained the excavation.

MAYOR HOPKINS asked if the right-of-way from Prudhoe Bay to Livengood is the same for both projects, or sort of close.

MR. RICHARDS replied that they are not currently on a common alignment, but have a routing workshop to see where the differences are and why. He went through the route.

MAYOR HOPKINS asked if the board has had any discussions about the possibility or consideration of extending the lateral line further.

MR. BAKER explained that the mayor had sent AGDC a letter requesting that the current Fairbanks lateral be extended roughly 30 miles to the southeast to continue to North Pole. He added that the comments and letter were entered officially into the supplemental EIS process, and there will be a formal comment on it.

MR. RICHARDS moved on to the modifications around West Dock, which is the dock head that is used by producers and others to bring materials to Prudhoe Bay. He stated that because of the size of the modules and the limitations due to a bridge, the modules are greater than the bridge can accommodate. He continued, stating that the need for dredging the shipping channel to meet the barge sizes will be looked at, as well as an alternative to put in place barges that can transit the modules to get them onto the road and go around the bridge. He added, that was one of the other major changes especially in the environmental impact statement. He stated that the project timeline has been updated and has entered into Phase 2 which is FEL-2, front-end loaded, with the goal of an open season. He explained that open season will be the commercial indication of an economically viable project, and that shippers would then be willing to sign firm transportation agreements and then could go to the lending institutions for funding to advance the project. He explained the rest of the plan fully and in greater detail.

A discussion ensued.

COMMISSIONER RODELL called a break.

(Break taken.)

COMMISSIONER RODELL called the meeting back to order, and asked Mr. Richards to continue his presentation.

MR. RICHARDS stated that in the ongoing work activities there is collaboration in discussion with the partners at AKLNG to make sure that the work being done is of benefit to both options. He continued that the pipeline and facilities engineering are advancing and added that Michael Baker, Jr. is the lead pipeline engineer and Artic Solutions is the gas conditioning facility. He added that the team is being utilized to be able to have a complete total installed cost estimate by the end of the year. He stated that construction and logistics planning is being developed, as well as looking in detail at how to actually efficiently construct this mega project over the course of three years. He stated that they are in the supplemental environmental impact statement, and other state and federal regulatory agencies are being engaged in regard to what federal and state permits will be needed for the project. He continued that there are also conversations with the Regulatory Commission of Alaska which will be the regulatory arm that will look at the recourse tariff and making sure that the interests of Alaskans are being met. He added that they are also engaging with the Community Advisory Council on a monthly basis, and explained that it is an ad hoc group with members from communities up and down the line, as well as off the line. He talked about the fabrication of the modules and the pipes. He stated that the 2014 field season was very robust and talked about it. He continued that the ASAP project has advanced the time frame with the legislative intent to now being in the FEED process for the pipe, as well as gas conditioning. He added that AKLNG is starting pre-FEED, and the utilization of data and

engineering details will help the process and the project to move forward. He stated that one of the issues is geohazards, and he referred to the Pipeline Hazardous Material and Safety Administration. He continued that there is the issue of frost settlement/frost heave. He explained that because there is discontinuous permafrost, there will be a pipeline running either warm through permafrost or cold through thawed ground, and then there are the issues of creating ice lenses or thawed bulbs around the pipe. He continued that the issue with that is if the pipe will be able to withstand the strains that would occur in the different settlement. He explained the boreholes programs that were done to delineate the existing permafrost areas and then developed major models to be able to articulate how much strain could actually accumulate in the areas.

A short discussion ensued.

MR. RICHARDS stated that the goal in looking at material exploration is to work with both the partners at DOT and AKLNG to make sure to look at potentially available options. He added that the gravel need is approximately 20 million cubic yards, which is very large in regard to doing work on building padding and access roads.

A short discussion ensued.

MR. RICHARDS stated that the three main contractors are Michael Baker for pipeline, Arctic Solutions for facilities; and CH2MHill for logistics and owners' cost. He continued that the current investment by the State to date is approximately \$400 million. He added that it is being utilized smartly so efforts are not duplicated. He stated that the plans are going toward the open season by the end of 2015, and then the work efforts included in that \$400 million would be efforts beyond the open season to make design modifications to the plant and/or the pipeline as desired by the shippers. He added that the Class 3 estimate is targeted for December of 2014. A questions and answer discussion ensued.

COMMISSIONER RODELL thanked both Mr. Richards and Mr. Baker for the presentation, and recessed for lunch.

(Lunch recess was taken from 12:05 to 1:20 p.m.)

COMMISSIONER RODELL introduced Dale Wade with the Alaska Railroad.

MR. WADE thanked all, and stated that he would be talking about the railroad's involvement in the bidding and pricing side of any pipeline project. He explained that the Alaska Railroad employs over 600 people, which varies seasonally. He continued that it is a state-owned corporation serving the communities as a state entity, yet has a purpose of being self-sustaining. He added that the operations are profitable without subsidy from the State for operating capital and are flourishing under the new leadership of Bill O'Leary, CEO. He stated that the railroad is mandated to self-sustaining and the assets, the freight railcars and passenger cars, are used in the operation. He continued that passenger service is up, and freight is down. Passenger service continues to be the leader in revenue and growth and in terms of customer quality. He stated that the longest line haul in the United States goes from Florida to Fairbanks, and is longer than

any other railroad. He continued that this is a wonderful way to move pipe; it is built in Mexico, imported into the United States, and then continues all the way up to Alaska. He added that the place that the railroad has a lot of strength is that each railcar carries 200,000 pounds, about 100 tons, which is the equivalent of about five truckloads per car. He explained that if 70 of those cars are put together with a locomotive on the front, about 350 truckloads full of goods can be moved in one train. He stated that is where the efficiency of a diesel-operated locomotive pulling multiple cars at the same time gets to be very efficient on a price-per-gallon or price-per-ton basis. He moved on to their barge with a very unique design where containerized freight rides up on top, and rail traffic runs down below. He stated that there is room on the bottom deck for 51 fully loaded railcars and upper racks, which are loaded first with container goods. He continued that after the upper racks are loaded, the barge is moved into the slip, and the Alaska Railroad pushes 51 railcars over eight tracks out of that barge. The launch is from Seattle to Whittier. He adds that it is a seven-day trip that leaves every Wednesday and arrives the following Wednesday, unless there is bad weather. He stated that it is very efficient and safe because water is the most efficient way to move goods from the Lower 48 to Anchorage through Whittier. He talked about the pipeline project and stated that one of the challenges that the railroad in Alaska faces is traffic density. He explained that during the summer, passenger trains and freight trains are operating on the same day at the same time which creates the density of traffic that is needed to affordably and efficiently run the railroad. He stated that a large ongoing project would be very appealing to the railroad because all the overhead expenses on a per-mile basis would be met. He gave a short overview of a few of the things that the railroad has moved. He continued that the railroad is a 263,000 max load because the bridges are not as strong and are not over 263,000 pounds. He explained when there is a million pounds to move, a specialized vehicle is brought in. He continued that there are about 23 different trucks to distribute that weight, which was a successful and good move. He added, that move was from the Port of Anchorage when it came off the ship, onto a railcar, and then from the Port of Anchorage up to Eklutna.

A short discussion ensued.

MR. WADE continued explaining the ice-free ports, how they work, and where they are located. He talked about the tunnel and the way it is released back and forth between the railroad and general public traffic. He added that the railroad does not pay a per transaction tunnel fee and does work on the maintenance.

A discussion ensued.

MAYOR DeVILBISS asked if there are any regulatory issues with moving the ISOs on the railroad.

MR. WADE replied that regulatory authority is needed to run ISO containers of LNG, which is a new gas being developed, liquefying for efficient movement that gets much more dense. He stated that currently Union Pacific has filed approval to operate an LNG train as a line-haul item, and they will be next. He continued that the greatest concern from the railroad's side is that LNG is very cold; if it spills it will freeze everything it touches. He added that being able to

handle it safely and efficiently will be partly about whether it is a viable commodity before it is liquid.

A discussion ensued.

MR. WADE stated that LNG in ISO containers is a great concept for movement of LNG. He moved on, stating the need to lease about 200 flatcars and six locomotives to move the ASAP pipeline project forward and are meeting with GATX, a company out of Oregon that builds flatcars.

COMMISSIONER RODELL asked if there are any concerns from the railroad's perspective about either of these gas projects going forward.

MR. WADE replied that he has no concerns at all; the projects bring long-term high-density volume which would be very good for the railroad.

A discussion ensued.

COMMISSIONER RODELL thanked Mr. Wade, and called a ten-minute break.

(Break taken.)

COMMISSIONER RODELL called the meeting back to order and began with public comment. She asked for anyone who would like to provide public comment. Hearing none, she closed public comment and stated that public comment periods will continue at each of the meetings to give members of the public an opportunity to weigh in and offer their perspectives. She moved on and stated that yesterday there was a discussion of the Open Meetings Act, and Corey Mills has sent a revised, corrected version to the outline that was previously distributed. She noted that there were some conflicting opinions about how many in a group constitute a meeting, and the outline stated that the statute says more than three. She clarified that, as a group, three does not constitute a meeting of this advisory group; it is four or more.

MR. VENABLES added that the language on the advisory body and what was applicable to that was also corrected.

COMMISSIONER RODELL moved on to future agenda proposals and MAG board procedures. She asked when the next meeting is scheduled.

MS. ALEXANDER replied that it is two days, October 27 and October 28.

COMMISSIONER RODELL stated that at that meeting there is a definite need to talk about the various sections to incorporate into the initial report that is due December 15. She continued that the Department of Revenue staff is working hard and will send out versions of the model to each, and she encouraged members to call with any questions. She also asked for any ideas to be included in the scoping session be sent so they can be incorporated into the discussion points. She asked Deputy Commissioner Pawlowski if he had anything to add.

DEPUTY COMMISSIONER PAWLOWSKI replied that the plan is to have Gaffney Cline back to be a resource for those discussions, and to set the directions for the work through November and possibly to get to a place in December.

COMMISSIONER RODELL recognized Robert Venables.

MR. VENABLES asked if it was possible to structure the agenda around the five duties and responsibilities in order to stay focused.

COMMISSIONER RODELL agreed that that would be a good way to structure the baseline of the conversation.

MR. BARTHOLOMEW asked if the model will focus on the charge related to taxes, 43.50 and 29. Will it get into the impacts, or just be focused on the taxes.

DEPUTY COMMISSIONER PAWLOWSKI replied that the issue around impacts will need a more deep discussion. He continued that the recommendation or expectation about who bears the financial responsibility for those impacts needs to be described.

A discussion ensued.

MR. BITNEY asked for clarification on what will be discussed on October 27 and 28. He continued that there is coming up with a PILT formula and with an impact formula, and asked if they were two separate conversations.

COMMISSIONER RODELL replied yes and explained that the first one is the long-term operational, and the latter is the construction period. She continued that the focus on the 27th and 28th will be the long-term solution on the PILT.

The discussion continued.

DEPUTY COMMISSIONER PAWLOWSKI stated that he sees a real opportunity in this report to provide the support for other communities with this process in front of them to look at impacts.

The discussion continued.

COMMISSIONER RODELL asked any members for any wrap-up comments.

COMMISSIONER BELL stated that the discussions over the last couple of days are developing a common understanding of responsibilities and are starting to get more meaningful. She added that she will be out of state at the end of October, and that Fred Parady will be here next time in her place.

MR. BARTHOLOMEW commented that it makes sense to be at a point to actually take on the financial analysis that relates to a couple of the changes which will be a learning experience.

MAYOR NAVARRE stated no further comments.

MAYOR WALKER stated appreciation for the interesting and informative presentations.

MR. BITNEY stated appreciation to all the cabinet members and elected mayors partaking in the discussion.

MR. VENABLES commented on a good session for getting an understanding of different projects and where they are in alignment and where there are differences.

MAYOR DeVILBISS thanked all for coordinating and implementing this meeting and the need for an impact analysis.

MAYOR HOPKINS stated that he is interested in seeing how hard the work is going to be in talking about modeling and the formula.

COMMISSIONER BALASH stated that he thinks about it in terms of not just ownership of the project, but also the resources on the Slope, and he is pleased with how quickly all have at least appeared to have come up to speed on what is going on with this project and the different moving parts.

COMMISSIONER RODELL wrapped up by stating that one of the tasks given by the Legislature is how to allow or provide mechanisms for municipalities, Native corporations, individuals, what it looks like and how does that participation come into the project, as well. She reminded the group that this is not the only potential avenue for municipalities to participate in this project, which brings tremendous benefit to the State. She continued that the group does not have a sunset which allows adjustment as a collective and a continuation to that consultation.

MAYOR HOPKINS asked for more discussion about the junior partnership or becoming part owners is in this project.

COMMISSIONER RODELL agreed, and added that it probably will not be on the agenda for the next meeting, and may be after the December 15 report.

DEPUTY COMMISSIONER PAWLOWSKI stated appreciated for bringing that up and talked about connecting Lazard, the financial consultant, to talk about some options that were in the draft report.

MR. VENABLES commended the staff for bringing this group together.

COMMISSIONER RODELL asked for further comments. There being none, she asked for a motion to adjourn.

MAYOR NAVARRE moved adjournment.

(Proceedings concluded at 3:13 p.m.)