

MUNICIPAL ADVISORY GAS PROJECT REVIEW BOARD

July 22, 2015

1:02 p.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 (via telephone)
Mayor Clay Walker
Mayor Larry DeVilbiss
Mayor Mike Navarre
Mayor Reggie Joule (via telephone)
Robert Venables
Mayor Luke Hopkins (via telephone)
Joe Hardenbrook
Mayor Ethan Berkowitz
Commissioner Mark Myers
Mayor Charlotte Brower (via telephone)
Rob Elkins, Department of Administration and Finance, North Slope Borough

Others participating:

Stephanie Alexander, Department of Revenue
Dan Fauske, AGDC
Frank Richards, AGDC
James Wilson, Mat-Su Borough
Dan Seckers, ExxonMobil
Thomas K. Williams, BP
John Boyle, North Slope Borough
Joe Reese, BP
John Bitney, NSB Consultant

PROCEEDINGS

COMMISSIONER HOFFBECK calls the July 22, 2015 meeting of the Municipal Advisory Project Review Board. He asks Ms. Alexander to call the roll.

MS. ALEXANDER calls the roll.

COMMISSIONER HOFFBECK asks for a motion to approve the agenda.

MAYOR NAVARRE makes a motion to approve the agenda.

MAYOR DEVILBISS seconds.

There being no objection, the motion is approved.

MAYOR HOPKINS states that a thank you is in order for providing an agenda that has public comment. He adds that it is very much appreciated

COMMISSIONER HOFFBECK moves on to approval of the minutes for July 1, 2015.

MAYOR NAVARRE makes a motion to approve the minutes of July 1, 2015.

MAYOR DEVILBISS seconds.

COMMISSIONER HOFFBECK states that there is one correction on those that were present at the meeting. It should be "Chair Hoffbeck" and not "Chain Hoffbeck."

MAYOR WALKER states that it would be appropriate to identify Marsha Lambert as Denali Borough Planner.

COMMISSIONER HOFFBECK asks for any other changes.

There being no objection, the motion is approved.

COMMISSIONER HOFFBECK states that the next item on the agenda is Public Comment. He asks if there are any issues or comments that the board should address. There being no public comment, he moves to the presentation by the Alaska Gasline Development Corporation for an update on what AGDC has been doing in relationship to the pipeline.

ALASKA GASLINE DEVELOPMENT CORPORATION UPDATE

MR. FAUSKE states that he is President of Alaska Gasline Development Corporation. He continues that the State's objectives are to secure a stable, affordable, long-term energy supply for Alaskans; commercialize Alaska's enormous North Slope gas resource; maximize the value of the State's royalty and tax gas; generate revenue, jobs, and economic growth; and facilitate further oil and gas development. He explains that this corporation started as a subsidiary to Alaska Housing Finance Corporation and branched out. He states that they were originally working on the ASAP, the Stand-Alone Pipeline, and continue to do so. He adds, that project is still working on some of the Environmental Impact Statement. For the past two years, work that is beneficial to both projects has been done to create an entity that can go forward. He states that, currently, geotechnical work and borehole work has been subcontracted by AK LNG, which is working out quite well. He continues that a promise was made to governors and legislators that there would be no duplicate spending and have maintained that strategy and promise. During this presentation dates of the pre-FEED and the FEED will be discussed, with the hope of

completion and being able to move on to the next phases of this project. He states that AGDC was created as a public response to concerns over declining Cook Inlet gas. He continues talking about the situation over energy issues related to Alaska housing and home energy rating and how to help improve that. He continues his presentation, explaining as he goes along.

A short discussion ensues on oversubscription.

MR. FAUSKE explains the budget.

COMMISSIONER HOFFBECK asks if there was a lateral associated with Fairbanks on the AK LNG pipeline.

MR. FAUSKE replies that there is, but it is separate.

A short explanation, discussion, and update ensues.

MAYOR DEVILBISS asks if the \$10 billion estimate for ASAP includes any laterals or plants associated with that.

MR. FAUSKE replies that it included one, and that was the lateral into Fairbanks.

MR. RICHARDS states that he is Vice President of Engineering for AGDC. He continues that the ASAP project actually terminated in the Beluga pipeline owned by ENSTAR near Point MacKenzie and are approximately 14 miles from the port.

The clarification continues.

MR. FAUSKE moves on to the Alaska LNG project participation, explaining as he goes along. He states that ASAP remains the State's backup plan if the Alaska LNG does not progress. He continues that the project schedule and timeline have been adjusted to correspond with Alaska LNG's next major policy decision, the go/no-go on FEED.

MR. RICHARDS states that because the right-of-way AGDC was granted through legislative action and through DNR, the State right-of-way has been granted unconditionally. He continues that no further action is required by the corporation for that, and the next major landowner access is the Federal right-of-way.

MAYOR HOPKINS asks if the lateral line for Fairbanks would be included in this project right now.

MR. FAUSKE replies yes, it was included in the plans for that project.

COMMISSIONER HOFFBECK asks for clarification on routing, the similar route between AK LNG and ASAP.

MR. RICHARDS explains the routing, answering questions as he goes along.

MR. FAUSKE moves on to in-state gas work, stating that the in-state gas demand analysis has been completed and a preliminary engineering estimate for various-sized offtake facilities has been developed. He continues that the process for determining locations of in-state access points and offtake facilities is being developed. He adds that coordination with DNR and Alaska Energy Authority regarding policy and infrastructure issues associated with increasing in-state gas access is being done. He continues his presentation, moving to Alaska in-state demand, stating that the in-state demand analysis has been concluded and explains the results.

A short discussion ensues.

MR. FAUSKE moves on to State policy issues, explaining as he goes along. He states that it is a massive undertaking with a major amount of work. He continues that the thing to remember is that it is totally different from oil. He adds that there is a possible need for a constitutional amendment.

MAYOR DEVILBISS asks what about the Constitution needs to be changed.

MR. FAUSKE replies that in order for the State to enter into these long-term agreements and/or taxing authority, there has to be a constitutional amendment vote to get the vote of the people of the state to allow this to proceed.

COMMISSIONER HOFFBECK clarifies that these contracts are looking for durable fiscals over the life of the contract, and the only way to assure the parties that the rules will not change is to bypass the constitutional provision of contracting away the taxing authority.

MR. FAUSKE moves on to the project timeline, stating that there will be a special legislative session in the fall to finalize and approve public policy decisions. The hope is to maintain the schedule: Key milestones, Pre-FEED initiated, July 2014; Conclude pre-FEED second quarter 2016; FEED decision, one year after pre-FEED conclusion, 2016-2017; conclude FEED, two to three years in 2019; final investment decision in the 2019-2020 time frame; construction, five to six years, 2020-2025; project complete and first gas, 2026. He moves on to the challenges, stating that these are world-class construction projects; regulatory and construction risks are higher when working in remote and engineering-challenged areas of Alaska; and low oil prices make large capital investments more difficult for producer partners. He explains more fully, and then moves to critical success factors: Maintaining alignment between the State of Alaska and North Slope producers; timely completion of fiscal and commercial contract terms; ensuring the State of Alaska's ability to advance independent, economically viable alternatives if Alaska LNG falters; ensuring complimentary versus competitive orientation; maximizing State's financial and other resources to accelerate an Alaska LNG FEED decision; and maintaining public trust and confidence. He concludes his presentation.

COMMISSIONER HOFFBECK asks for any further questions.

MAYOR DEVILBISS asks if the project timeline is ASAP.

MR. FAUSKE replies no, it is AK LNG.

MR. VENABLES states that you indicated the competition of other LNG projects. He asks if there is a sense of how many projects the market will be able to bear.

MR. FAUSKE replies that Alaska is unique globally in that it represents closest-to-market, U.S. soil, which is very important. He continues that Prudhoe Bay is a known entity, which is a real advantage in that investors and/or merchants buying in know that it is an entity that contains that gas.

A short discussion ensues.

COMMISSIONER MYERS states that the State has been assisted through Black & Veatch in terms of looking at all of the known projects going forward and what can be found in terms of data, capital cost, cost of supply, and then looking at the market. He adds that probably three or four new projects will move forward in the same time frame. He continues that the other big question is what the long-term price of gas is, which he talks about.

COMMISSIONER HOFFBECK asks if Mr. Hardenbrook had a question.

MR. HARDENBROOK asks what conversations have taken place about the potential pricing for size of the offtake points and distance from Prudhoe Bay for those offtakes.

MR. FAUSKE replies that there have been discussions, but no final determination has been made. He explains in greater detail what was discussed.

MAYOR NAVARRE asks if capital support means subsidy.

MR. FAUSKE replies subsidy and capital costing, because it can be done one time and envisions some system being put in place.

The discussion continues.

COMMISSIONER MYERS states that it is important to understand on the project that the State is taking more than a typical commodity price risk on the project. He continues that it is going to be important for folks to understand that the overall long-term economics of this are extremely positive, assuming that the markets are reasonably solvent. He adds that the management for the use of the income for Alaska has to be recognized as a sophisticated, long-term management approach rather than in a steady-state income stream.

The discussion continues.

COMMISSIONER HOFFBECK states that next on the agenda is going into a workshop on issues dealing with allocation of impact payment, allocation of PILT during operations, and some targeted tax mitigations. He calls a break.

(Break.)

COMMISSIONER HOFFBECK states that the primary purpose of having face-to-face discussions was the need to start talking about how the impact payments are going to be

allocated, how to allocate the PILT during operation, and the industry's concern over targeted taxes. He continues that there is concern that the municipalities would implement taxes that would be specific to the project or the construction. He adds, that is a major concern because of the implication that has with the economics of the project. He states that Mayor Navarre provided a paper on the allocation of impact payments and on the PILTs, and we will start with that. The first one is the allocation of the impact payments. He states that there are issues with communities that are directly impacted and communities that are indirectly impacted by construction. He continues that an idea was thrown out on an application process that would delineate what the impacts are and submit it to whoever held the funds and then they would allocate the resources as they were needed. He states, that is where the last discussion ended and asks for any ideas that people would like to contribute.

MR. ELKINS states that this is a competitive grant process and the small communities will not be able to compete with the larger municipalities that have staff to research and develop quality grant applications. He continues that without some assistance from the State in developing applications for the small communities, they will be left out and will be unable to compete.

COMMISSIONER HOFFBECK replies that Larry put forward an idea of some kind of simplified process so that technical writers will not be necessary.

MR. VENABLES suggests getting away from the word "grants." He states that the concept of having some conduit for funding is good, but what it is called and how it is administered is where it gets stuck.

A discussion ensues.

MAYOR NAVARRE states the need to differentiate between the direct impacts and the indirect impacts, because every community will have some impacts to some extent.

The discussion continues.

COMMISSIONER HOFFBECK asks about impacts in a tribal community.

MR. VENABLES states that it does not presume to understand tribal issues, but those governments are sovereign and would be able to administer programs. He adds that it would have standing to administer programs at that level.

The discussion continues, and then moves to direct impact payments.

MAYOR DEVILBISS states that there are positive impacts in all phases of this as well as negative ones. He adds, that should enter into the equation in balancing all the impacts.

The discussion continues.

MR. HARDENBROOK states that he will get the information from the Fairbanks Pipeline Impact Office from the TAPS line, adding that wage inflation was a significant factor, and being able to step that down at the end would be in the municipalities' best interests.

The discussion continues.

COMMISSIONER HOFFBECK summarizes that there are maybe three separate issues to deal with: one being the indirect which may be more of a community revenue sharing kind of model; the other is direct, where there would be some kind of application process that can still use the community revenue-sharing model, but would be more specific to the direct impacts; and the State having its own issues to deal with in unincorporated areas and entities that may not have direct access to impact payments.

MR. ELKINS states that, on the indirect, the use of the community revenue-sharing model would overcome some of his concerns, and even the smallest communities could do that.

The discussion continues.

COMMISSIONER HOFFBECK suggests trying to develop some categories that would make it easier for people to understand.

COMMISSIONER MYERS suggests that some of the effects of the economics are national, some are international, and some are extremely localized to the particular projects. He states that a fairly sophisticated or defined project process is needed to do that.

The discussion continues.

COMMISSIONER HOFFBECK states that is probably enough for staff to go through, and adds that he may ask for one or two people from this group to form a smaller group to flesh out some of these for the next meeting. He moves to the allocation of the PILT during operation. He states that looking at TAPS as the default in the allocation on the property tax for that is based entirely upon the amount of infrastructure within a community. It is the number of pipes, the number of pump stations, what kind of facilities within the community to determine how much of a total value of TAPS that is allocated to the community. The other part about the allocation is that it is based on the mill rate within the community. He asks what the group sees as possible ways for the allocation of the revenues that are generated on an annual basis, recognizing that there is a very real chance that the allocation to a community will not be what was received if they had a property tax regime both high and low. He asks how this money should be allocated.

A discussion ensues on how to put together a formula that recognizes, at least in part, where the assets are located.

MR. ELKINS states that there are two pieces to this: the cost to operate and the cost to respond to the increased services that everyone will see.

The discussion continues.

MAYOR WALKER explains what a PILT is. He states that his community receives a Federal PILT. There is no property tax, and we cannot tax that Federal property within the Denali Borough. The PILT provides a payment for services that are provided and is received in lieu of taxes.

COMMISSIONER HOFFBECK asks if there is a reasonable way to systematically calculate how much of the PILT should go to the various jurisdictions.

MR. HARDENBROOK suggests looking at some of the existing formulas out there for distribution of State funds out to municipalities.

The discussion continues.

MR. HARDENBROOK asks if the State's current position is that the State's percentage of ownership in the AGDC project would not be subject to property tax payments.

COMMISSIONER HOFFBECK replies yes.

The discussion continues.

COMMISSIONER HOFFBECK states that there will be some kind of plan in place next time to further discuss this.

MAYOR HOPKINS asks about future conference calls and face-to-face meetings.

COMMISSIONER HOFFBECK replies that there may be one or two meetings between now and when this is rolled out to fine-tune a few things or bring up other issues. He continues that the next face-to-face will probably be in two months.

MR. HARDENBROOK goes back to the interim report and the Kenai Peninsula Borough document, the grant program and the PILT payments, and states the preference to not be subject to legislative appropriation.

COMMISSIONER HOFFBECK states that brings up the question of making the PILT payments during operation be structured similar to a tax where it was a direct payment from the project to the communities.

MR. HARDENBROOK replies impact payments.

COMMISSIONER HOFFBECK states that the PILT could be a direct payment to the communities rather than going through the State and back out to the communities, the way property tax is right now. He adds, that is a structure that can be developed. He moves on to the concern of how to prevent targeting this project with special taxes during construction and operation.

A short discussion ensues and results with the need for a better definition of what a targeted tax is.

MR. VENABLES reminds all that an annual report is obligated for December.

COMMISSIONER HOFFBECK asks for a motion to adjourn.

MAYOR DEVILBISS makes a motion to adjourn the meeting.

COMMISSIONER MYERS seconds.

There being no objection, the meeting is adjourned.

(Meeting adjourned at 4:04 p.m.)