Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number:
() Publish Date:

Identifier: SB138CS(FIN)-DCCED-AGDC-03-13-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: SFIN

Department: Department of Commerce, Community and Economic Development
Appropriation: Alaska Gasline Development Corporation
Allocation: Alaska LNG Participation
OMB Component Number:

Expenditures/Revenues
Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services	1,394.0		1,394.0	1,394.0	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**1,394.0**	**0.0**	**1,394.0**	**1,394.0**	*******	*******	*******

Fund Source (Operating Only)

1178 temp code	1,394.0		1,394.0	1,394.0			
Total	**1,394.0**	**0.0**	**1,394.0**	**1,394.0**	*******	*******	*******

Positions

Full-time	6.0		6.0	6.0			
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2014) cost: 66,726.7 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS
Does the bill direct, or will the bill result in, regulation changes adopted by your agency? N
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This revised fiscal note reflects the changes made to the original legislation with regard to the AGDC. The Corporation's purpose has been significantly broadened to incorporate the State's participation in advancing an Alaska liquefied natural gas project (AKLNG). This increases AGDC's operational costs and requires hiring additional staff dedicated to this initiative. This note outlines the capital costs associated with the State's participation in pre-feed activities beginning in FY14 and running through FY17. These include the funds necessary to take a 25% equity interest in the LNG Facility, to purchase 40% of TransCanadas (TC) mid-stream interest, and the funds necessary to meet the terms of the MOU related to TCs investment return guarantees should their project involvement not continue through to FEED. Specific changes are detailed in the analysis section to follow. This session, AGDC is only requesting the funds necessary to cover FY14 & FY15 expenses.

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Division: Alaska Gasline Development Corporation   Date: 03/13/2014 09:00 PM
Approved By: Dan Fauske, President   Date: 03/13/14
Agency: Alaska Gasline Development Corporation

FISCAL NOTE ANALYSIS

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Analysis

Activity Growth: This bill expands the purpose of the Alaska Gasline Development Corporation (AGDC) by authorizing it to participate in advancing an Alaska liquefied natural gas project (AKLNG) while continuing to advance the in-state natural gas pipeline project described in AS 31.25.005, commonly known as the Alaska Stand Alone Pipeline (ASAP). In its current form, the bill:

- Gives AGDC the primary responsibility for developing the AKLNG project on the state's behalf, to include developing infrastructure and services related to transportation, liquefaction, marine terminals, marketing and commercial support. Authorizes AGDC to acquire an ownership interest in the AKLNG project, including liquefaction facilities associated with that project.

- Directs AGDC to act in the State's best interest to deliver instate gas, and to provide both economic benefit and revenue to the State; and to assist DOR and DNR in maximizing the value of the State's royalty gas and gas delivered in lieu of taxes.

- Establishes a new Large-Diameter Natural Gas Pipeline Project Fund to fund AGDC's participation in the AKLNG project and restricts the use of those funds to AKLNG related work. Similarly, funds appropriated to the existing In-State Natural Gas Pipeline Fund (1229) would be restricted to work associated with the ASAP project.

- Directs the AGDC Board to hire a Program Manager for the AKLNG Project and to establish separations in operations, personnel and functions as may be necessary to firewall commercially sensitive and confidential information between the ASAP and AKLNG projects.

Allocation: A new allocation – *Alaska LNG Participation* – will be created to track AGDC expenditures related to advancing the AKLNG project.

Positions: AGDC will need to build in-house capacity to manage the Corporation's participation in this large-scale, multi-year initiative. It will be necessary to attract seasoned professionals capable of managing the negotiations, contacts and investments associated with this complex commercial partnership. To augment AGDC's existing management team a VP level position will be added to integrate the internal operations and processes across both project initiatives. Specific to the AKLNG initiative, in addition to the Program Manager mandated in this legislation, the team would include a Contract Compliance Officer, Senior Accountant and two Administrative Assistants for a total of 6 new fulltime positions:

1 – VP, $410.0 annual burdened salary ($250.0 + benefits)
1 – Program Manager, $410.0 annual burdened salary ($250.0 + benefits)
1 – Contract Compliance Officer, $196.8 annual burdened salary ($120.0 + benefits)
1 – Senior Accountant, $164.0 annual burdened salary ($100.0 + benefits)
2 – Administrative Assistant, each at $106.6 annual burdened salary ($65.0 + benefits)

Personal Services: The annual salary and benefit costs for the positions outlined above are estimated at $1,394.0 for each of the next 3 fiscal years FY15-FY17. To maintain the momentum of current AKLNG negotiations, this legislation has an immediate effective date. It is anticipated that AGDC will begin recruiting staff immediately upon this legislation becoming law. Consequently, in addition to $1,394.0 for FY15, an supplemental appropriation of $232.3 is also being requested for FY14. Personal Services costs required to manage the Corporation's AKLNG participation through FY17 will total $4,414.4.

Other Project Related Expenditures: As required by AS 31.25.140, and to track the new positions associated with participation in the AKLNG project, AGDC's Personal Service costs have been detailed above. However, AGDC will incur a number of other costs related to the Corporation's participation in the first 3 years of AKLNG activities. AGDC intends to fund these expenditures by drawing as necessary from the new Large-Diameter Natural Gas Pipeline Project Fund. The cost estimates through FY17 are summarized by category on the following page.

Analysis Continued

$15,108.5 - Contractual Services: It's anticipated that 50+ commercial agreements will need to be executed over the next 18-36 months. AGDC will necessarily have to contract for subject matter expertise and outside counsel to support the AKLNG team's efforts in deal origination, negotiation and analysis. Focus areas include contract negotiations, midstream and liquefaction facility engineering analysis, interface engineering, commercial analysis, gas marketing and investment financing.

$ 2.470.0 – Travel: Extensive and frequent travel expenses will be incurred by senior corporate staff, AKLNG Program Manager, commercial, marketing, engineering and legal teams.

$ 988.2 – Lease: Additional office space will be necessary to accommodate new employees and contractor work areas.

$ 582.6 – AGDC Board: Increased responsibilities and authority for the AGDC board will generate additional costs associated with travel, meetings and other related expenses.

$ 230.0 – Capital Outlay: Communications equipment, IT and furnishings for expanded staff.

Capital Investment & Participation Expenditures: The capital investment and participation expenditures associated with AGDC's AKLNG pre-feed activities are detailed below. These activities would begin immediately upon enactment of this legislation and funds will begin to be drawn before the end of FY14. As with the other costs associated with this legislation, AGDC would pay for these expenses by drawing funds out of the new Large-Diameter Natural Gas Pipeline Project Fund. AGDC's financial participation in the AKLNG project can be grouped into three major categories 1) State's equity participation, 2) State's 40% option on TransCanada mid-stream and 3) State's guarantee of TransCanada's investment return.

$ 57,850.0 - State's Equity Participation: At 25% equity participation, AGDC's share of pre-feed LNG Facility technical costs are estimated at $42.5 million. It's anticipated that an additional $2.0 million will be required to cover AGDC's share of non-technical project costs that will also be allocated to each AKLNG partner. These estimates are based on the information available at this time, consequently a 30% contingency of $13.35 million has been added.

	Total	AGDC %	ADGC $
LNG Facility Share	$ 170,000.0	25%	$ 42,500.0
LNG Non-Technical Share			$ 2,000.0
	Subtotal		$ 44,500.0
30% Contingency		30%	$ 13,350.0
	Total		$ 57,850.0

$ 42,250.0 - State's 40% Option on TC Mid-stream: AGDC's cost to exercise the state's option to buy-out 40% of TransCanada's mid-stream interests is estimated at $26.5 million. If exercised, TransCanada will be entitled to be reimbursed for all of its non-technical costs previously attributed to that 40%. Those are estimated at $6.0 million. These are estimate based on the information available at this time, consequently a 30% contingency of $9.8 million has been added. This option is not likely to be exercised before FY16 and is therefore not included in this year's appropriation request.

	Total	AGDC %	ADGC $
TC 40% Option (*=10% Tot Sha*	$ 265,000.0	10%	$ 26,500.0
TC's Cost Reimbursement			$ 6,000.0
	Subtotal		$ 32,500.0
30% Contingency		30%	$ 9,750.0
	Total		$ 42,250.0

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Analysis Continued

$ 70,124.4 –TransCanada Investment Return Guarantee: If TransCanada doesn't progress to the FEED stage of the project for any reason other than their own voluntary withdrawal, the MOU between the State and TC requires the State to reimburse TC for the AKLNG project costs incurred since 1/01/2014, to include the pre-feed costs on their portion of the mid-stream, any non-technical cost allocations they've paid, plus a 7.1% return on that investment (AFUDC). These costs are estimated below based on the best information available at this time, consequently a 30% contingency has been added. If required, these reimbursements and return guarantees are not anticipated to occur before FY16 and are therefore not included in this year's appropriation request.

	Total	TC%	AGDC $
TC Midstream Share	$ 265,000.0	15.0%	$ 39,750.0
TC Non-Tech & Other Development Costs			$ 9,000.0
	Total Invested		$ 48,750.0
30% Contingency		30.0%	$ 14,625.0
	Subtotal		$ 63,375.0
7.1% AGUDC		7.1%	$ 6,749.4
	Total		$ 70,124.4

AKLNG Expenditure Summary: It is anticipated that AGDC will need a total of $194,018.1 to cover it's AKLNG related expenditures through FY17. The timing of those expenditures is summarized in the table below:

AGDC AKLNG Pre-Feed Expenditures	FY14 Supp	FY15	FY16	FY17	Total
Personal Services	$ 232.3	$ 1,394.0	$ 1,394.0	$ 1,394.0	$ 4,414.4
Other Project Expenses					
Contractual Services	$ 795.2	$ 4,771.1	$ 4,771.1	$ 4,771.1	$ 15,108.5
Travel	$ 130.0	$ 780.0	$ 780.0	$ 780.0	$ 2,470.0
Lease	$ -	$ 329.4	$ 329.4	$ 329.4	$ 988.2
AGDC Board	$ 30.7	$ 184.0	$ 184.0	$ 184.0	$ 582.6
Capital Outlay	$ -	$ 230.0	$ -	$ -	$ 230.0
State Equity Participation	$ 10,000.0	$ 47,850.0	$ -	$ -	$ 57,850.0
State 40% Option on TC	$ -	$ -	$ 42,250.0	$ -	$ 42,250.0
State's Guarantee of TC	$ -	$ -	$ 70,124.4	$ -	$ 70,124.4
	$ 11,188.2	**$ 55,538.5**	$ 119,832.9	$ 7,458.5	$ 194,018.1

Fund Source: A new fund - *Large-Diameter Natural Gas Pipeline Project Fund* - is created in this legislation to fund expenditures related to the AKLNG project. The fund will need to be capitalized through a separate appropriation at an amount sufficient to cover AGDC's costs as detailed elsewhere in this note. Once in the fund, the legislation authorizes AGDC to spend the money on AKLNG related activities without further appropriation. AGDC intends to institute procedures similar to those currently being used to track ASAP Project expenditures that are funded through the existing In-State Natural Gas Pipeline Fund (1229).

Supplemental Request: Through a separate fiscal note, AGDC is requesting a FY14 supplemental appropriation of $66,726.7 UGF to initially capitalize the Large Diameter Natural Gas Pipeline Fund. This is the minimum amount necessary to fund the Corporation's FY14 and FY15 AKLNG pre-feed activities. Approximately $11,188.2 of that will be drawn down in FY14 and $55,538.5 in FY15. A future appropriation of $127,291.5 will be required to fund AGDC's continued participation in pre-feed for FY16 and FY17, to exercise the State's 40% mid-stream option and to reimbursement TC in the event of their