QUESTIONS - SB 138

Questions for Producers

1. How would you feel about a provision in the legislation that in exchange for taking the taxes and royalties as in-kind gas, the producers would agree to purchase and dispose of the state's gas at the same price that the producers receive for the rest of their gas, just as is done with in-value now?

2. Are there any precedents under FERC Section 3 regulation where there are large pipelines with local consumption of transported gas?

3. With no transparent pipeline tariffs, do you see a concern for future small gas producers on the North Slope who may want to dispose of their gas at a fair price with the large producers as is done currently with oil?

4. Once the project is up and running, if there is an increase in in-state demand that requires production of more gas, how do you envision that process happening?

5. In the absence of regulation, if there is an increase in production to accommodate increased in-state demand, and gas is being sold from the producers to Alaskans, how do you envision Alaskans getting such gas at reasonable prices? If the price is based on netback pricing, how will a reasonable transportation deduction be ensured? How would you feel about a provision in the statute ensuring reasonable terms?

6. Could the producers provide, for a fee, technical assistance in expanding the facilities?

7. Is it possible the sponsors could go through the whole pre-FEED and FEED processes, spend $2.2 billion, get to FID, and not sanction the project?

8. What other oil and gas projects around the world is the potential capital for this project competing with in your portfolios?

9. What other places around the world where you do business does the government share in spending in planning costs?

9. What are the government takes in jurisdictions where governments share the failure to sanction risk with the oil companies?

10. If you believe this project can compete in the market, what would be the risk to you of the state holding off investing in the project until it is sanctioned?

11. Wouldn't it give the producers the long-run alignment they need by having the state buy into the project once it is sanctioned (paying their share of pre-development costs, with interest)?

12. What percentage of the pre-FEED and FEED costs will be paid for by the state and federal government through income tax deductions?

13. What will constitute sufficient fiscal certainty for the producers? Wouldn't it make sense to have this established before the state incurs the cost of pre-FEED, in case there is a later impasse?

14. When your company takes out a firm transportation commitment for pipeline capacity, does it impact your debt capacity?

Questions for Administration

1. How would you feel about a provision in the legislation that in exchange for taking the taxes and royalties as in-kind gas, the producers would agree to purchase and dispose of the state's gas at the same price that the producers receive for the rest of their gas, just as is done with in-value now?

2. With no transparent pipeline tariffs, do you see a concern for future small gas producers on the North Slope who may want to dispose of their gas at a fair price with the large producers as is done currently with oil?

3. Once the project is up and running, if there is an increase in in-state demand that requires production of more gas, how do you envision that process happening?

4. How would you feel about an amendment in the legislation compelling producers to produce more if in-state demand increases?

5. In the absence of regulation, if there is an increase in production to accommodate increased in-state demand, and gas is being sold from the producers to Alaskans, how do you envision Alaskans getting such gas at reasonable prices? If the price is based on netback pricing, how will a reasonable transportation deduction be ensured? How would you feel about a provision in the statute ensuring reasonable terms?

6. In terms of limits on the state's debt capacity, what is the difference between incurring debt to own a given portion of the project, and incurring debt through a firm transportation commitment to TransCanada for the same portion to ship the in-kind gas? If there is no difference, and the limit exists, how can the state take the gas in-kind?

7. Is it possible the sponsors could go through the whole pre-FEED and FEED processes, spend $2.2 billion, get to FID, and not sanction the project?

8. Wouldn't it give the producers the long-run alignment they need by having the state buy into the project once it is sanctioned (paying their share of pre-development costs, with interest)?

9. What will constitute sufficient fiscal certainty for the producers? Wouldn't it make sense to have this established before the state incurs the cost of pre-FEED, in case there is a later impasse?

10. Wouldn't it make sense for the state to wait at least until pre-FEED is over to exercise the ownership option, in order to have full information, rather than by December 31, 2015 if pre-FEED is not completed by then?

11. Why would the state want to execute a firm transportation services agreement before FEED? Is this customary? Isn't there insufficient information at that point to warrant making the commitment?

12. How much of this proposal was designed around giving TransCanada a material role in order to avoid a potential treble damage claim under AS 43.90.440 of AGIA?

13. If the state were to own the entire 25% of the facilities, at a $45 billion cost, that would be $11 billion in today's dollars. If the state financed this with 75% debt and 25% equity, this would only be $2.81 billion in equity it would have to come up with. Would it be possible for the Permanent Fund to invest this amount at a lower return on equity than what TransCanada is commanding, say 11%? Isn't 11% greater than the Permanent Fund's long-run average return on equity?

Questions for AGDC

1. How much expertise in financing, building, and operating pipelines and treatment plants does AGDC envision having should the ASAP project come to fruition? Does AGDC envision having a partner for expertise? Contractors?

2. Does AGDC envision having a partner to build and operate the state's 25% share of the LNG facility? Contractors?

3. What is the possibility of 100% state debt financing through revenue bonds and general obligation bonds?

4. What is the possibility of getting tax-exempt debt through the Alaska Railroad?

Questions for TransCanada

1. What is TransCanada's experience in gas treatment?

2. Are there instance in the pipeline business where pipeline companies absorb some pre-development costs if the project is not sanctioned?

3. Do TransCanada's bonds generally have a callable feature such that if interest rates go down it can refinance?

4. Wouldn't it make sense for the state to wait at least until pre-FEED is over to exercise the ownership option, in order to have full information, rather than by December 31, 2015 if pre-FEED is not completed by then?

5. Is it customary for your customers to execute firm transportation service agreements as early as before FEED?

6. How do you interpret the license project assurances clause (AS 43.90.440) in AGIA?

Questions for Leg Legal

1. If the state were to proceed in a project without TransCanada - modify taxes, have some ownership, acquire a partner - what would be the risk of legal and financial exposure under the license project assurances clause (AS 43.90.440) in AGIA?

2. How do you interpret "total amount" in the clause? "grant of state money"? "preferential royalty or tax treatment"?

Questions for Department of Law

1. If the state were to proceed in a project without TransCanada - modify taxes, have some ownership, acquire a partner - what would be the risk of legal and financial exposure under the license project assurances clause (AS 43.90.440) in AGIA?

2. How do you interpret "total amount" in the clause? "grant of state money"? "preferential royalty or tax treatment"?

Questions for an Outside Commercial or Investment Banks or Private Equity Firms

1. Would commercial or investment banks, private equity firms, or venture capital terms be interested in investing with the state as a partner? What rate of return would be necessary?

2. What is the possibility of 100% state debt financing through revenue bonds and general obligation bonds?

3. What is the possibility of getting tax-exempt debt through the Alaska Railroad?

Questions for FERC

1. Would FERC be comfortable regulating this project under Section 3 of the Natural Gas Act?

Questions for Department of Energy

1. Would DOE revoke the LNG export permit if the gas were needed for in-state consumption? Please describe how that process would work.

Questions prepared by LB & A Consultant – Roger Marks
March 31, 2014