



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Joe Balash, Commissioner

Department of Revenue

Angela M. Rodell, Commissioner

April 3, 2014

The Honorable Geran Tarr
Alaska State Representative
State Capitol, Room 114
Juneau, AK 99801

Dear Representative Tarr:

Please find the following in response to the remainder of your questions asked via email on March 6, 2014. Please see the questions in italics and our responses immediately below the questions.

Answers to Questions 1-4, relating to **Governance Issues:**

Is it possible to keep the funding and administrative functions of AGDC separate so as to protect their original in-state mission without unnecessary duplication of services?

Yes. The proposed legislation provides for separation of the AKLNG and ASAP programs of AGDC as necessary to comply with the terms of project agreements (such as standard joint venture agreements that bar a participant from pursuing a competing project or using venture information to develop a competing project) and comply with antitrust laws. Unnecessary duplication of services can be minimized or eliminated by a cooperation agreement between ASAP and the AKLNG parties that provides for sharing of technical information and coordination of work where possible to reduce costs for both projects.

If AGDC is the owner of the state's interests, what happens to the profits they earn from return on equity? Do they revert to the general fund or are they retained by AGDC? Does the money flow there automatically or will there need to be a transaction from AGDC to the state treasury? Is this something that is fixed in statute now or will it need to be resolved in the future?

SB 138 provides that any service provided to the State by AGDC will be at cost, thereby ensuring AGDC does not "profit" from State gas. As identified in the Black & Veatch study and presentations to the House Resources Committee, the purpose of the State ownership interest in the project is to maximize the State's return on its natural gas resources, which requires all of the various revenue streams, including profit on its investment interests, to accrue to the State. AGDC would be free to profit from providing services to another producer; the direction and or use of those earnings would be determined by AGDC or future legislatures.

Is the state pursuing an agreement where the corporate structure will be governed under Alaska LLC law? This was an issue during the Stranded Gas Act negotiations in 2006, which envisioned a joint venture company chartered in Delaware. According to the LB&A consultants at that time, Delaware LLC law allows members to have their primary allegiance to their parent companies rather than their partners in the LLC.

The question of the law of which state will be used to establish the entity structure to implement the Alaska LNG project has not yet been addressed by the parties that will participate in the project. It is anticipated that entity structure will be one of the issues to be developed pursuant to the commercial agreements to be negotiated during pre-FEED after legislative approval to move forward with the project. A limited liability company formed under Delaware law is one of the options anticipated to be proposed for the entity structure, as well as similar entities formed under Alaska law and Texas law. As previously noted by the LB&A consultants in 2006, Delaware law provides wide latitude for the parties to the limited liability company operating agreement to agree to differing duties of loyalty to the enterprise, but does not impose that term on the parties. It is anticipated that the State, and other parties, may have concerns with agreeing to such a provision.

If the state chooses the equity option, why is the state's equity interest structured in the MOU so that [the State will] have a minority share of a general partnership controlled by TransCanada subsidiary, rather than a direct ownership of 6% to 10% of the pipe and GTP? How will this limited partnership status impact [the State's] ability to vote and participate in management and operational decisions? How will it impact [the State's] access to information?

The State does not intend to construct the pipeline or be its operator, and as a limited partner under this option, the State would not be obligated to participate in the day-to-day management and operational decisions of the majority interest general partner. However, for certain major decisions, the State's consent would be required (e.g., change to profits distribution policy, winding-up of the limited partnership, sale of significant interest in the limited partnership). This is typical of the voting rights in a limited partnership agreement. The State's access to information about the limited partnership would have to be negotiated in the limited partnership agreement, and would be a material term for the State in such negotiation. The state's access to information about the project as a whole will be negotiated with the producers; for example, section 5.6 of the HOA provides the state with the ability to obtain midstream project information from TransCanada and downstream project information from AGDC. The parties will negotiate to implement these principles in future project agreements

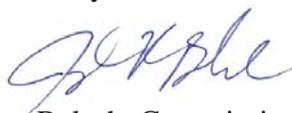
The Honorable Geran Tarr

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We hope that you find this information to be useful. Please do not hesitate to contact either of us if you have further questions.

Sincerely,



Joe Balash, Commissioner
Department of Natural Resources



Angela M. Rodell, Commissioner
Department of Revenue