

**(H) FINANCE STANDING COMMITTEE \* April 16, Wednesday, 1:59 PM HOUSE FINANCE 519****Notable Questions From Committee and Responses from Testifiers:**

**2:00pm- Rep. Gara:** We've gone through a lot of the issues and there's one thing that's been requested a number of times and that is something showing where, under this project, Alaska ranks in terms of government share, our share of the profits on this pipeline, I guess government take is the normal term and we still haven't seen anything other than what... you've probably been CC'd on the emails to you and Mr. Marks, Mr. Marks estimates our share at about 60% in one of his answers and says that is lower than other jurisdictions that takes similar risks.

**Dep. Comm. Pawlowski:** As I know our modeling, based on the request that we got, through the chairman's office, I believe your other consultants are as well for a broad government take, numbers the royalty study are available online, under the Department of Natural Resources, that was released this summer did give a broad range of government takes across different types of projects. I'll pull that and see if I can have the excerpts out of it, but Black and Veatch is updating those to put them on one page or a couple of slides so that members can see it as well.

**2:01- Rep. Gara-** Will we see that before we get to amendments?

**Dep. Comm. Pawlowski:** I'm pushing our consultants as fast as I can to get that modeling work done.

**2:01-Rep. Costello:** My biggest concern in those whole entire project as it stands now is the state's relationship with Trans-Canada and I was wondering if, with the committee, you could go through the all of the different points at which the legislature, moving forward, would have the opportunity to weigh in or have a say or be able to alter that relationship with Trans-Canada?

**Dep. Comm. Pawlowski:** I'd ask members to turn to page 8 of Exhibit C of the MOU. In number 9, which says termination events describes the right both the State and Trans-Canada have to re-evaluate our relationship and choose to terminate. In this initial phase, looking forward to the entry into FEED which is estimated to be around the end of 2015 when we'd be looking at coming back to ratify those contracts that have a longer duration, the state has the right at any time, provided a 90-day notice given to Trans-Canada to re-evaluate the relationship and terminate. So, prior to the ratification of a contract in 2015, the state has that opportunity to re-evaluate the relationship. The legislature will have a direct role in weighing in, in the decision to ratify the agreement, the firm transportation services agreement, Commissioner Designee Balash referred to as the FTSA. That will have to be made to the legislature and made public 90 days prior to the effective date. If you look at the MOU, that's 90 days before the end of 2015. So the legislature will have an opportunity to decide if that is the path going forward the state would like to maintain with its partner, Trans-Canada. After that contract has been approved by the legislature in 2015, we will be entering that FEED stage, the next stage of the project. During the FEED stage, through to the final investment decision, the legislature and the state will retain an ability to terminate the relationship with Trans-Canada for just a couple of reasons. Within 60 days of the date, one or more producers or the transporter withdraws from the project, or at any time if the ship or the state is unable to sign agreements to sell all of its royalty or tax gas, on terms acceptable to the shipper. So as we get into that FEED stage and we're finalizing the sales contracts, and we're bringing those to the legislature for final ratification, if we're not able to satisfactorily dispose of all the gas, then the state retains a right to terminate the relationship with Trans-Canada. After that we get to the final investment

decision. At the final investment decision, which will be a major decision by the state, the legislature will play a role in that final investment decision, most likely through the appropriation powers. At that stage, the state has another chance to re-evaluate the relationship with Trans-Canada. However, during the FEED stage and during the final investment decision stage, there is a provision that will provide Trans-Canada an option, an opportunity if the state terminates its relationship with Trans-Canada and advances a substantially similar project, to offer Trans-Canada an opportunity to come participate in that project. Now that opportunity is based on the terms of the MOU which is most importantly that's 75% debt, 25% equity, except the cost of debt and return on equity are open to negotiation based on conditions at the time. So, there will be multiple instances where the state has an opportunity to weigh the advancement with Trans-Canada. How those specifically look, commercially is what's going to be developed over the next two years, those terms the legislature will make that next decision towards the end of 2015. Until then, our relationship with Trans-Canada is limited to the pre-FEED stage and the costs incurred during the pre-FEED stage.

**2:06-Rep. Costello:** Our ability for the buyback option, is that always open to us, or is there a period of time where that's in effect.

**Dep. Comm. Pawlowski:** Trans-Canada has testified, I believe in this committee and a previous committee on the record that that option is only applicable in the ratification of the Firm Transportation Services Agreements. That's from the end of 2015 forward as we enter into those next tier of agreements, that's when that provision will be in effect.

**2:07-Rep. Costello:** She expressed concern that DOT was not aware of what the logistical needs would be for this project, wants to know if that logistic information will be provided to the state or if he sees this as a conversation that will improve as the project goes on.

**Dep. Comm. Pawlowski:** The needs of the project broadly and specifically related to transportation are issues that are developed during in this Pre-FEED period. The pre-FEED is really the pre-feasibility of the project where you're moving from conceptual idea of a project to a conceptual design of a project. So the logistics plans, the actual resources that are needed, we've had some conversation at this table, the size of the pipe, is developed during this time period. All of those decisions have an impact on what size booms, what size trenches, what size logistics needs to go into it. So not only is the development of that information, that due diligence done during this time period, those are actually also important for the Federal Energy Regulatory Commission, EIS requirements related to social impacts. It's during this next stage when you really start to do the detailed work initially on the project that those get developed so that they're in hand, not just for the state, but for all the other parties, the decision, do we want to go to the next stage? Where we'll go from blueprints and drawings to designing each and every bolt in the project, each and every step, each and every shipment, all the way down to the execution plan. One of the questions we've been asked and the reason we're updating the government take is we were asked to update it including some implied state expenditures for infrastructure and so that model work is being done by Black and Veatch today, and as soon as we get it we will give it to the committee.

**2:09- Rep. Neuman:** When we did SB 21 there was a 5% per barrel oil exclusion on the ROE. Can you explain that?

**Dep. Comm. Pawlowski:** You're talking about within the Black & Veatch analysis? (Yeah, under fiscal analysis). The fiscal analysis included under SB 21 there is a credit for the production of each barrel of

oil. One of the things Black & Veatch looked at in a case was, what if there was a similar credit for each million btu or each mcf of gas produced. They were looking at what would be a modification to create the same system. So they took the \$5, divided it by the energy equivalent, created a fixed credit, per unit of gas. So I think that came out to \$5 divided by 6 per mcf.

**2:11-Rep. Neuman:** Then on the off-ramps, can you go over them briefly?

**Dep. Comm. Pawlowski:** Again, on page 8 of Exhibit C, they're broken up into the shipper's right to terminate, the transporter's right to terminate, and then either the transporter or shipper's right to terminate and they're broken up into the stages. So if we look into the right to terminate prior to the FEED, anytime provided a 90 day notice is given to the transporter. The transporter in this case is Trans-Canada. The shipper is the state of Alaska. From the start of FEED to the final investment decision, is within 60 days from the date one or more ANS producers or transporter withdraws from the Alaska LNG project. Secondly, at any time, the shipper, the state, is unable to sign agreements to sell all of its royalty or tax gas, on terms that are acceptable to the shipper, and at final investment decision for any reason. Those are the stage gates for the project. The transporter, Trans-Canada maintains rights to terminate as well, and that's if the legislature fails to provide a statutory authority to the departments entered into the precedent agreement by June 30<sup>th</sup> of 2014. That's the SB 138 which gives us the ability to enter into that interim agreement of a duration not more than two years. So if the state fails to execute the precedent agreement within the specified time and if we fail to execute the Firm Transportation Services Agreement by December 31, 2015. That's the agreement that will make truly formalized and in detail the relationship with Trans-Canada. And if the shipper fails to maintain standards of creditworthiness requirements and Trans-Canada would need to give notice to the shipper, the state, that we've failed to meet credit worthiness standards, and give us a reasonable period to cure. At final investment decision, if the transporter's, that's Trans Canada's, corporate board approvals have not been obtained, that's a recognition that this a decision to move through the gates for all the parties. And finally, within three months after the final investment decision, if debt financing has not been secured on terms and conditions that are satisfactory to the transporter at its sole discretion. One point that I would make about the majority of these terms is the term sheet as you see it before you is a term sheet. It's a conceptual document, the precedent agreement will start to take these and add detail to them. The FTSA will add a greater and more thorough level of detail to that. They're taking an idea and elevating each step of the way through further and further depth in the contracts that the state will be entering into.

**2:14pm- Rep. Guttenberg-** What else is going to be in the new report on government take by Black and Veatch?

**Dep. Comm. Pawlowski:** The deductible of lease expenditures has been included in every model that we've developed for this project since the beginning. That was included in the royalty study, that's been in every model that we've presented to the committee and if you look at the Black and Veatch presentations it's often called out in the early years as a separate part of the negative calculation. The question we received from the committee chair's office last night was asking for an update on the government take and asking us to choose some numbers that the state would be spending on infrastructure and I believe it was a specific request to assume \$1 billion or something was spent by the state on infrastructure so that takes a re-running of the models to integrate that request. That's not based on anything other than a guess that we were asked to run in the request that came from the committee. We again have the government take information in the royalty report but in the context of

what we were asked for, we are trying to run it and Deepa Poduval started this morning based on the request she got last night.

**2:16-Rep. Guttenberg:** So you're running one scenario with \$1 billion as the infrastructure needs?

**Dep. Comm. Pawlowski:** I believe we were asked to run \$1 billion, \$2 billion, and I think we threw in a \$500 thousand as well. Recognizing that those are completely arbitrary numbers we don't necessarily agree with but we were asked about and that's fine.

**2:17pm-Rep. Gara:** You said our last decision isn't expressly stated in the bill, but our last authority would be the governor comes forward with a contract and we decide whether or not to appropriate the money. Is that how it works?

**Dep. Comm. Pawlowski:** I apologize for being unartful. What would be necessary for the final investment decision at this stage, I'm hesitant to even contemplate. I used appropriation because I just assume appropriations are going to be necessary or given the scale of the final investment decision and construction step, but the actual lay out of what terms and what contracts will be necessary, any contract that has a duration of more than five years will take a vote of the legislature. I just don't know at this stage how many contracts are going to be necessary for the final investment decision to take place. I just know basically that there will be an appropriation associated with it.

**2:19pm-Rep. Gara:** Just wanted to make clear and wanted to know if it's in writing that the legislature at that final investment decision can say yes or no and won't be held liable for damages.

**Dep. Comm. Pawlowski:** The actual body of work that will go into the final investment decision, we don't know today. So there's nothing specifically called out in the legislation to my knowledge. I can talk to some of our attorneys, but to my knowledge, that drives one single decision and that's something we've tried to break the concept apart from previous efforts, that one contractor, one execution would actually lead to a project. There's multiple contracts, there's multiple agreements and part of that path is the designing what happens in this pre-FEED stage, as we start to identify all the different work that needs to be done that becomes clearer then in the FEED stage where we will identify all the different work that needs to be done in FEED to then make the final investment decision. We can see when we talk about it lots of potential decision points leading up to a final investment decision, but with any specificity today there's just unknowns.