



**STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU**

**Questions and Answers:
House Finance - 3 pm - October, 25 2015**

Representative Neuman:

What are the problems with TC? What are the issues? Are they good or bad?

Department of Natural Resources(DNR) Response:

As Deputy Commissioner mentioned during testimony, some of the issues the State has experienced with TransCanada center around some of the governance issues and access to information. However, the State would like to emphasize that TransCanada is a world-class pipeline company and the State has not found any fault with the technical expertise provided to the State.

If TC remains in the Alaska LNG Project, they could demand independent control over the midstream segment of the project going forward, which will likely lead to a misalignment of expectations and wants because TC answers to its shareholders versus the citizens of Alaska.

Without TC, access to information will still require AGDC to be the conduit between the Project and the State, but now AGDC will have access to all aspects of the project (including midstream). Furthermore, voting will be through AGDC but AGDC does answer to the State and its citizens in many ways and will therefore not be "independent" in the same way as TC would have been.

Representative Thompson:

Who is the state gas team? What role do they play? How do they interact with AGDC?

DNR Response:

The State Gas Team (SGT) consists of personnel from the Department of Natural Resources (DNR), and in particular personnel from the North Slope Gas Commercialization (NSG) component, the Department of Revenue (DOR) and Department of Law (DOL) and the Office of the Governor. The team provides the administration with in-house capacity for consistent support and well-informed advice throughout the negotiation and crafting of critical commercial agreements related to the Alaska LNG Project. The SGT also consists of subject matter experts within these agencies and external consultants.

The AKLNG state gas team is primarily responsible for:

- Negotiating critical commercial agreements for the Alaska LNG Project with the Producer parties (ExxonMobil, BP, and ConocoPhillips);
- Developing a plan to market and dispose of the State's share of project gas for in-state use and LNG exports;
- Evaluating, and if it's in the best interest of the State, modify existing lease structures to accommodate the State taking tax-as-gas and royalty in-kind;
- Negotiating Property Tax for the Payment in Lieu of Taxes (PILT) and Impact Payments during construction;
- Assuring the project allows for adequate expansion for new discovery and alternative gas supplies; and
- Assuring the pipeline is adequately designed to provide supply to meet in-state gas demand (demand is determined by the Alaska Gasline Development Corporation).

The State Gas Team coordinates with AGDC on a number of different levels:

- AGDC serves as the SGT's conduit for accessing AKLNG Project technical information developed by the Houston-based AKLNG Project Team
- SGT and AGDC conduct bi-weekly meetings to coordinate on aspects of providing AKLNG gas for in-state use
- SGT provides AGDC with technical information on Upstream gas supply to support the engineering analysis of the project's technical design basis

Representative Neuman:

Is there anything that lines out who the players are?

DNR Response:

Organization Chart provided on 10/26/15 (attached).

Representative Guttenberg:

Costs that incurred as project expenses, are they passed on to TC or does the state cover them? What is the timeline if we terminate before TC terminates? Or if they terminate first?

DNR Response:

Refer to "TC Right to Terminate and Effect of Termination" distributed on 10/26/15 (attached).

Representative Neuman:

We need a chart that lines this out. If the state terminates vs if TC terminates

DNR Response:

Refer to “TC Right to Terminate and Effect of Termination” distributed on 10/26/15 (attached).

Representative Neuman:

I would like to know where we are in negotiations and I would like it in writing.

DNR Response:

Active negotiations among the State, AGDC and the Producers (with the parties varying depending on the nature of the agreement) are currently underway on the following commercial agreements and issues. As these negotiations include proprietary and confidential terms and conditions, additional details on these agreements and issues will be provided as negotiations are completed.

- Fiscal agreement
- Governance agreement
- Gas supply/balancing agreement
- Expansion and Access terms
- Withdrawal agreement
- Gas Sales by Withdrawing Parties agreement
- Byproduct Handling Agreement/Terms (including treatment of CO2)
- Lease Modifications/Conversions
- Joint Venture Marketing Agreement(s) and/or Producer offers to purchase RIK gas per SB 138
- Aspects of the System Use Agreement (including Capacity Release provisions for imbalance management)
- Agreement on pro rata obligation to provide for utility Domestic Gas needs on reasonable terms (e.g., no requirement for AGDC to make long-term take-or-pay commitments)

A number of commercial agreements necessary to inform the RIK/RIV decision cannot be finalized until the details of a gas balancing agreement have been resolved because there are key inter-dependencies. These include upstream and information sharing agreements, and aspects of governance and system use agreements, especially as they relate to capacity entitlement and capacity release.

Representative Gattis:

Will it take longer than 120 days to buy TC out?

DNR Response:

We do not anticipate that it will take longer than 120 days to buy out TransCanada. Furthermore, it is not the intent of DNR or TC to drag out the closing of the buyout. Both DNR and TC are willing to amend existing contractual arrangements to reasonably meet the needs of the parties.

Representative Gattis:

Are we currently auditing or will we have to back track?

DNR Response:

DOR has not begun auditing any of the expenditures but the process for audits of TC's development costs are contained in the Precedent Agreement Article 4.3(c). Article 4.3 of the Precedent Agreement outlines the requirements necessary in case of a termination. DOR is in the process of procuring services for that audit and working with TransCanada. From an accounting perspective, until we give a notice of termination or receive a termination notice, an audit would not begin. Once Notice is given, the State has 30 days to perform the audit process in accordance with the provisions established in the current PA

DOR Responses to additional auditing questions:

Is there time built into the PA's billing/payment process for the audit of numbers and does it trigger any delays to payment timing requirements?

Yes. The current PA sets out the auditing process and payment timing requirements. The State has not been provided the actual termination amount or any supporting documentation. This information will be provided when the Notice of Termination is submitted.

If we need to challenge TC's numbers, what is the process and, again, how does it affect payment timing?

Under the PA, TC's costs are challenged as part of the audit process. Any disputed amounts by the State are placed into an escrow account set up by the parties. Disputed amounts are determined through executive level dispute resolution process and paid within 30 days. Unresolved issues are tried in Alaska courts.