



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

**Questions and Answers:
Senate Finance - October, 25 2015**

Senator MacKinnon:

If not in Monday's Black & Veatch presentation, would like a status report on Alaska Participation in financing

Department of Revenue (DOR) Response:

SB 138 Section 76 requires the Lazard report include a plan on how regional corporations, municipalities and individuals can participate in investment opportunities in the pipeline. Lazard, First Southwest and members of the state Finance team have participated in an outreach over the summer, including hosting several face to face meetings and other conference call follow up discussions. The goals of the outreach have been to educate potential investors on the project, discuss particular investment strategies, uncover limitations, either statutory or by policy, and begin the process of determining and understanding the potential capacity and interest in such parties participating in the financing of the project. Lazard and the State's internal finance team is also reviewing SEC and IRS regulations to understand limits that may be placed on such parties participation and potential investment in a Project. The final Lazard report, when submitted, will include a high level plan on this topic.

Senator MacKinnon:

How the TC buyout would hit the PILT by \$800 million dollars. Under SB 138, TC would have been responsible for corporate income tax and PILT. Will B&V presentation address this? How will this affect municipalities?

Department of Revenue (DOR) Response:

The Impact Payments are tentatively set at equal \$800 million over the project construction period, currently anticipated to be five years. Although details have not been finalized, the impact payments are expected to be paid out in annual increments. The total impact payment amount quoted above assumes all project owners are obligated to make impact payments. However, it is possible that the actual payments may be reduced by the State of Alaska's ownership share in the project, which is currently estimated at approximately 25 percent of the project, due to its tax-exempt status. The allocation of the Impact Payments between the State and municipalities has yet to be determined.

Senator MacKinnon:

Discussion inside partnership if we expanded the pipe that the state would bear all additional costs if there is not a benefit to our partners?

DNR Response:

The AKLNG Project parties have all agreed to jointly fund the costs associated with bringing the analysis of a 48-inch pipeline to the same level of detail as the 42" pipeline. After this analysis is completed, each party would be able to utilize results of the engineering work to choose their preferred optimum pipe platform. In the event that the State of Alaska is the only party interested in an expanded pipe size, it would then be responsible for all the associated costs with an expanded pipe size and would also receive the additional throughput available. However, these discussions have not yet taken place as engineering evaluation of the 48-inch pipeline is underway.

Senator Micciche:

Does the state support a joint marketing position? If pushing toward joint marketing why is state investing so heavily in their own marketers?

DNR Response:

SB138 directed the Commissioner of the Department of Natural Resources to take custody and dispose of the state's share of royalty gas and, in consultation with the Department of Revenue Commissioner, gas delivered to the state under AS 43.55.014(b), tax-as-gas (TAG). In terms of developing a recommendation on a marketing structure that best meets the State's objectives, several alternative marketing pathways are being contemplated for the state's 25 percent portion of gas, derived from royalty and production tax, into the Alaska LNG Project.

While the State had initially expressed an interest to its partners in examining a possible joint-venture marketing arrangement with all 3 Producer parties, it was determined after numerous discussions that a joint-venture marketing entity with all 4 parties (ExxonMobil, BP, ConocoPhillips, and the State) may not be feasible for one or more of the parties.

However, as part of the lease modification process laid out in AS 38.05.180(ii) passed in SB 138, DNR has been in discussions with each of the lessees/producer parties and is in the process of receiving proposals and assessing what each party is proposing with regard to the state's royalty and tax-as-gas volumes. As mentioned in previous discussions with the legislature, joint-venture marketing with one or more of the parties is under consideration, but any decision to enter a joint venture marketing arrangement would require a determination of the risk tolerances of each party and whether the proposed joint venture would be a suitable fit for the State's needs.

While DNR is examining joint venture marketing options, it also has been going out to the market and building buyer awareness of the project, establishing its own relationships with potential buyers

of LNG, and gathering feedback from the market to present to decision makers. Consistency and project reliability will be key when speaking with prospective buyers. To show our commitment and reliability, it is imperative the DNR hire a state marketing lead and analyst to provide continuity as this project moves forward as well as independent advice to the State on potential risks and rewards that it must consider in any marketing arrangement.

Once commercial aspects of the project are resolved and a decision to enter into FEED is made, consistent with its responsibilities under SB 138, DNR would need to ramp up a marketing organization to begin actively negotiating and selling the state's gas volumes in either an equity or JV marketing organization. If the State decides to enter into any joint marketing arrangement, adequate State representation in any joint marketing venture will be critical to ensure the state's interests are being upheld and voiced. If the State ends up with more than one joint venture marketing agreement, the State will need marketers in each of the ventures to ensure firewalls and anti-trust issues are not violated. Without buyers and sales agreements, the project is not viable and will not get the financing needed for construction. Additionally, if sales agreements are not negotiated in the state's interest, anticipated revenues may not be realized or the state may be at risk for not having enough money to pay parties who help finance construction costs.

Senator MacKinnon:

Analysis from administration, possibly Commissioner of DOA, if marketing team will be contractors or state employees

DNR Response:

The intent is to have a state marketing team of employees, to maintain continuity throughout the project and supplement with contractors only when necessary.

Senator Hoffman:

Potential statutes that need modification to move project forward

Department of Law Response:

At this juncture, no statutory amendments are necessary to move the project forward.

Senator MacKinnon:

Want authority to bill our partners for money we have already expended? Have we done that before? TC as our representative at the table right now, is there a list of criteria's of expenses that can be charged to the project?

Alaska Gasline Development Corporation (AGDC), Response:

The Alaska LNG partners, including AGDC, are interested in avoiding duplication of work with regard to the Alaska LNG project and ASAP project efforts. So where possible, they have agreed to

cooperate on technical and engineering data collection and data sharing. AGDC had previously conducted geotechnical borehole drilling and terrain analysis along the ASAP alignment, that was of value to the Alaska LNG project. The two pipeline alignments have been harmonized and with few exceptions, most of the ASAP alignment has been adopted as the preferred alignment for the Alaska LNG. Additionally, because AGDC had initiated a summer field program, it made sense for our field teams to do some additional incidental geotechnical borehole work for the Alaska LNG project while our crews were in the field. The corporation is now requesting receipt authority, so that Alaska LNG project can reimburse the corporation for the data and work performed on behalf of the project. All five Alaska LNG project partners agreed to this data acquisition strategy in advance and agreed on a cost sharing formula. This is the first time that the Alaska LNG Fund will be receiving monies other than those that have been appropriated by the legislature, so receipt authority is required. Once those funds are reimbursed by the Alaska LNG project, the funds can be used to further advance the state's share of project costs.

The Alaska LNG Project Management Team (PMT) has strict project controls in place. The PMT is managing a Work Program & Budget that has been approved by the Management Committee of the project. Any expense that is charged to the project, other than those initiated from within the project, would have to be approved in advance and agreed to by all five partners.