



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources
NORTH SLOPE GAS COMMERCIALIZATION OFFICE
AKLNG PROJECT OFFICE

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June 28, 2016

The Honorable Cathy Giessel
Chair of the Senate Resources Committee
Alaska State Capitol
Juneau, Alaska 99801-1182

The Honorable Benjamin Nageak and Dave Talerico
Co-Chairs of the House Resources Committee
Alaska State Capitol
Juneau, Alaska 99801-1182

Dear Senator Giessel and Representatives Nageak and Talerico:

The Department of Natural Resources (DNR) in consultation with the Department of Revenue (DOR) submits the following written report in accordance with Section 77 of Senate Bill 138 (SB138), Chapter 14 SLA 14.

Following the October 2015 Special Session legislative authorization for the State of Alaska to exercise its rights to terminate the Precedent Agreement (PA), DNR executed a Purchase and Sales Agreement (PSA) on November 18, 2015, which terminated the PA effective November 24, 2015, and resulted in the State's acquisition of TransCanada Alaska Midstream Limited Partnership (TAMLPL). Under the terms of the PSA, TransCanada (TC) delivered to the State of Alaska (SoA) an *Initial Cost Report* where the aggregate amount payable at closing was to be \$64,590,000, which was TC's estimate of the Termination Amount, Post-Termination Costs and Interest Costs as of November 24, 2015.

Under the terms of the Purchase and Sale Agreement, DNR and DOR conducted a review of the *Final Cost Report*. The DNR hired international accounting firm Ernst & Young (EY) to perform the review of the charges, costs and expenses included in the value paid to TC under the terms of the PSA. TC submitted the *Final Cost Report* to the State on January 15, 2016, which provided a summary of the actual costs incurred by TC for the Alaska LNG (AKLNG) Project. Those costs amounted to \$64,367,651. The objective of the review was to present any findings as they relate to the makeup of the Final Cost Report value and deviations from the contractual language outlined in the Precedent Agreement.

The review completed satisfactorily by EY confirmed a Contribution Overpayment of \$222,349 between the estimated expenditures reported in the *Initial Cost Report* versus the actual expenditures included in the *Final Cost Report* for expenditures from January 1, 2014 through January 15, 2016. Minor audit adjustments were concluded, resulting in an adjusted reimbursement to the SoA for \$216,615 (excludes interest).

Total Reviewed and Reimbursed Costs

TransCanada's actual expenditures for January 1, 2014 through January 15, 2016, totaled \$64,373,387, and can be broken down as follows:

- a. A total of \$61,869,579 on a cash basis, which includes cash calls related to the AKLNG Project and development costs associated with development and negotiation of agreements and regulatory activities.
- b. A carrying cost¹ of \$2,503,808.

Total Audited Reimbursable Costs to TransCanada (in US\$)			
	CSA (Jan. 1- Jun 30, 2014)	PRE-FEED (July 1, 2014-January 15, 2016)	TOTAL
AKLNG Cash Calls and TC Development Costs	\$9,724,326	\$55,918,436	\$65,642,762
Less: AGIA Reimbursement	(\$3,773,183)		(\$3,773,183)
Carrying Cost			\$2,503,808
TOTAL Audited Reimbursable Costs			\$64,373,387

TransCanada Reimbursement to the State

TransCanada and the State agreed with EY's findings of the final cost review report submitted to the State. The state over contribution amount confirmed was \$216,615.

TransCanada Reimbursement to the State (in US\$)	
Closing Estimate Paid to TC – Nov 2015	(\$64,590,000)
Audited Reimbursable Costs	\$64,373,387
Difference (excludes interest)	\$216,615²

Per the PSA, interest shall be payable and shall accrue daily from the closing date until the date of payment. The total interest amounted to \$1,968, for a total reimbursed to the State of \$218,583. The TC fund transfer to the SoA took place on April 19, 2016, and the amount was returned to the General Fund.

If we can be of further assistance, please do not hesitate to contact us directly.

Sincerely,



Marty Rutherford
Acting Commissioner, DNR

CC: Randy Hoffbeck, Commissioner, Department of Revenue
Dona Keppers, Deputy Commissioner, Department of Revenue
Keith Meyer, President, Alaska Gasline Development Corporation
Darwin Peterson, Legislative Director, Office of the Governor

¹ Carrying Cost Calculation as defined in the *Alaska Midstream Services Precedent Agreement (Redacted) Schedule A*, means the calculation of interest on a particular cost or expenditure forming part of the Development Costs, calculated at a rate of 7.1% per annum and compounded monthly and accruing daily. Such interest shall accrue, in respect of such costs or expenditures, from the later of (i) FERC Pre-Filing Date, and (ii) the 15th day of the calendar month of the month such cost or expenditures was incurred, until the date of payment.

² The \$2 dollar difference in calculation is due to rounding.