Questions for Alaska Gasline Development Corporation (AGDC)

September 6, 2016 ~ from Senate Resources Committee Chair, Cathy Giessel

Structures and Feasibility

- AGDC and the Governor have indicated that AGDC is exploring alternate project structures. Please define the metrics you will be using to evaluate those alternatives; discuss what (independent?) economic analysis you plan to use in assessing these options; and explain what 'outcomes' you are looking for that will drive selection of an alternate project structure. Will the Legislature have opportunity to review the analysis that led to the rejection of other alternate structures?

- The Legislature, prior to endorsing a new course forward, will require financial modeling deeper than that provided by Wood Mackenzie. The analysis will need to demonstrate not only the project potential and cost of supply, but also likely returns and risks under various ownership and financing scenarios that AGDC contemplates as possible, and, the potential returns to the state as a gas shipper in this new system – not only as a gas owner. When can we expect this analysis from the administration and AGDC? We understand Mr. Hugh Short indicated the analysis would be done at some point, but that not enough information is available now. Won't AGDC require some level of analysis to evaluate various scenarios before reaching a decision?

    For example, Sen. Dunleavy at the hearing noted that if the state finds ways to reduce risk or share, the state will likely reduce its potential upside in exchange. Wood Mackenzie confirmed that another entity could accept more risk and in return, make greater profits on the pipe and plant. The Legislature would like to understand, in analytical fashion, the risk/upside value equations associated with the structure, ownership and financing arrangements being contemplated.

- Please detail your ongoing relationship with DNR, the custodian of the state's gas, in the matter of North Slope gas commercialization / AK LNG work. The Legislature, in 2014, approved DNR and AGDC cooperatively developing a project that would be commercially sound ***and*** provide the State opportunity to not only monetize, but maximize, the value of our royalty and tax gas. Explain how AGDC is considering this core rationale for participation, as AGDC evaluates project structures.

- The Legislature's consultants identified some of issues surrounding two tax issues; first, exemption from federal and state income and property taxes, and second, the ability of AGDC to issue tax-exempt bonds for this project. What steps is AGDC taking, on what schedule, to bring clarity to these important issues? At what point will AGDC require a Private Letter Ruling in order to have fiscal certainty in moving a given structure forward? What are the plans for achieving this?

- Mr. Meyer in testimony said each project component will likely be owned by a separate special purpose entity – one owner per component. What is the reasoning for this? How will this impact an integrated project?

Project: Transition, Path Forward

- The Legislature is familiar with the stage-gated megaprojects management framework, established for this project by the producers, administration, and AGDC. Does AGDC plan to continue using this stage-gated approach? If so, how will the gates be redefined, and why? If not, if AGDC deems this an inappropriate management structure for a new project, why? What management framework will take its place (explain in detail).

    For example, AGDC referenced an "equity-funded stage gate process". Is there another kind? For a non-equity-funded process? What does it look like and how is it different?

- We acknowledge the transition is currently in negotiations. At the earliest possible date, we would like to review a transition plan, in detail, that will help us understand the potential costs incurred by each party, the responsibilities and risk, and the ways in which AGDC plans to mitigate more immediate risks (pre-construction).

- Will companies create an entity to maintain their expertise and personnel in developing the actual project, for example, design and FEED? Will the state have to find/grow that expertise? Will AGDC contract with an undefined third party? What kind of a third party – what would that look like? Are the producers willing to maintain their key personnel on this project as contractors to the state-led project? What could the costs entail?

- We understand, as our consultant enalytica noted, the premiums AGDC would pay to reduce construction risks could be high. What does AGDC assume that cost will be? What percentage of total construction costs does AGDC anticipate paying as a premium for insurance against construction risk?

- Wood Mackenzie confirmed that cost overruns during construction are typically passed on to shippers as increased toll charges, in a third-party project. Of course, in this instance, the state as DNR is a significant shipper – and, if the state purchases wellhead gas from other parties for resale as LNG, potentially the anchor shipper. How is AGDC considering those sorts of risks to the state in developing a new structure? How will AGDC take steps to protect the state as DNR, a gas shipper and owner?

- Has AGDC initiated negotiations with the AK LNG producer parties to purchase the land owned by the LLC at Nikiski, for the export terminal? What other project assets in which AGDC currently has no ownership interest will need to be purchased from the producer parties? What is the timeline for purchase and anticipated costs? From where will AGDC secure the funds to purchase these assets? Will AGDC buy the assets, or take over the LLC, which also holds the federal export license required for the project to proceed?

What is the process to transition that license to AGDC from the producer parties: and what are the associated timelines, uncertainties and costs involved?

- With state ownership of an LNG project, who is the responsible party for environmental liability and DR&R? Please clarify precisely as there have been questions in the past as to the degree of liability an entity of the state would have to the state itself, as well as challenges in requiring, for example, the federal government to remediate damage on the North Slope.
- We understand some of the tremendous reductions in project cost delivered by the AK LNG group – to the lower end of the $45-$65 billion range – derive from prompt steel purchases and taking advantage of current deflation. What will need to be purchased – committed to – and when, in order to take advantage of these economic conditions and keep the project costs down? What is AGDC's plan for doing so?
- How many AGDC staff members have been serving on the AK LNG management team since the state bought out TransCanada last fall?

Marketing

- Please provide a draft of your marketing documents once prepared. Legislators are anxious to understand the parameters of the product AGDC is marketing. These documents refer to the professionally developed marketing 'packets' referenced at AGDC board meetings and at hearings, to be distributed to potential buyers and investors. What is the timeline for completion, and when does AGDC expect marketing to commence?
- Please clarify: we understand marketing can mean various things in this conversation. One could market the project, the concept, to investors, buyers, or lenders; one could market gas to buyers; and one could market capacity on a pipeline or in a liquefaction plant to buyers or sellers. What exactly is AGDC marketing/planning to market this fall?
- We understand that there may be mechanisms to build into Sales Purchase Agreements as a sovereign with our own gas to sell that will offer the state protections in exchange for reduced upside that the state may well want to consider. How does AGDC plan to work with DNR on marketing? Have the two entities discussed at length the must-haves for DNR?

Funding

- The recent legislative hearing left a question as to what the next phases of AGDC's plans will cost, and who will pay for them. To date, the Legislature has appropriated operating and capital to AGDC. Is this expected to continue? Has AGDC identified or is AGDC seeking alternative income sources? What potential avenues are being considered?

- The funding scheme discussed at the hearings and offered in the AGDC document "AGDC Responses to Senator Giessel Questions" dated Aug. 23, 2016, seems insufficient under the timelines. Does AGDC intend to enter into less typical agreements, like the old AGPA contingency contracts, by which companies agreed to work for payment that would only be made if the project actually went ahead? At the heart of this question: how is it possible that the 25% share funded will be enough to cover 100% and still maintain the schedule?
- If not through further appropriation this fiscal year, how will AGDC fund the costs of transition; asset acquisition; marketing; and the satellite Houston office and accompanying marketing team, including travel overseas? Please be specific.
- What was the total Work Plan and Budget for 2016, and how much of that was spent? How much is remaining with AGDC?

General

- The question remains in many Alaskans' minds: if industry is unwilling or unable to continue with this project, why has the state determined it is a worthwhile project to carry on with? Why does the state not face the same challenges and risks that industry faces?
- At what point is it not in our interests to proceed with the project? When – under what conditions – would you call a 'halt' to the project? Are we committed to a 'Project At Any Cost" (Concession) scenario? Will the Legislature have opportunity to weigh in on that decision, before it is made? Explain the parameters.
- Related to Question 18 on AGDC's "Questions and Answers" document dated Aug. 23, 2016: This seems to be a new concept, that the project could be developed "in phases." Is this being contemplated? How seriously? When will we know? What would phases look like? If we build up a pipeline to full size but add LNG trains slowly, who holds the costs associated with a potentially severely under-subscribed pipeline? Presumably the owner, in this case, potentially the state. What are the costs? The risks another train would not come on? Other projects around the world are shying away from adding scheduled trains, are they not? Will that influence AGDC's plans?
- Related to Question 22 on AGDC's "Questions and Answers" document dated Aug. 23, 2016: Thank you for the assurances that AGDC will not shoulder an unacceptable amount of risk. Who is deciding the 'appropriate' amount of risk? What oversight / checks and balances will the Legislative branch have? With risk comes reward potential; who is deciding these thresholds?
- Senator MacKinnon requested a summary of all AGDC subsidiaries and their intended uses.