From Roger Marks Response to Rep. Gara - House Finance 4/15/14

- Through diversification the producers will sanction some projects somewhere and make money no matter what. The state only has this.

- The corporations have finite capital that go to the best projects. The capital for this project is competing not only against other gas projects, but other high value oil projects.

- Through state and federal income tax deductions, the state and federal governments will be paying for approximately 40% of these costs.

Where other countries incur these risks they are generally incurred by national oil companies (Qatar, Nigeria, Malaysia, Argentina, Venezuela, Indonesia) where the government takes exceed 80%, where here it is 60%.

Given the cost structure of the project and the proposed cost-sharing arrangement it would be very difficult to institute a production tax rate high enough to get the government take to 80%.

The more interested the producers are in the project, the less they need the state's money, and the less interested they are, the more the state should avoid this risk.

Accordingly, the legislature may want to consider the option of buying into the project once it is sanctioned, and foregoing financial participation in pre-FEED and FEED.

5. If we need more in-state gas should we be allowed to require production by shippers at an RCA-governed "reasonable" price?

If there is a situation where more in-state gas is needed, since the export gas will be subject to long-term sales contracts, it will not be possible to divert the gas for in-state use. Therefore it will be necessary for the producers to produce more gas.

This would be a relatively small amount of gas. The reserves will be adequate. The capacity will be adequate or could be made adequate. And while the terms of the leases may not compel the producers to produce more, the legislature may want to consider terms in the statute to compel them in exchange for the state taking its gas in-kind.

I do not see a commercial rationale why this would be problematic. The alignment of interests has to work both ways.

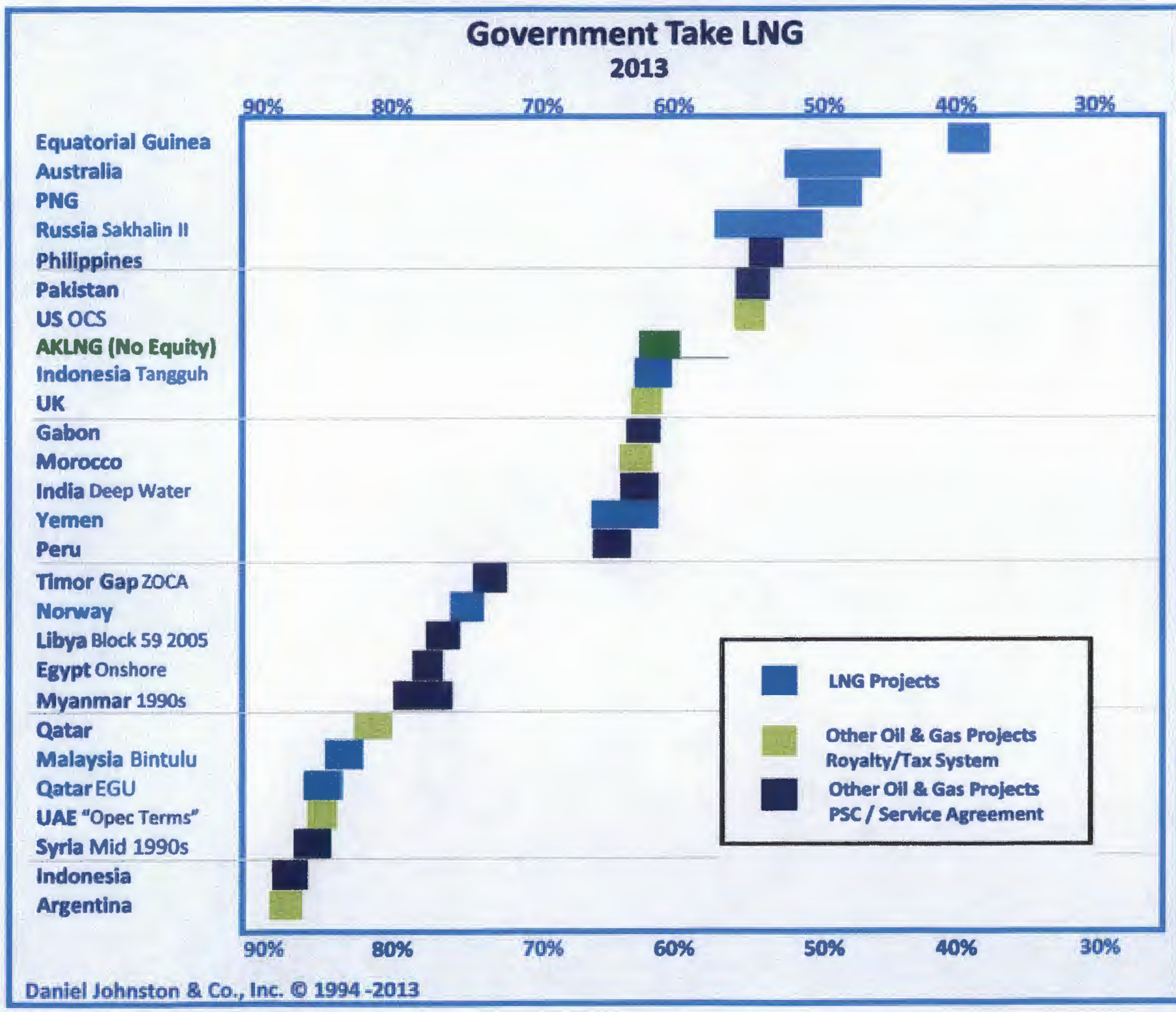
Obviously the producers should be adequately compensated for the gas, at the Asian netback value. That way they are not losing any money on the in-state sale.

I assume the RCA would have authority to approve the sales price contracts from the producers to an in-state shipper. However, they may need additional authority to be able to determine what the reasonable netback value is, and the legislature may want to consider putting such authority in the statute.

6. For in-state gas, should the tariff charged by TransCanada to the state or in-state users be regulated by "reasonable rate" rules historically used by RCA?

Distributed by Rep. Gara

GOVERNMENT TAKE FOR AKLNG PROJECT COMPARED TO OTHER OIL & GAS PROJECTS, BY COUNTRY (NPV_0) – RIV WITH NO EQUITY STAKE FOR SOA IN AKLNG PROJECT



Source: Daniel Johnston & Co, Inc; Black & Veatch Analysis

Response from DNR

House Finance Committee

April 16, 2014, 1:30PM

SB 138

2:52:49: Rep. Gara: Why would it not be fair if we're going to share the benefit of an expansion, during compression of lower costs, that they shouldn't share with us if we want to bring in a new party, the costs at least to the point where they only bring the cost of transportation back to the original rate? AGIA used to let us bring it up 15% higher. I'm not asking that. But what about the fairness of allowing us to bring the cost back up to the original rate in order to expand?

2:53:21: Janak Mayer, Enalytica: In terms of that question as it relates to the sort of implied tariff, if you will, on the pipeline it certainly seems to me that that would be a fair and equitable arrangement whether it's one that would also in the reality of negotiation ensure for you the right of unilateral expansion that the current contract assures you, I can't tell you because I haven't sat down to try to negotiate those terms. But in principle and understanding that these things are traded off against each other in the reality of negotiation what you outline seems like an entirely equitable arrangement.