

HOUSE FINANCE COMMITTEE
April 25, 2007
1:46 P.M.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [1:46:13 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative Richard Foster

ALSO PRESENT

Representative Bob Roses; Representative Anna Fairclough;
Representative Carl Gatto; Derek Miller, Staff,
Representative Mike Kelly; Paul Lisankie, Director, Division
of Workers' Compensation, Department of Labor & Workforce
Development; Josh Applebee, Staff, Representative Bob Roses;
Anne Carpeneti, Assistant Attorney General, Legal Services
Section-Juneau, Criminal Division, Department of Law; Linda
Hall, Director, Division of Insurance, Department of
Commerce, Community and Economic Development; Rod Betit,
President, Alaska State Hospital & Nursing Home Association
(ASHNHA), Anchorage; George Rhyneer, Cardiologist, Alaska
Physicians and Surgeons, Anchorage; Sally Stuvek, Human
Resource Director, Fairbanks North Star Borough, Fairbanks;
Pat Carter, Lobbyist, Support Our Troops, Anchorage; Norm
Cohen, Staff, Representative Max Gruenberg

PRESENT VIA TELECONFERENCE

Sally Stuvek, Fairbanks North Star Borough, Fairbanks;
Michael Hinchin, Alaska Timber Insurance Exchange, Portland,
Oregon & Ketchikan; Martin Boyer, Executive Director,
Support Our Troops, Florida; Bonnie Woldstad, Fairbanks;
Duane Bannock, Director, Division of Motor Vehicles,
Department of Administration, Anchorage; Keith Sanders, Sr.

Vice President, Land & Legal Affairs, Cook Inlet Regional Inc. (CIRI)

PRESENTATION BY SULLIVAN & CROMWELL LLP:

Representatives present:

Representative Mike Chenault; Representative Mike Kelly; Representative David Guttenberg; Representative Scott Kawasaki; Representative Anna Fairclough; Representative Paul Seaton; Representative Berta Gardner; Representative Michael Doogan; Representative Peggy Wilson; Representative Bryce Edgmon; Representative Craig Johnson; Representative Carl Gatto; Representative John Coghill.

Senators present:

Senator Bert Steadman; Senator Joe Thomas; Senator Gary Stevens; Senator Lyman Hoffman; Senator Gene Therriault; Senator Thomas Wagner; Senator Johnny Ellis; Senator Charlie Huggins; Senator Lyda Green; Senator Bettye Davis

SUMMARY

HB 88 An Act relating to televisions, monitors, portable computers, and similar devices in motor vehicles; and providing for an effective date.

HB 88 was HEARD & HELD in Committee for further consideration.

HB 184 An Act relating to a commemorative troops license plate; and providing for an effective date.

HB 184 was HEARD & HELD in Committee for further consideration.

HB 228 An Act relating to fees for certain medical treatment and service under the Alaska Workers' Compensation Act; and providing for an effective date.

CS HB 228 (L&C) was reported out of Committee with a "do pass" recommendation and with zero note #1 & #2 by the Department of Administration and the Department of Labor & Workforce Development.

SB 103 An Act authorizing the transfer of land from the Alaska Railroad Corporation to Eklutna, Inc.; and providing for an effective date.

SB 103 was reported out of Committee with a "do pass" recommendation and with zero note #1 by the Department of Commerce, Community & Economic Development.

[1:48:05 PM](#)

#hb228

HOUSE BILL NO. 228

An Act relating to fees for certain medical treatment and service under the Alaska Workers' Compensation Act; and providing for an effective date.

DEREK MILLER, STAFF, REPRESENTATIVE MIKE KELLY, commented that in 2005, the Alaska Legislature passed SB 130, a rework of the Workers Compensation statutes. As part of the rework, medical payments were frozen at the 2004 fee schedule so that a review could be done of the underlying reasons for premium increases. The review was to be jointly done by a special Workers Compensation Legislative taskforce in concert with the Department of Labor & Workforce Development Medical Review Committee. The taskforce was to develop recommendations to moderate program increases in the future. As part of the conditions of the medical rate freeze, the taskforce was to have completed their review by February of 2006; the rate freeze would sunset in August of 2007 (to be replaced by a new fee schedule).

The taskforce did not complete the report by that time; consequently, the State is faced with the sunset of the medical rate freeze in August 2007. There is no plan for the post rate freeze sunset period.

Mr. Miller pointed out that under HB 228, the medical rate freeze would be extended two years to allow time for recommendations to be developed. It implements an annual rate increases based on the Consumer Price Index (CPI). He added that the bill is not meant to be a long-term fix, but rather a stop-gap measure, extending the medical fee schedule, adjusting it for inflation. The bill is supported statewide.

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Representative Crawford remembered when price controls were put in place to lessen inflation during the Nixon Administration, which did not accomplish the intent. He voiced concern that the legislation does not allow the market place precedence. He stressed the importance that injured workers receive the care they need. He questioned the time table.

Mr. Miller explained that the Division of Insurance has indicated that if the measure is not adopted, medical care costs will increase related to workers compensation

insurance. The March 1st timeline places it in the middle of the legislative session in order for long-term discussion.

Representative Gara acknowledged the need to raise medical treatment compensation rates as costs keep increasing; he asked if compensation rates for certain injuries had been frozen.

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Vice Chair Stoltze asked about restrictions & need constraints to important services. Representative Kelly said it was not addressed; the bill only recognizes the sunset and absent that, rates will be frozen. The bill does not attempt to fix the system.

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LINDA HALL, DIRECTOR, DIVISION OF INSURANCE, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, voiced support for the bill and offered to answer questions regarding the impact to insurance.

Representative Crawford questioned the timing of the rates. Ms. Hall did not know why those dates had been chosen. The Division makes their rates effective the beginning of each calendar year with the process beginning in April or May, 2007. Any data received by them would be included in the rate making process. She indicated concern with the mid-term rates.

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ROD BETIT, PRESIDENT, ALASKA STATE HOSPITAL & NURSING HOME ASSOCIATION (ASHNHA), ANCHORAGE, noted that ASHNHA, requested the proposed legislation in an attempt to "fix" this problem. The work of the task force has not been complete and with a rate freeze sunset in August, hospital and physicians would get paid on what they had billed, which would result in insurers paying out more than intended. No one wants to see that happen. HB 228 addresses these concerns.

Representative Gara asked if the medical cost inflation adjustment would be retroactive to the time it was frozen. Mr. Betit replied it would be prospective for the next eighteen months.

Representative Crawford inquired about the difference in rate structure. Mr. Betit explained that hospital members follow the Consumer Price Index (CPI) closely. At the time the freeze was put in place, the hospital charges were being discounted by workers' compensation; he anticipated it would be in the 25% discount range.

Representative Crawford thought that the rate was higher; he worried about the final disparity. Mr. Betit commented that the bill only impacts the medical claims of an injured worker, not all medical claims; no one is happy with it as a permanent solution. Long-term reimbursement needs to be made through negotiation.

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Representative Gara asked if the frozen rates would create risk for those not receiving treatment with fees too low. Mr. Betit said no; the providers will continue to give treatment.

Representative Gara pointed out that they would be charging less than the workers comp arena to private patients and asked if costs would be passed to other consumers. Mr. Betit explained that the same charge is made to all patients. There are different reimbursement agreements reached with different payers; each hospital offers charity policies, some of which are passed to other payers.

Representative Gara reiterated his query regarding the workers comp rate being lower than customarily charged and causing a rate increase to others. Mr. Betit reiterated it was not passed on.

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GEORGE RHYNEER, CARDIOLOGIST, ALASKA PHYSICIANS AND SURGEONS, ANCHORAGE, testified in support of HB 228, as it provides the Legislature time to more fully evaluate the real cost of workers' compensation. He noted that the cost of medical care continued to rise due to technological advances. Physicians want to determine a solution for cost effectiveness and that HB 228 allows that to happen.

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SALLY STUVEK, (TESTIFIED VIA TELECONFERENCE), HUMAN RESOURCE DIRECTOR, FAIRBANKS NORTH STAR BOROUGH, FAIRBANKS, testified that the Fairbanks North Star Borough supports the legislation, which provides stability in establishing costs. The adjustment appears reasonable as the rates have been frozen since 2004. She requested that consideration be made for March 2009, when the bill again sunsets, there then be a process in place to address these concerns. A long-term solution would be the best. It is also an important issue for providers.

MICHAEL HINCHEN, (TESTIFIED VIA TELECONFERENCE), GENERAL MANAGER, ALASKA TIMBER INSURANCE (ATI) EXCHANGE, PORTLAND & KETCHIKAN, stated that he represents a small workers'

compensation insurance company, formed in 1980. The company is owned by the policy holders, who are concerned about rising medical costs. [remaining testimony inaudible].

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PAUL LISANKIE, DIRECTOR, DIVISION OF WORKERS' COMPENSATION, DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT, responded to a query by Representative Gara, explaining that it would be lump sum payments associated with permanent partial impairments, not indexed. Representative Gara asked the last time they were updated. Mr. Lisankie thought it was 2000 & offered to check the precise date. Representative Gara said he was concerned that injured people are being compensated.

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PUBLIC TESTIMONY CLOSED

Representative Gara asked if workers compensation rates were updated, does that affect all rates. Ms. Hall emphasized that benefits in any one time period are aggregated for the amount that the system costs by a three year look-back, trending for current and projected costs. There are no single items, creating a huge cost. Alaska is already number one in the country for premium costs for employers. Representative Gara noted that he would speak to the sponsor regarding his concerns.

Co-Chair Meyer referenced the two zero notes.

Representative Gara pointed out the two CPI rates for medical services, the one used is the Medical Care CPI index; the other is the Medical Care Services Component, a percent higher. Representative Kelly agreed, noting that the one chosen caused the "least consternation".

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Vice Chair Stoltze MOVED to REPORT CS HB 228 (L&C) out of Committee with individual recommendations and with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CS HB 228 (L&C) was reported out of Committee with a "do" recommendation and with zero notes #1 & #2 by the Department of Administration and Department of Labor & Workforce Development.

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#hb184

HOUSE BILL NO. 184

An Act relating to a commemorative troops license plate; and providing for an effective date.

REPRESENTATIVE BOB ROSES, SPONSOR, introduced his staff, JOSH APPLEBEE.

Representative Roses stated that HB 184 brings the Support Our Troops commemorative license plate to Alaska, sponsored by Support Our Troops® (SOT) Inc. The plate would happen through a \$40 fee, collected & appropriated by the Legislature to Support Our Troops for redistribution. SOT establishes an Alaska Disbursement Board to determine the best manner to distribute the funds. SOT® began the process of issuing Official Support Our Troops plates in 40 states.

Representative Roses noted that Support Our Troops® is a 501(c) (3) national public-benefit charity group dedicated to assisting the troops and their families. It provides simple means through which America's families can protect the integrity of their troops' families. SOT's business model is to create recurring revenue streams such as license plates, t-shirts, & bumper stickers.

Representative Roses added that SOT is one of the safest national charities, with checks and balances in place to ensure the accurate collection and disbursement of funds. Finally, the bill provides a true form of self taxation & only those Alaskans who want to buy the plates, would agree to the additional fee.

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Representative Gara suggested the money should go to local veteran organizations. Representative Roses replied that many local organizations do not have a mechanism to handle the funds nor do they have accounts set up. He understood that the dollars gained would more than off-set costs. He believed it was a positive cash flow.

Co-Chair Meyer asked the local controls in place to guarantee that the dollars come back to Alaska. Representative Roses explained that the Legislature will have to appropriate the money each year & the State Board would be responsible for the State disbursements.

Co-Chair Meyer worried about appropriating funds for something outside of Alaska control. Representative Roses understood that they would not have ability to issue without legislative approval.

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MARTIN BOYER, (TESTIFIED VIA TELECONFERENCE), EXECUTIVE DIRECTOR, SUPPORT OUR TROOPS, FLORIDA, offered to answer questions of the Committee.

Representative Roses asked how much Mr. Boyer was being paid. Mr. Boyer responded that he has not been paid for the past year and half. The funds coming in go toward paying lobbyists and state registration fees. He anticipated that once money comes in, his salary would be approximately \$5,000/month, established by the board of directors. Representative Roses added that the Alaska lobbyist, Pat Carter was volunteering pro bono.

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Representative Crawford asked about inserting a sunset. Representative Roses noted that had not been considered.

Representative Crawford worried about the variety of funds created within the General Fund & recommended a review date.

PAT CARTER, LOBBYIST, SUPPORT OUR TROOPS (SOT), ANCHORAGE, thought that it would be complex to insert a sunset when a license plate was no longer valid. When the State stops appropriating the money, the Division of Motor Vehicles (DMV) would stop selling the plates. It would be annually reviewed through the appropriation process.

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DUANE BANNOCK, (TESTIFIED VIA TELECONFERENCE), DIRECTOR, DIVISION OF MOTOR VEHICLES, DEPARTMENT OF ADMINISTRATION, ANCHORAGE, addressed the sunset provision, noting there is no downside to it. In order for a specialty plate to be successful, it requires marketing by the sponsoring agency; from his research, he did not anticipate that SOT would "let the State down". He noted support for the bill.

Representative Crawford asked if 1,000 plates was the breaking spot. Mr. Bannock advised that when the bill passes, DMV will not have the plates on hand. The plate will be ordered and mailed to the addressee. There is a one time set up fee.

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Representative Thomas voiced his support of the troops; he noted that he has a Vietnam veteran plate and asked if he could purchase a second plate, placing it in his back window. Mr. Bannock explained that would not be the appropriate use of the plate. DMV is looking into alternatives.

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Representative Hawker expressed concern with the addition of a relationship and dedication of money to an independent organization. He asked what would happen if the Red Cross or Boy Scouts asked for similar treatment. He emphasized that another dedicated fund would be created and questioned if there was another mechanism to achieve the desired results through a more generic empowerment for receipt supported services.

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Co-Chair Meyer echoed the concerns expressed by Representative Hawker. He noted that controls need to be in place.

Mr. Carter recommended that the appropriation could be subject to inspection of the federal 501(c) (3) to make sure the nonprofit is in compliance with the Internal Revenue Service (IRS) regulations. Representative Hawker stressed the need for further due diligence and inspection due a State procurement contract. He added the myriad of issues needed to address a contractual relationship.

Mr. Boyer spoke in favor of the placing the language in statute. He observed that the relationship would be law, not contract and that the language is simple. The philosophy of the majority of the states is that the program would be self policing, because the public would not purchase the plates if the operation is in question. Charities and government are in the business of benefiting the public. He maintained that the IRS supervises charitable operations.

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Co-Chair Meyer noted that Minnesota passed a similar law, and that the money was provided to their Department of Military and Veterans Affairs and appropriated from there.

Mr. Carter stressed that the person spending the extra \$40 to support the charity might question the money going to a State organization instead of the charity. He also noted the additional associated costs.

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Representative Gara summarized that the money would go to the General Fund, rather recommending language to direct the dollars.

Mr. Boyer thought that the Department of Law's attorney general's office would be the best place to examine charitable funds. He emphasized that the bureaucracy could

prevent the funds from being issued and that there are complications. He maintained that we are "neighbors trying to do something for neighbors" and that it should not be viewed as a governmental association. He spoke to checks and balances and noted that a disbursement board had been created, which sometimes uses existing charities. Disbursement decisions are made based on paperwork that is filed out. There is no one at the local level writing checks.

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In response to a question by Co-Chair Meyer, Representative Rose noted that he supported the disbursement to go to the local disbursement board without moving through the Department of Military and Veterans Affairs.

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Representative Hawker felt that a solution could be crafted through a single department. He wanted to look at alternative structures for Alaska's constitutional framework to keep the State away from making charitable decisions.

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Representative Gara MOVED to ADOPT new Amendment #1, 25-LS0621\K.1, Luckhaupt, 4/23/07. Co-Chair Meyer OBJECTED.

Representative Gara explained new Amendment #1, which would correct a problem where people are periodically sited for driving without insurance when they actually have it. Proof of insurance must be filled out at the time of accident. A form must be sent as a follow up. The form must be sent to the registered address even if a better address is given at the scene of the accident. The amendment allows the forms to be sent to the most recent address and prevents unnecessary felony charges. The amendment also moves the sentencing language.

Representative Roses stated he did not object to the amendment.

Vice Chair Stoltze asked if it had been reviewed by the Department of Public Safety.

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Representative Gara stated he had worked with the sponsor & the Division of Motor Vehicles. He added he could submit it to the Department of Public Safety before it moves to the House Floor. He reiterated that it is technical.

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Mr. Bannock voiced strong support for the new Amendment 1. He added that they also support Amendment 2.

Co-Chair Meyer requested that copies of the amendments be distributed to both the Department of Law and the Department of Public Safety for their review.

Representative Gara WITHDREW the MOTION to adopt new Amendment #1. There being NO OBJECTION, it was withdrawn.

HB 184 was HELD in Committee for further consideration.

[3:22:01 PM](#)

#sb103

SENATE BILL NO. 103

An Act authorizing the transfer of land from the Alaska Railroad Corporation to Eklutna, Inc.; and providing for an effective date.

Vice Chair Stoltze explained that SB 103 and HB 212 are identical bills.

REPRESENTATIVE ANNA FAIRCLOUGH understood that there had been no changes made in the Senate. She reiterated that they are identical bills and that the action would transfer 6.3 acres to the Alaska Railroad Corporation (ARRC). The land has historical value. She noted that she and Vice Chair Stoltze represent the Village of Eklutna and support the transfer, which benefits the State of Alaska by bringing forward gravel removal for State highway projects.

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Representative Hawker requested assurance from the Native Corporation of Eklutna that they are supportive of the transfer.

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BONNIE WOLDSTAD, (TESTIFIED VIA TELECONFERENCE), FAIRBANKS, appreciated that ARRC was working with the property owners that have prior property rights.

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KEITH SANDERS, (TESTIFIED VIA TELECONFERENCE), SR. VICE PRESIDENT, LAND & LEGAL AFFAIRS, COOK INLET REGION INC (CIRI), responded to concerns voiced by Representative Hawker regarding Section 7, stating that CIRI is supportive of the legislation, noting there are significant issues regarding the gravel, which has already been removed from the site.

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PUBLIC TESTIMONY CLOSED

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Vice Chair Stoltze MOVED to REPORT SB 103 out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 103 was reported out of Committee with a "do pass" recommendation and with zero note #1 by the Department of Commerce, Community & Economic Development.

[3:30:57 PM](#)

#hb88

HOUSE BILL NO. 88

An Act relating to televisions, monitors, portable computers, and similar devices in motor vehicles; and providing for an effective date.

REPRESENTATIVE CARL GATTO, SPONSOR, noted that the bill stipulates "No watching television (TV) while driving". It has been corrected from concerns previous voiced. It will protect people; when a car is in motion, the driver can not be watching TV. Important language was added to Page 1, Line 11, "in full view".

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Co-Chair Chenault asked if it would affect the Global Positioning System (GPS) display. Representative Gatto responded that the exemptions are listed in Section C, Page 2.

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Vice Chair Stoltze MOVED to ADOPT work draft #25-LS0312\O, Luckhaupt, 3/12/07, as the version of the bill before the Committee. There being NO OBJECTION, it was adopted.

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Representative Hawker recommended language "personal data devices" rather than "personal data assistance". Representative Gatto thought that would be a good change.

PUBLIC TESTIMONY CLOSED

Co-Chair Meyer recommended that the bill be held in Committee for final review.

Representative Hawker referenced Section 2, asking why the definition of physical injury terms had been incorporated.

NORM COHEN, STAFF, REPRESENTATIVE MAX GRUENBERG, pointed out that on Page 3, Lines 5-7, there is clarifying language from Title 11 to Title 28, moving the physical injury definition.

Representative Hawker inquired if the Department of Law agreed with that definition of physical injury.

ANNE CARPENETI, ASSISTANT ATTORNEY GENERAL, LEGAL SERVICES SECTION-JUNEAU, CRIMINAL DIVISION, DEPARTMENT OF LAW, stated that the Department does concur with that definition.

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HB 88 was HELD in Committee for further consideration.

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OVERVIEW:

PRESENTATION BY SULLIVAN & CROMWELL LLP

FREDERIC C RICH, PROJECT FINANCE GROUP, SULLIVAN & CROMWELL, provided members with a slide presentation: Project Finance Workshop, An Introduction to Project Finance for Oil, Gas and Pipelines (copy on file.) Sullivan and Cromwell is an international law firm based in New York. Their project finance practice focuses on large projects, averaging over a billion dollars. He noted that the presentation was based on a workshop with the Department Of Energy, Treasury, and Office of Management and Budget and was intended to give them the ability to understand in what context federal loan guarantees would might be used and what issues might arise. The presentation was designed to provide information on project finance, as opposed to corporate finance and provide tools for risk allocation and mitigation. He noted that the presentation would cover current project finance markets, building blocks of a typical project and projects specific to oil, gas and pipelines.

Mr. Rich observed that there is little precedent for projects like the Alaskan Natural Gas Pipeline (page 2). He added that 92 percent of closed projects are under a billion dollars. The largest previous pipeline financing was the Alliance Gas project at \$2.6 billion. He noted that the largest project ever entered was \$6.7 billion [Taiwan High Speed Rail Project]. The Alaska Gas pipeline would set a new record.

Mr. Rich observed that there are many unknowns. He stressed that what worked for and applied to other deals may not work in Alaska. He noted that it is premature to discuss specifics, but observed that he could speak to the main drivers of oil, gas and pipeline financing in general. He stressed that bank-ability does not exist. Lenders will accept more if the economics are strong. When there is so much "hair on the dog" lenders will balk, but the line is hard to draw. The process tries to determine "hair on the dog".

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Mr. Rich spoke to slide 3. Project finance is distinguished by a project entity that provides a product or service to buyers. A portion of the sales proceeds are used to repay debt. Before the project is operational the equity portion of the capital costs comes from the sponsors. "Sponsors" in Alaska are generally identified with the producer group, but "sponsor" is a term of art in project finance, which means whoever owns the project entity. Project financing has previously been applied to power plants. Today project financing is not a single financing product, but different products for different markets. He cautioned members to beware of generalizations.

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Mr. Rich noted that project finance is different from corporate finance. Project finance is tailored to the risk profile of the individual project, it is highly structured and engineered, non-diversified credit, and is green field (once the loan is dispersed there is no way to repay the loan; there is no credit.) Project finance is cash-flow based credit (unlike real estate). Payments only occur if cash flow is generated such as gas going through a pipeline. Project Finance is generally based on contractual commitments because project lenders are not willing to take the risk that the cash flow will be generated. Contracts must be shown. There is limited recourse; the single purpose entity does not share the loan.

Project finance is tailored. Lenders design the financing to reflect the economic profile of the project. Financing is tailored to the project cash flow and risk profile for the specific project. Lenders are focused on repayment. The whole project finance field is based on what could go wrong.

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Mr. Rich spoke to the structure. The product credit is based on completion support, who took the risk that the project would be finished, who took the risk for overruns and delays, how was the cash flow captured, what were the off take

commitments, what did the contracts say (under what circumstances do those taking the product have to pay), security interests, remedies if the loan is not repaid or is in trouble; and project covenants and structured remedies. The structure is made as needed to reflect the risks inherent in the project.

Mr. Rich noted that project finance starts with reserves; someone is the shipper; someone pays a tariff (the tariff that they paid to the pipeline company is the only source of debt service). These things are non-diversified, but every project must be reviewed for what is in and what is out of the project: How is credit defined? What recourse exists? Repayment is dependent on how those outside the project fulfill their commitments. Structural issues are created when things outside the project are needed for repayment.

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Mr. Rich explained "Greenfield" (page 12), which means when the loan is disbursed, the business does not exist. It is relatively rare. The question is would the project get built on time, with in budget and will it work as promised, minimizing likelihood of force. Lenders do not take this risk. At completion the loans would be non-recourse. Before that time the project can not provide repayment because it hasn't demonstrated its ability to repay. Completion support is virtually always required in project finance. Completion guarantees occur from the sponsor or shareholders of the project entity; they guarantee the debt until completion. If completion does not occur by the "drop dead" date repayment would be required. The guarantees are released once completion has been certified. He maintained that this is the main reason why good projects don't occur and provided examples.

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Mr. Rich spoke to federal guarantees for completion support. He explained that the guarantees are guarantees of completion. Section 1(16) of federal statute requires completion support and guarantees. The debt is guaranteed until the completion test is met. There is precedent in the pipeline world for completion support that falls short of the guarantee. In the case of Alliance, the owners of the project company had to tell the lenders that they would commit to putting in additional equity into the project up to an agreed level if necessary to fund overruns (30 percent of the base case capital costs).

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Mr. Rich spoke to pre-completion and post completion, which are treated differently. During pre-completion shareholders

or sponsors are putting in equity and the lenders are putting in loans and paying construction costs. During post-completion sales proceeds go in and operation costs and taxes are paid first; then debt service. Owners receive a distribution if there is anything left over. Lenders proscribe the order that cash can be used.

The main metric used in project finance is called "cash-flow available for debt service". The contract produces cash flow revenues, which are projected. Taxes are fixed. Operating costs are projected. The balance is the cash-flow available for debt service. Lenders require that the cash-flow be positive for every 6 months. The measure of the strength of the credit is how positive the cash flow. If the ratio is 1/0 there would only be enough cash-flow to pay the debt. A ratio of 3/0 means there is three times more cash than needed to pay the debt. This is the cushion against the unexpected, and against higher than anticipated operating costs. Curtailments and interruptions are operating risks for pipelines. There would be zero cash-flow during interruptions; therefore, lenders protect themselves by requiring funded cash reserves.

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Mr. Rich discussed page 14, contractual commitments. There will be some projects without contractual commitments, especially in the oil industry or in merchant risk. However, project finance is based on contractual commitments. The credit worth of the parties making the commitment, terms of the commitment, and the underlying fundamentals of a long term project are considered. Contractual commitments are, in general, an amount sufficient to cover debt service and an agreed cushion, for a term no shorter than the term of debt. Terms of the commitment are reviewed, as are underlying fundamentals.

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Mr. Rich noted that "limited recourse" means that after completion "you" can look only to the project. He Rich observed that there is only one reason for project finance: for funding. Project finance often occurs in the oil business as a tool to mitigate risk or for opportunistic reasons. If something goes wrong it hits the equity. If partners are brought in, they share the risk, which limits the owner's loss.

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In response to a question by Representative Samuels, Mr. Rich explained that the shareholders are on the hook during pre-completion through their completion guarantees. After completion the lenders can only look to the asset of the project, which includes a contract. Lenders can force owners

to enforce contracts. The off take contract is not a guarantee, but a commercial agreement that provides that a certain price at certain times under certain circumstances, with certain exceptions. The person making an off take contract takes the risk of their own business. A utility takes the risk that their customers will need the electricity in the case of a utility that enters into a long-term contract to buy electricity from a power plant. They still have to pay if their demand forecast is wrong. If a power plant goes bad: doesn't get their environmental permits, or is built wrong or is not working right, the risk is born by the lenders. The contract is only one part of the entire package that the lender considers.

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Mr. Rich spoke to 19, risk allocation and mitigation. Risk allocation and mitigation starts by keeping in mind the difference between debt and equity. "Sponsors" refers to the shareholders. Leverage is of great importance to lenders; the more equity the better. The concept is to have "skin in the game". Lenders look at the percentage and quantum of the equity. Equity is the first layer of loss in a project. Equity suffers losses before the debt. In the case of a billion dollar of debt on an \$800 million dollar project, the debt receives all the value.

Mr. Rich observed that lawyers make sure that projects are non-recourse post completion, but that bankers have every expectation that the owners will come in and fix the problem due to their "skin in the game". He referred to a project in the Caspian Sea. Underwriters used Chevron's logos on the bond issuance prospectus to emphasize that, even though Chevron did not owe the money, it was a Chevron project and they had a billion dollar of "skin in the game". Lenders look at shareholders through their equity stake as for risk, the lower the gearing, the lower the leverage. A project with 50%/50% equity/debt is more attractive than a project with 20%/80% equity/debt.

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Mr. Rich spoke to risk allocation. There is no risk allocation from the equity. Every risk is born by the equity, but within the debt portion, risks are allocated. Project financing is more about risk allocation than fund raising, since it allows "you" to make a list everything that could go wrong and allocate who bears the risk. In a gas market the lenders require others through committed contracts to bear the risk. Tax and regulatory risk is often shifted to or assumed by the host government through stability insurances.

Mr. Rich reviewed risk allocation and mitigation (slide 22). The focus is on completion risk because lenders look at risk

in two stages. Mitigation answers the question: Has everything been done to mitigate the risk? Completion risk (the risk that it is going to get done on time and on budget) looks at: quality and feasibility that the work will be on budget; contracting strategy (if available); quality of project execution; and budgeted contingency. He observed that with the Alliance project, 87 percent of the costs were under fixed cost contract for procurement: pipe, heavy equipment. With fixed cost contracts the supplier is taking a risk that prices will increase. The Alliance project still required 30 percent in overrun commitments from shareholders even though 87 percent of the costs were fixed. Contracting strategy is not usually an option on big projects. Quality of project execution, the track record of the project shareholders, the size of the budgeted contingency and pre-committed overrun financing are mitigates. Lenders will not take the risk if there are cost overruns in excess of the amount of available funds; the allocation is through sponsor completion support or guarantees. Risk is allocated away from lenders to shareholders.

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Mr. Rich discussed the risk matrix. The risk matrix, in which risk is identified and mitigation considered is the first step and determines risk allocation.

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Mr. Rich explained that any project starts with the reserves, which are either there or not. Decisions can be made in the area of: project structure, commercial and governmental arrangements, and contractual commitments. All these decisions affect the mitigation and define the project credit. There is a natural (givens) a synthetic credit (due to the decisions made). Financing terms and conditions can only be tailored once the credit is identified.

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Mr. Rich noted that the guarantor (federal or other), to the extent of the guarantee, is the lender and has the same debt as the owner. The lender (and worrier) is the government if the debt in a project is fully guaranteed [by the federal government]. He gave examples of federal guarantee criteria: reasonable insurance of repayment of the guaranteed debt, and the terms and conditions must provide adequate terms and security to appropriately protect the financial interests of the United States. The federal government hires bankers and commercial advisors to tell it what is required. The existence of a federal guarantee does not change anything. If the entity defaults, the federal government would pay the lender and then own the asset and would have all the same rights as the lender, to create a change in lender

transactions. All the conditions remain. The federal government has responsibilities to be fiscally responsible as an arms length transaction. From the borrowers perspective there would be no change.

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Mr. Rich discussed the global finance market on page 27. Oil and gas is growing in the market. Oil and gas pipelines are still a small portion. Distribution changes from year to year. The size of the market changes dramatically as there is high volatility and is driven by demand. He referred to the graph on page 28. Small projects can be completed in 6 months, which provides greater odds that the market will remain in the same proportion. Mega projects have no idea what the market will look like by the time the project comes to completion. Today's markets are good for project financing, but it is impossible to predict the future. Large projects are based on market neutral decisions. Only 15.7 percent is domestic US value. The global market is largely outside of the US. The [AGIA] project is not going to lead the market incrementally into new territory; it will be a quantum leap. AGIA would be a multiple of the largest financing done to date. It would be an incremental leap that is unprecedented. What is necessary to make it bankable? Some things may be easier because it is a high profile strategic project; some things will be hard because of the size.

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Mr. Rich reviewed slide 30. Project finance is market dependent. The bond market is considered more desirable for large projects. Capital markets are deep. Large liquid bonds are attractive. The bank market is generally a 10 to 12 year market. Large projects beyond 15 years are almost forced to be done in the bond market. The capacity of the bank market has increased, but depending on the length of maturity it may be the only option. The bond market is even more volatile. They may be times when the bond market is not available. The general approach is for multi track finance plan to make it work for both the bank and bond markets. The federal guarantee would make the bond market almost irresistible.

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Mr. Rich explained that the statutes state that the Department of Energy (DOE) may guarantee up to 80 percent of the total project costs. The intent of the statute is to provide an incentive. He maintained that the DOE should cover 100 percent of the debt portion subject to the limit that it can't be more than 80 percent of the project cost. Standard practice in the federal government is for 80 percent of the debt. The federal government wants the lender to have "skin in the game"; it's an insurance deductible. The federal

government would have the entire burden for making decisions regarding financing, what's adequate and required, what is good enough and what the risk is, and the administration of the loan if the federal government guarantees 100 percent. This is enormous. The uncovered portion of 80 percent of 80 percent could be the largest oil and gas financing ever done. Other projects have tried to engineer a federal guarantee for the uncovered portion through bonds and trusts, but this has now been outlawed. He concluded that there are a lot of different forks in the road, but the 80 percent federal guarantee is one of the largest.

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Mr. Rich discussed slide 31. The S&P credit was found to be, in general, better than anyone thought. Any owner of the pipeline would want the guarantees to be appropriated, in which the U.S government pays the price of the credit risk through appropriation or the borrower has to pay. Any owner would want the guarantees appropriated or the price paid to be the lowest possible.

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Representative Samuels referred to the 80 percent of 80 percent and questioned if the federal determination has been made. Mr. Rich noted that it is yet to be determined if it is 80 percent of 80 percent of the total costs. The statute does not answer the question; the statute simply gives a maximum and is silent on what percentage of the debt can be guaranteed. He felt that allow 100 percent would be in keeping with legislative intent, but cautioned that universal practice is 80 percent of the debt.

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Senator Therriault questioned if anything could be read into the lack of clarity in statute. Mr. Rich could not comment on the politics, but felt it was a big problem and creates uncertainty. The ability to fully understand the issues awaits clarification.

Representative Doogan referred to slide 28 and asked how an Alaska gas pipeline would compete. Mr. Rich pointed out that only a small portion of oil and gas projects only \$15.7 of the \$180 billion was U.S. domestic. The ANGA is larger than the entire relevant market. The issue is complicated. A 100 percent federal guarantee has different risk, since it is liquid and deep and large. It would be a challenge under any scenario without the federal 100 percent guarantee. Market conditions are important. People tend to tackle each point as they can. Low prices equate to low tariffs, which is good for everyone. There is complete alignment on the things that reduce pricing. "In a normal mega project what everyone does

is just gets as many of them as they can and tries to make sure they have the best possible product, the best mitigates to those risks, when they approach the financing markets."

Representative Doogan summarized that if the money is there it's not a good deal. Mr. Rich added that there could still be a scenario with market challenges even if it's a good deal. Unlike other project financings that happen all at once, the construction period for the pipeline is considerable. The demand for capital would be sequenced over a period. The entire \$18 billion would occur over a series of years.

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Mr. Rich explained the three phases of a typical project financing: structuring of the project, finance plan (when the project and risk is known and the best financing is determined), financing project (the actual execution). He noted the process is complicated and gave examples of pass through structures. Pass-through structures tend to be highly tax efficient, from a federal prospective. Multi shareholder projects are common with: utilities, gas merchants, producers and pipeline development companies. Each has different objectives, tax consequences and different ways of looking at the world. In the oil and gas business severalty tends to be key, so that they are not locked into a single entity or a single set of decisions. A lot of time is spent figuring out what the project is. There is generally some kind of government agreement at the base such as: concessions and resource project for infrastructure like toll roads; investment agreements, and investment incentives. Federal legislation successfully mitigates licensing and permitting risks. The project has structure, agreements and commercial contracts. The model can't be designed until these items are known. Agreements between the participants can be quite complicated.

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Mr. Rich spoke to leverage and how the debt is raised and how much. Questions about leverage and gearing are part of the FERC methodology, which are assumptions made for calculating the returns and the rate base. The assumption does not equal the real world. The optimum model for project financing is a complicated question; it is not always the highest degree of leverage. The cash flow model determines how much debt can be borrowed and over what period it can be borrowed. Leverage and debt are computed based on the ability of the shareholders to bear the completion risk, based on the down side scenarios and other factors. The leverage or gearing in a project can not be assumed to be the leverage or gearing permitted for regulatory purposes.

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Mr. Rich spoke financing plans. Strategic projects have special challenges. He questioned if it would ever be the right thing to allow lenders to take the project off the market. There are a whole set of reasons in strategic projects why a typical finance plan might not work, which is not good for lenders, because it is not the typical package. The challenge is to design a finance plan that produces "our relatively un-hairy dog," meets state and federal statute restraints, and is acceptable to all concerned including the federal guarantor if there is one.

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Mr. Rich discussed the "waterfall": slide 41. All the projects assets are required to be set aside in a separate account, in which the lenders have an interest. The lenders or trustees that act for them set the rules for how the cash flow will be applied. Distributions to owners occur after these operating costs, taxes, and large debt service reserves have been met.

The upstream and midstream might be financed separately. Pipeline lenders will not get a penny unless upstream is brought into production; the upstream lenders will not get a penny unless the pipeline is built and the gas can be transported to market. Waterfalls are considered on an integrated basis. The upstream lenders are always subordinated to the mid-stream lenders. The super-priority for the upstream lender is to pay the tariff. Everything is embedded in the tariff; all of the midstream waterfall is embedded in the tariff and is a priority in the upstream. Transportation costs have to be paid first. The tariff constitutes a pass through. Midstream lenders think holistically because they are not paid until the upstream is a success. The likelihood of payment is dependent on the success of the project.

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Mr. Rich explained that additional debt is one of the hardest fought covenants in any project financing, since the only thing left after the completion guarantee is the project. Additional debt adds a burden that was not anticipated. Lender consent is the norm. Capital markets get sometimes get objective tests based on pro forma of debt cover and leverage tests. He gave examples based on borrowing for expansion. The maturity of the debt cannot be shorter. The weighted average life cannot be faster, and an independent debt model must be run. The model must demonstrate that the expansion and expansion debt will not inhibit the payment of existing debt. Project shareholders want maximum flexibility, but lenders want protection.

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Mr. Rich observed that another hard fought component of the finance plan is the completion test, which has physical, operational, and financial elements (slide 43). An independent engineer checks the project from the startup period. The financial test must demonstrate that the off takers are still credit worthy. Assumptions on the off take contracts are based on credit. Credit ratings are examined on those involved before the guarantee is removed.

The form of the shareholder completion support is highly negotiated. Ten years ago there was little worry about large projects, but unexpected blowouts have occurred. The current market focuses strongly on completion support. He didn't think a deal such as Alliance's with 30 percent overrun commitments could be negotiated in the current climate.

The federal statute requires the DOE to have completion support and guarantees. He expected financial and commercial advisers to the DOE aspect to be among the toughest in negotiations. It is in the interest of the shareholder not to have guarantees, since normal completion guarantees are guarantees of indebtedness and go on to the financial statements. They would result in a huge debt load through completion, since they only fall away when the completion test is met. The agreement is to pay back the entirety of the debt if completion is not reached. On the other hand, equity overrun commitment support is limited risk, since it is a capped amount. He anticipated that pipeline developers would prefer to make equity overrun commitments.

Representative Kelly asked how the federal guarantee ties into the debt. Mr. Rich explained that the language in the statute referred to "completion support and guarantees". He interpreted the statute to mean one or the other: either the debt is guaranteed until the completion test is met or the debt is not guaranteed, but an additional amount of equity is guaranteed in the case of overruns. He stated that it would be rare to do both. He suggested that DOE regulations could clarify market practice. He noted that 30 percent of the base case capital cost is more than the entire capitalization of most of the players in the market. The need for the financial engineering around meeting the completion requirement is formidable. The guarantee doesn't change anything and the ability to deal with the completion support requirement is what allows projects to succeed or causes them to fail. Good projects fail due to an inability to meet the completion support requirement.

Representative Coghill concluded that the supports that fall away after the completion can carry their own costs; supports

fall on companies that needed to put up the equity prior to completion.

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In response to a question by Representative Kelly, Mr. Rich explained that, if there are completion guarantees, pre-completion the margin on the loan reflects the person giving the guarantee. A higher margin is paid in post completion. The federal government could give 100 percent guarantee either after completion or on day one. The federal government would require the completion guarantee from the shareholders of the pipeline company if their guarantee occurred on day one. Under the first alternative (the guarantee occurs on completion) the borrower pays the cost of the credit. Under the second alternative (the guarantee occurs from the first day) the borrower only pays the lowest cost because it is covered by the guarantee. The cost difference results from the federal charge for its risk. The federal government places a value on the guarantee depending on the strength of the completion guarantee. The U.S. tax payer bears the cost if the guarantee is appropriated. The project company should pay a higher price pre-completion if the guarantee is not appropriated.

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Mr. Rich explained that the Department of Energy (DOE) put out a NOI (notice of inquiry) asking if regulations should be promulgated; the DOE decided not to do so at this point. He recommended that financing regulations remain flexible to allow whoever the owners are to go to the DOE and try to get a guarantee that they can actually use.

Mr. Rich observed that it is not easy to put together a mega project financing plan. Success depends on good management and leadership; the financial costs are high. He advised an early start. The cost of delay in a mega project is huge.

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Mr. Rich referenced Page 48: Why lenders like oil, gas & pipeline projects. He observed that past experiences have been good; lenders like resource based lending for upstream projects and contractual based lending for pipelines; technologies are usually well proven; there is clarity in the cash flow; and the upstream has commodity products. Price risk is the main concern, however, lenders believe that risk can be understood and priced with the use of engineers and other advisors. Lenders also like the sponsors: big oil. Strategic projects are preferred.

Mr. Rich reviewed Page 49 - upstream versus the midstream pipelines. Upstream projects are simple. Gas projects depend

on available transportation and markets. The fundamentals are the same for upstream and mid stream. Lenders want to know about reserves and markets. Gas is harder to finance than oil.

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Mr. Rich addressed the midstream credits - Page 50. Midstream is often developed in an integrated fashion with the upstream (outside of North America). A lot of midstream is developed separately, but with producers as owners (either in whole or part). It is important to look at the nature of the links on the upstream. Downstream adds a layer of credit risk. He spoke to the nature of transportation commitments. Projects where the downstream buyers are the shippers look different to lenders than commitments from the upstream producers. The downstream adds another layer of credit risk. The nature of the transportation commitments and tariff structure must also be considered.

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Mr. Rich referenced Page 51 - main pipeline financing approaches. Pressure for integration [of midstream and upstream] comes from both sides. Producers worry about timely development of transportation, control of construction and operating costs, and reliability. Many of the overseas projects are done on an intergraded basis, where the up and mid streams are developed as part of a single project or the upstream producers play a large role in the ownership and development of the midstream. Lenders have a similar set of concerns because they are dependent on the upstream and reserves. The contracts are the only link between the midstream lenders and upstream producers. All the risks that lenders want mitigated have to be in the contracts.

Mr. Rich spoke to Dual Project Risk - Page 52. In this case, the lenders to the midstream are exposed to the upstream risk without being in their projects. Representation of the upstream reserves is important for lenders. The completion test will determine if the upstream has been successfully developed and produced because "if it isn't they don't get paid". Unless there is a guarantee there is no "hook" into a corporate credit. The contract is the beginning of the story. Lenders look at the credit behind the contract and the circumstances under which the contract would or would not be performed. Credit risk is the amount paid when owed.

Representative Samuels asked if the lender would look at the depth of the worldwide pockets where a pipeline entity had a shipping contract. Mr. Rich replied that the lenders would ascertain the identity of the company, their assets and credit, guarantees and the rate to which they allow their affiliates to fail. The second question is how likely, as a

commercial matter, that it would be economical for the contract to be performed. These calculations on the upstream are the heart of the midstream credit determination. He concluded that the Alaska project would need to be economical for the next 30 years.

Representative Kelly asked if the project was a double green field project. Mr. Rich replied that it has the qualities of a green field project. Representative Kelly asked if he knew of any projects that were economical based solely on the midstream component. Mr. Rich replied that he did not.

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Mr. Rich highlighted Page 53, transportation agreements. The length of transportation commitments should be longer than the length of the debt. Volume, shipper credit, force majeure and federal guarantees are reviewed. Blended credit is the starting point for the credit analysis. The percentage of the total capacity and credit rating behind each commitment is reviewed and are calculated on an average weighted blend. "The strength of the credit they are looking for will be a function of how they perceive the risk of the project and in particular the tenor of the loan". Overall, they will look for the cost structure. The pressure will be greater if they are looking at 30 years rather than 10 - 15 years. He observed that the general FERC scheme is to pass through costs in the rate base. The netback and the economic viability of the whole scheme are considered. In terms of cash flow available for debt coverage, they will focus on whether the cost lands in the mid or up stream; overall they are looking for cost reduction in a total cost picture that demonstrates that the whole enterprise is sustainable. There are occasions when shippers prefer not to enter into shipper pay commitments. They are not required overseas and there are instances where pipeline developers cannot get producers to take these types of risk.

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Mr. Rich reviewed force majeure. Force majeure is one of the circumstances in which the firm transportation contract, buy it's terms, doesn't provide cash flow to pay the debt. These contracts are intended to not forgive the shippers (in this case the producer) for problems with the upstream reservoir if the reserves or market are not present. They do forgive the shipper if the pipeline has been interrupted or curtailed. Lenders to the midstream are taking pipeline, technical performance risk over a long period of time. Assumptions have to be made about the people who have engineered and developed or will operate the project. Implementation varies by contract. Shippers are not obligated to pay if the midstream cannot accept the gas.

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Representative Doogan provided a hypothetical situation regarding firm transportation contracts: one with an independent pipeline company and the other with a limited liability corporation connected to the parent company. He questioned which would be more bankable. Mr. Rich explained that the later would be more bankable. The projects would still be separate in regards to regulation. The owners of the upstream would be shareholders in the pipeline, which would add confidence to the project. The big upstream companies would be in a position to make sure the mid stream was developed in a timely way with the least cost. Risk allocation, allocates the risk to the parties that are in the position to control the risk. Capital cost of the project is one of the biggest risks born by the shippers, since it goes right into the tariff. Shippers are not in a position to control the midstream if they are not shareholders. They would prefer shareholding as a lending manner.

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Representative Doogan understood that integration would come if production and pipeline construction were the same company or if there were some other legal connection, but questioned where the market would get its confidence in the case where a limited liability company or other free standing company were created in order to build a pipeline. Mr. Rich explained that project finance is based on expectations and calculations of what will motivate people in the future and the percentage of ownership. In some instances, lenders have required upstream owners to retain at least 51 percent in the midstream. They were counting that the upstream would have a controlling position. The mentality is: Are those bearing the economic risk in the position to exercise control?

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Representative Samuels noted that in some foreign companies, shippers are not required to pledge firm transportation commitments and questioned if governments finance these projects. Mr. Rich explained that the circumstance would be rare. There are some circumstances where the reserves have been sufficiently guaranteed, but it is not normal.

Senator Steadman questioned if downstream utilities have ever financed a mega project without a firm transportation commitment. Mr. Rich responded that there was a period (in the lower 48 states) when it was normal for the utilities and downstream users to be the parties contracting for transportation services for smaller projects. None of them were mega projects.

[6:31:16 PM](#)

Representative Coghill asked for more information regarding the scope of other mega projects with a midstream force majeure. Mr. Rich could not speak to current events. He noted that concerns during force majeure contracts are curtailment and interruption from uninsured events, environmental and permitting problems, and technical and operating difficulties: anything that could result in the pipeline not being in a position to except volume from the upstream.

Representative Coghill surmised that they would look at the track record and credit worthiness. Mr. Rich noted that operating reputation, track record and capability of the midstream operators make a large difference since the midstream lenders are not covered by the firm transportation commitments. All project financing bets on the sponsors (project shareholders and promoters.) The technical reputation and track record of the developers is considered a risk mitigant.

Representative Coghil spoke to international issues. Mr. Rich observed that firm transportation commitments are very commercially sensitive and confidential, and are heavily negotiated. The contract has the effect of having the lenders bear the risk. Operating agreements will work hard to make sure the pipeline entity is engaged in superior expertise.

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Representative Samuels spoke to the firm transportation contracts, which are written between the shipping companies and the midstream companies. Mr. Rich noted that guarantees are critical. There is a tension with commerciality. Everything is a trade off. Without Dual project risk, the shipper, utility or producer is in a commercial agreement and is not part of the financing process.

[6:41:08 PM](#)

Mr. Rich reviewed page 56, cross boarder pipelines. Cross board pipelines create interesting structural issues. Alliance had two separate partnerships, each borrowed their own money, but both are dependent on the other. Lenders reintegrated the Canada and U.S. portions. Lenders don't care that it crosses a border. Lenders consider the financial risk for the entire project. Single financing is preferred since separation would add to the level of complexity.

[6:43:18 PM](#)

Mr. Rich discussed slide 57, the 10 largest oil and gas pipeline project financings. The Alliance Pipeline Project is the largest at \$2.59 billion of debt on a \$3.73 billion project. Project shareholders are a mix of upstream merchants

and developers. The slide shows that some shareholder groups are dominated by upstream oil companies. The #10 project contained \$480 million in debt. The big projects have been entirely out of the U.S., with the exception of Alliance and the Kern River Expansion.

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Co-Chair Chenault noted that the project is a mega project.

Senator Huggins referred to the world market and its affect on procurement issues. Mr. Rich noted that the number of mega projects around the world has created stress on resources, especially the steel industry.

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Representative Coghill noted that mega projects create their own economy. He asked if the focus is narrow. Mr. Rich noted that banks are always looking at opportunities to make money. Banks look at soft factors including strategic and economic fundamentals. However, they also look at the benefit of the project to the local economy and the support and sustainability of the project.

Representative Coghill observed that once a project is formulated a value can be attached, but questioned if there is value from pre-completion. Mr. Rich explained that there must be a bottom line of cash flow available for debt service.

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Senator Elton asked if it is fair to look at the debt ratio and conclude that lenders typically define "skin in the game" as between 50 - 65 percent. Mr. Rich stressed that lender expectations are driven by what is possible. He noted that people do project financing for a variety of factors. Normal leverage varies by country and market. He agreed that from a pure "skin in the game" perspective, 30 percent is okay, but added that the more, the better. More equity can make the difference in difficult projects.

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In response to a question by Senator Thomas, Mr. Rich noted that the first financing for the Canadian Alliance Pipeline project was in the early to mid 90's. It was quite successful and had multiple refinancing. Senator Thomas noted that the Alaskan pipeline would be 10 times the cost. He questioned if Alaska is dreaming too big. Mr. Rich was not in a position to comment. He conceded that it is the most ambitious and challenging project that he has encountered. He felt that the project would doable with the right legal framework.

Senator Thomas questioned where the money came from on the top 10 projects. Mr. Rich observed that the money came from a variety of areas and that it is a completely global market, which is dominated by non U.S. banks. It is impossible to predict where the money would come from [in terms of an Alaska gas pipeline project], but he did not think that it would be exclusively from U.S. banks.

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Senator Therriault noted that the FT commitments are heavily negotiated. Mr. Rich stressed that open seasons are different and it is hard to predict when it would occur, but emphasized that lenders would not simply accept contracts put in front of them.

In response to a question by Senator Thomas, Mr. Rich did not know of an expiration date for federal loan guarantees.

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ADJOURNMENT

The meeting was adjourned at 6:58 PM