Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version:	HCS CSSB 138(RES)
Fiscal Note Number:	18
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Identifier: SB138HCSCS(RES)-DCCED-AGDC-04-10-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: HRES

Department: Department of Commerce, Community and Economic Development
Appropriation: Alaska Gasline Development Corporation
Allocation: Alaska LNG Participation
OMB Component Number:

Expenditures/Revenues
Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services	1,476.0		1,476.0	1,476.0	***	***	***
Travel	964.0		964.0	964.0			
Services	329.4		329.4	329.4			
Commodities							
Capital Outlay	230.0						
Grants & Benefits							
Miscellaneous							
Total Operating	**2,999.4**	**0.0**	**2,769.4**	**2,769.4**	*******	*******	*******

Fund Source (Operating Only)

1178 temp code	2,999.4		2,769.4	2,769.4			
Total	**2,999.4**	**0.0**	**2,769.4**	**2,769.4**	*******	*******	*******

Positions

Full-time	6.0		6.0	6.0			
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2014) cost: 406.7 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS
Does the bill direct, or will the bill result in, regulation changes adopted by your agency? N
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This revised fiscal note incorporates changes made in the HRES, as well as a few minor adjustments in AGDC's internal financial analysis. AGDC's incremental operating costs attributable to the AKLNG initiative are shown Pg 1. AGDC's anticipated contractual services costs are properly categorized with other AKLNG capital expenses. Some outside legal counsel fees have been moved into the first 14 months of the project. Funding source has been changed to reflect the new fund name - AK Liquefied Natural Gas Project Fund. The net result of these modifications is a slight increase in AGDC's total AKLNG related expenditures through FY17 of $259.7. This session, AGDC is requesting $3,406.1 in operating funding (FY14 $406.7 & 2015 $2,999.4) and $63,858.4 in AKLNG capital funding (FY14 $10,858.3 and FY15 $53,000.1). The full request for both fiscal years ($67,264.5) is being requested as an FY14 supplemental capital appropriation in a separate fund cap fiscal note.

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Division: Alaska Gasline Development Corporation — Date: 04/10/2014 12:00 PM
Approved By: Dan Fauske, President — Date: 04/10/14
Agency: Alaska Gasline Development Corporation

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Analysis

Activity Growth: This bill expands the purpose of the Alaska Gasline Development Corporation (AGDC) by authorizing it to participate in advancing an Alaska liquefied natural gas project (AKLNG) while continuing to advance the in-state natural gas pipeline project described in AS 31.25.005, commonly known as the Alaska Stand Alone Pipeline (ASAP). In its current form, the bill:

- Gives AGDC the primary responsibility for developing the AKLNG project on the state's behalf, to include developing infrastructure and services related to transportation, liquefaction, marine terminals, marketing and commercial support. Authorizes AGDC to acquire an ownership interest in the AKLNG project, including liquefaction facilities associated with that project.

- Directs AGDC to act in the State's best interest to deliver instate gas, and to provide both economic benefit and revenue to the State; and to assist DOR and DNR in maximizing the value of the State's royalty gas and gas delivered in lieu of taxes.

- Establishes a new Alaska Liquefied Natural Gas Project Fund to fund AGDC's participation in the AKLNG project and restricts the use of those funds to AKLNG related work. Similarly, funds appropriated to the existing In-State Natural Gas Pipeline Fund (1229) would be restricted to work associated with the ASAP project.

- Allows the AGDC Board to hire a separate Program Manager for the AKLNG Project and requires it to establish separations in operations, personnel and functions as may be necessary to firewall commercially sensitive and confidential information between the ASAP and AKLNG projects.

Allocation: A new allocation – *Alaska LNG Participation* – will be created to track AGDC expenditures related to advancing the AKLNG project.

AGDC Operating Expenses: AGDC will incur $8,944.9 in AKLNG related operating costs through FY17. AGDC intends to fund these activities as they occur, by drawing from the new Alaska Liquefied Natural Gas Project Fund. To maintain the momentum of current AKLNG negotiations, pre-FEED activities will begin immediately upon enactment of the legislation. AGDC is requesting $3,406.1 in operating funding this legislative session - the minimum amount necessary to fund FY14 ($406.7) & FY15 ($2,999.4) activities. AGDC's anticipated operating costs through FY15 are summarized by category below:

> $ 1,722.0 - Personal Services *(FY14 $246.0 and FY15 $1,476.0)*: AGDC will need to build in-house capacity to manage the Corporation's participation in this large-scale, multi-year initiative. It is anticipated that AGDC will begin recruiting staff immediately upon enactment. It will be necessary to attract seasoned professionals capable of managing the negotiations, contacts and investments associated with this complex commercial partnership. To augment AGDC's existing management team a VP level position will be added to integrate internal operations and processes across both project initiatives. Specific to the AKLNG initiative, in addition to the Program Manager suggested by the legislation, the team would include a Contract Compliance Officer, Senior Accountant and two Administrative Assistants for a total of 6 new fulltime positions. The annualized salary and benefit costs for these positions are estimated at $1,476.0.

1 – AKLNG Program Manager, $492.0 annual burdened salary ($300.0 + benefits)
1 – VP, $410.0 annual burdened salary ($250.0 + benefits)
1 – Contract Compliance Officer, $196.8 annual burdened salary ($120.0 + benefits)
1 – Senior Accountant, $164.0 annual burdened salary ($100.0 + benefits)
2 – Administrative Assistant, each at $106.6 annual burdened salary ($65.0 + benefits)

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Analysis Continued

$ 1,124.7 - Travel *(FY14 $160.7 and FY15 $964.0)*: Extensive travel will be incurred by corporate staff, the AKLNG Program Manager, as well as commercial, marketing, engineering and legal teams. In addition, this legislation increases the authority and responsibilities of the AGDC board which will result in more frequent meetings and additional costs associated with stipends, travel, perdiem and other board expenses.

$ 329.4 - Services *(FY15)*: Additional office space will be necessary to accommodate new employees and contractor work areas. Incremental annual lease costs of $329.4 are anticipated beginning in FY15.

$ 230.0 - Capital Outlay *(FY15)*: One-time costs associated with the acquisition of communications and IT equipment, and furnishings for expanded staff.

Capital and Investment Expenses: The State's capital and investment expenditures associated with AKLNG pre-FEED activities through FY17 are estimated at $185,332.9 and are detailed by category below. However, as noted previously, AGDC is requesting a capital funding of $63,858.4 this legislative session. The amount sufficient to fund the Corporation's FY14 ($10,858.3) and FY15 ($53,000.1) capital needs. These activities would begin immediately upon enactment of this legislation with funds being drawn before the end of FY14. AGDC will fund activities as they occur, by drawing from the new Alaska Liquefied Natural Gas Project Fund created by this legislation.

$ 6,008.4 - Project Related Contractual Services *(FY14 $858.3 and FY15 $5,150.1)*: It’s anticipated that 50+ commercial agreements will need to be executed over the next 18-36 months. AGDC will necessarily have to contract for subject matter expertise and outside counsel to support the AKLNG team’s efforts in deal origination, negotiation and analysis. Focus areas include contract negotiations, midstream and liquefaction facility engineering analysis, interface engineering, commercial analysis, gas marketing and investment financing. AGDC's total costs for outside contractors through FY17 are estimated at $15,108.5.

$ 57,850.0 - Equity Participation in LNG Facility *(FY14 $10,000.0 and FY15 $47,850.0)*: At 25% equity participation, AGDC’s share of pre-FEED LNG Facility technical costs are estimated at $42.5 million. It’s anticipated that an additional $2.0 million will be required to cover AGDC’s share of non-technical project costs that will be allocated to each AKLNG partner. These estimates are based on the information available at this time, consequently a 30% contingency of $13.35 million has been added.

	Total	AGDC %	ADGC $
LNG Facility Cost	$ 170,000.0	25%	$ 42,500.0
LNG Non-Technical Share			$ 2,000.0
	Subtotal		$ 44,500.0
30% Contingency		30%	$ 13,350.0
	Total		$ 57,850.0

$ 42,250.0 - 40% Option on TC Mid-stream *(FY16)*: AGDC’s cost to exercise the State’s option to buy-out 40% of TransCanada’s mid-stream interests is estimated at $26.5 million. If exercised, TransCanada will be entitled to be reimbursed for all of its non-technical costs previously attributed to that 40%. Those are estimated at $6.0 million. These estimates are based on the information available at this time, consequently a 30% contingency of $9.8 million has been added. This option is not likely to be exercised before FY16 and is therefore not included in this year's appropriation request.

	Total	AGDC %	ADGC $
40% of TC Midstream (*=10% Total Project Share*)	$ 265,000.0	10%	$ 26,500.0
TC's Cost Reimbursement			$ 6,000.0
	Subtotal		$ 32,500.0
30% Contingency		30%	$ 9,750.0
	Total		$ 42,250.0

Analysis Continued

$ 70,124.4 –Guarantee of TransCanada's Development Costs *(FY16)*: If TransCanada doesn't progress to the FEED stage of the project for any reason other than their own voluntary withdrawal, the MOU between the State and TC requires the State to reimburse TC for the AKLNG project costs incurred since 1/01/2014, to include the pre-FEED costs on their portion of the mid-stream, any non-technical cost allocations they've paid, plus a 7.1% return on that investment (AFUDC - *Allowance For Funds Used During Construction*). These costs are estimated below based on the best information available at this time, consequently a 30% contingency has been added. If required, these reimbursements and return guarantees are not anticipated to occur before FY16 and are therefore not included in this year's appropriation request.

	Total	TC%	AGDC $
TC Midstream Share	$ 265,000.0	15.0%	$ 39,750.0
TC Non-Tech & Other Development Costs			$ 9,000.0
	Total Invested		$ 48,750.0
30% Contingency		30.0%	$ 14,625.0
	Subtotal		$ 63,375.0
7.1% AGUDC		7.1%	$ 6,749.4
	Total		$ 70,124.4

AKLNG Expenditure Summary: It is anticipated that AGDC will need a total of $194,277.8 to cover it's AKLNG related expenditures through FY17 as summarized in the table below. At this time, AGDC is requesting a total appropriation of $67,264.5, the amount necessary to fund FY14 & FY15 operating and capital expenses. Approximately $11,265.0 of that will be drawn down in FY14 and $55,999.5 in FY15.

AKLNG Pre-FEED Expenditures	FY14 Supp	FY15	FY16	FY17	Total
AGDC Operating Expenses					
Personal Services	$ 246.0	$ 1,476.0	$ 1,476.0	$ 1,476.0	$ 4,674.0
Travel	$ 160.7	$ 964.0	$ 964.0	$ 964.0	$ 3,052.6
Services (Lease)	$ -	$ 329.4	$ 329.4	$ 329.4	$ 988.2
Capital Outlay (Equipment)	$ -	$ 230.0	$ -	$ -	$ 230.0
AKLNG Capital Expenses					
AGDC Contractual Services	$ 858.3	$ 5,150.1	$ 5,150.1	$ 3,950.0	$ 15,108.5
Equity Participation LNG Facility	$ 10,000.0	$ 47,850.0	$ -	$ -	$ 57,850.0
40% Option on TC Mid-Stream	$ -	$ -	$ 42,250.0	$ -	$ 42,250.0
Guarantee of TC Dev Costs	$ -	$ -	$ 70,124.4	$ -	$ 70,124.4
	$ 11,265.0	**$ 55,999.5**	$ 120,293.9	$ 6,719.4	$ 194,277.8

Supplemental Request: Through a separate fiscal note, AGDC is requesting a FY14 supplemental appropriation of $67,264.5 UGF to initially capitalize the Alaska Liquefied Natural Gas Project Fund. This is the minimum amount necessary to fund all the Corporation's FY14 and FY15 AKLNG pre-FEED activities. A future appropriation of $127,013.3 will be required to fund AGDC's continued participation in pre-FEED for FY16 and FY17 ($14,638.9), to exercise the State's 40% mid-stream option ($42,250.0) and to reimbursement TC's development costs in the event they exit the deal prior to FEED ($70,124.4).

Fund Source: A new fund - *Alaska Liquefied Natural Gas Project Fund* - is created in this legislation to fund expenditures related to the AKLNG project. The fund will need to be capitalized through a separate appropriation at an amount sufficient to cover AGDC's costs as detailed elsewhere in this note. Once appropriated to the fund, the legislation authorizes AGDC to spend money out of the fund for AKLNG related expenditures as they occur, without further appropriation. AGDC intends to institute procedures similar to those currently being used to track ASAP Project expenditures that are funded through the existing In-State Natural Gas Pipeline Fund (1229).