

HOUSE FINANCE COMMITTEE  
March 25, 2014  
1:34 p.m.

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CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair  
Representative Bill Stoltze, Co-Chair  
Representative Mark Neuman, Vice-Chair  
Representative Mia Costello  
Representative Bryce Edgmon  
Representative Les Gara  
Representative David Guttenberg  
Representative Lindsey Holmes  
Representative Cathy Munoz  
Representative Steve Thompson  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Deepa Poduval, Principal Consultant, Consulting Division, Black & Veatch Management; Peter Abt, Managing Director, Consulting Division, Black & Veatch Management.

PRESENT VIA TELECONFERENCE

Jason De Stigter, Senior Consultant, Consulting Division, Black & Veatch Management.

SUMMARY

PRESENTATION: BLACK & VEATCH - MEMORANDUM OF UNDERSTANDING  
"TRANSCANADA PARTICIPATION IN AKLNG PROJECT"

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^PRESENTATION: BLACK & VEATCH - MEMORANDUM OF UNDERSTANDING, "TRANSCANADA PARTICIPATION IN AKLNG PROJECT"

DEEPA PODUVAL, PRINCIPAL CONSULTANT, CONSULTING DIVISION, BLACK & VEATCH MANAGEMENT, introduced herself. She stated that she was working with Department of Natural Resources (DNR) to develop economic analysis and commercial support for the Alaska (AK) Liquid Natural Gas (LNG) Project.

PETER ABT, MANAGING DIRECTOR, CONSULTING DIVISION, BLACK & VEATCH MANAGEMENT, introduced himself.

Ms. Poduval discussed the PowerPoint presentation, "TransCanada Participation in AK LNG Project; Presentation to House Finance Committee" (copy on file).

Ms. Poduval looked at slide 3, "Memorandum of Understanding - Highlights of the Deal on the Table."

TransCanada Holds the State's Equity Share in GTP+Pipe

SOA Option to Buy Back 40 percent of TC's Share at ~FEED

State Commits to 25 Year Transportation Agreement with TransCanada

Agreement Commits TC to a WACC of 6.75 percent

Various Milestones & Off Ramps for SOA and TransCanada

Ms. Poduval highlighted slide 4, "Options Identified by State for Equity Participation." She stated that the slide represented a picture of TransCanada's participation in the project. There were three different options represented: The first option was the State of Alaska (SOA) Alone. This option did not partner with TransCanada. With a 25 percent state equity participation would mean that the state held a 25 percent in the GTP. 25 percent in the pipeline; and a 25 percent stake in the LNG plant. The second option was SOA plus TransCanada (TC) with no buyback. This option contemplates that TC held and invested an equivalent to the state's interest in the GTP and pipeline, therefore TC would hold 25 percent of the GTP, 25 percent in the pipeline, and the state would retain 25 percent in the LNG plant. The third option was SOA plus TC with the buyback option. In this scenario, TC would initially have the SOA

25 percent interest through the GTP and pipeline, but SOA would be able to exercise an option where it purchases back up to 40 percent of TC's share. Therefore, 40 percent of the 25 percent share, would result in a 10 percent SOA holding through the GTP and pipeline; TC would hold the remaining 15 percent through the GTP and pipeline; and SOA would continue to have 25 percent ownership in the LNG plant. The state would continue hold 25 percent stake in the LNG plant through each option. She stressed that that option that involves TC revolved around optimizing the state's ownership of the GTP and pipeline.

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Ms. Poduval discussed slide 5, "Implications of Options and Potential Off Ramps." She explained that the Pre-FEED stage would be from 2014 to 2015. During that stage, the engineering and technical aspects of the project would be worked out between the different parties. The stage was not a very expensive stage of the project's development, but only involved technical analysis and studies that helped to narrow the range of the project's capital costs. The next stage would be the FEED, from 2016 to 2018, which was the front-end engineering and design. She remarked that the SOA go it alone option on the slide showed that the dollar was greatly increased as the project advanced through each stage. She remarked that there were some important aspects that would be worked through during the FEED stage, such as the technical analysis and cost estimates. She stated that commercial agreements and terms of sale would be made in the FEED stage. The financing would also be sorted during the FEED stage. With all of the decisions and analysis in the FEED stage, the FID would occur, where the decision to proceed with the project takes place. The last phase of the project was construction, which was slated to take place from 2019 to 2023. If the state were to embark on the project without TC, it would be \$108 million in pre-FEED, \$450 million in FEED, and \$13.2 billion in construction. If the state partnered with TC with no buyback, the state would pay \$43 million in pre-FEED, \$180 million in FEED, and \$6.7 billion in construction. If the state partnered with TC with a 40 percent buyback it would invest \$43 million in pre-FEED, \$360 million in FEED, and \$9.3 billion in construction.

[1:47:52 PM](#)

Co-Chair Austerman asked that the acronyms be specified. Ms. Poduval replied that AFUDC stood for "Allowance for funds during construction."

Ms. Poduval displayed slide 6, "Key Questions in Looking at Value of TransCanada's Participation."

Economic impact to the state from TransCanada?

Can the state go it alone?

Is TransCanada a good partner?

Does TransCanada bear any financial risk?

Ms. Poduval addressed slide 7, "What is the Economic Impact to State from TransCanada's Participation?"

During project development and construction, TC pays 60 to 100 percent of state's up front capital cost for GTP and pipeline

Once project is operational, state pays TC a negotiated tariff for 60 to 100 percent of GTP and pipeline capacity used to move state gas

Economic analysis examines the net impact of reduced upfront payments and tariff expenses over 25 year period of operation

Ms. Poduval looked at slide 8, "TransCanada's Participation Impacts SOA Up Front Cash Calls and Revenues from Project."

TransCanada's participation reduces the state's up-front cash calls by \$1.4 to 2.2 billion, assuming a 70-30 debt equity

TransCanada's participation reduces the state's revenues by \$200 to \$360 million per year

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Ms. Poduval highlighted slide 9, "What is the Economic Impact to State from TransCanada's Participation?"

TransCanada participation reduces the state's total cash flows with buy back option

Minimal impact on the state on an NPV basis with TransCanada participation

Ms. Poduval discussed slide 10, "Can the State go it Alone?"

What are the capital cost and investment implications of going it alone?

What are the debt implications of going it alone?

Ms. Poduval addressed slide 11, "SOA Upfront Capital Coast Exposure is Reduced Through TransCanada Participation."

Highest risk exposure is prior to project start when cash calls are not supported by project revenues

TransCanada ("TC") participation allows State to retain 20 percent-25 percent of gas share while being responsible for only 13 percent-18 percent of the upfront costs

This is especially important if cost overruns occur on project

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Ms. Poduval looked at slide 12, "SOA Upfront Capital Coast Exposure is Reduced Through TransCanada Participation." She stated that the left side represented a \$45 billion project, which was the base cost assumption. A partnership with TC would reduce the state's investment by approximately \$3 billion. If there was a cost overrun of 20 percent with a \$54 billion project, a TC partnership would reduce the state's potential investment by approximately \$4 billion.

Ms. Poduval discussed slide 13, "SOA Investment for a 25 Percent Ownership with TransCanada is Expected to be \$1.3 to \$4 billion Lower than for a 20 percent Ownership Going Alone" and slide 14, "SOA Revenue for a 25 Percent Ownership with TransCanada are Expected to be \$0.4 to \$0.5 billion per Year Higher Than for a 20 percent Ownership Going Alone." The slides compared scenario where the state went alone, with a 25 percent equity in the project and a scenario that partnered with TC. The slides showed that the

state's resources are finite. She stressed that the analysis focused on a way for the state to get a greater cash share by partnering with TC. The three alternatives that were represented were 20 percent equity alternative with SOA go it alone at \$11 billion; 25 percent equity alternative with SOA and TV with no buy back at \$9.7 billion; and 25 percent equity alternative with SOA and TC with buy back at \$7 billion.

Ms. Poduval discussed slide 15, "25 Percent Ownership with TransCanada Increases State of Alaska NPV by \$2 billion Compared to a 20 percent Ownership Going Alone." The slide showed that the state would have approximately \$2 billion less in NPV going it alone with a 20 percent equity share than it could by taking a 25 percent equity share by partnering with TC.

Ms. Poduval addressed slide 16, "Can the State Go it Alone? - State's Debt Capacity."

Financing the State's share of the AKLNG Project on the State's balance sheet - key issues:

At what cost of debt?

Debt servicing as what percent of general fund unrestricted revenue?

Scenario 1 (lower interest)

SOA Debt at 4.6 percent

Debt Service limited to 3 percent of general fund unrestricted revenue (GFUR)

Scenario 2

SOA Debt at 4.9 percent

Debt Service limited to 5 percent of GFUR

Scenario 3 (higher interest)

SOA Debt at 5.6 percent

Debt Service limited to 6 percent of GFUR

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Ms. Poduval looked at slide 17, "The Amount of Cheap Debt Available to the State Could be Limited."

Indicative Levels of Debt for State to Finance 20  
Percent Equity Stake in AKLNG Project

Analysis based on high level, indicative assumptions based on input from Department of Revenue. Financing arrangements for the AKLNG project will become clearer further into the development process.

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Ms. Poduval looked back at slide 16. She remarked that when the second and third scenarios were considered, there is a consideration of a 5 to 6 percentage of the GFUR. She stated that the treasury had a guidance that the total debt servicing for the state should not exceed more than 8 percent of GFUR. If the state tried to finance a significant portion of the AK LNG project, the state would use up the state's debt servicing capacity and only allowing 2 to 3 percent of GFUR to serve all of the state's debt.

Ms. Poduval highlighted slide 18, "Is TransCanada a Good Partner for the State of Alaska in the AKLNG Project?"

Extensive experience in building, owning and operating northern pipelines

Long history of interest in Alaska Pipeline

Retains momentum in the project

Facilitates expansion

[2:16:59 PM](#)

Ms. Poduval discussed slide 19, "Retaining Momentum on Project Could be More valuable than Securing Better Commercial Terms."

State of Alaska NPV:

Debt/Equity percentage

Each 5 percent decrease in equity ratio is equivalent to \$200MM in additional NPV to State

ROE

Each 1 percent decrease in ROE is equivalent to \$100MM in additional NPV to State

Project Delay

Each 1 percent decrease in ROE is equivalent to \$100MM in additional NPV to State

Ms. Poduval highlighted slide 20, "Does TransCanada Bear any Financial Risk?"

TransCanada has committed to the following terms for providing treating and transportation services to the State

D/E split of 75 percent/25 percent  
Return on equity of 12 percent; Cost of debt of 5 percent

Given the scale of this project and the uncertainties associated with it, financing remains a significant risk

Locking in this capital structure before actual financing arrangements have been made for the project places a risk on TransCanada of under-earning its expected return on equity and eroding its expected NPV from the project

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Ms. Poduval addressed slide 21, "Does TransCanada Bear any Financial Risk?" She stated that TC carried the risk of achieving a lower ROE if it is unable to finance the project at the contractual rate of 5 percent. She pointed out that if the two triggers were moved slightly, TC would commit to using a 5 percent cost of debt. Regardless of what TC was actually able to borrow the money for, the tariff that the state would pay to TC would assume that their cost of debt was not more than 5 percent. If TC had to borrow at 6 or 7 percent, they absorbed the difference in the cost of debt. She stressed that this TC debt would not be carried over to the state.

Ms. Poduval displayed slide 22, "Does TransCanada Bear any Financial Risk?" She stated that the state's NPV to the project was approximately \$13 billion, and TC's NPV to the project was approximately \$150 to 200 million, depending on the equity share for the state and the buyback option. TransCanada had a very small portion of the project's total cash flow.

looked at slide 23, "Summary on Four Key Questions."

Economic impact to the state from TransCanada?

Total cash flows reduced by \$4 billion; NPV impact is marginal

Can the state go it alone?

TC can reduce SOA investment by \$4 billion-\$7 billion

SOA may hit debt limits going alone

Is TransCanada a good partner?

Experience

Momentum

Expansion

Does TransCanada bear any financial risk?

Change in financing could materially lower TransCanada's ROE and NPV

[2:31:28 PM](#)

Co-Chair Austerman queried the time frame of the debt. Ms. Poduval replied that the time frame looked at a 25 year loan.

Co-Chair Austerman stressed that the state's major asset was the Permanent Fund, and wondered how that asset was considered when deciding how much debt could occur. Ms. Poduval replied that there was no assumption that the Permanent Fund would be invested in the project. She furthered that the fund could be used as collateral against

what could be borrowed. She deferred further inquiries to the Treasury Division.

Co-Chair Austerman felt that there was potential for other structures of debt, rather than what was presented. Ms. Poduval agreed, and furthered that it was too early to go to the markets with a clear representation of what the project will look like. She felt that there would be more financial discoveries as the details on the project emerged.

Co-Chair Austerman recalled some conversations regarding incorporating the long-term debt into the long-term sales. Ms. Poduval stated that the sales agreements must be finalized before the financing could be secured.

Co-Chair Austerman wondered if the current debt was considered, when the total debt was joined with the GFUR. Ms. Poduval replied that the presentation only analyzed the AK LNG project, and not consider any other debt obligation to the state. She was attempting to highlight that the AK LNG project alone could absorb between 5 and 6 percent of the GFUR.

Representative Wilson looked at slide 4, and wondered if the agreement with TransCanada would cost the state money to exit the obligation with TransCanada. Ms. Poduval deferred to DNR.

Representative Wilson remarked that if the state was partnered with TC, it narrowed the state's options. She wondered if the buyback option was too limiting for the state. Ms. Poduval deferred to DNR for the cost of AGIA. She announced that the perspective was based on a standalone agreement, and not taking into consideration any other TC agreements.

[2:37:31 PM](#)

Representative Wilson stressed that there must be determination whether or not the legislature wants to partner with TransCanada based on the HOA. She stressed that she would like to understand what would occur if the state wanted to sever ties with TransCanada.

Representative Holmes looked slide 17, and she understood why the state was partnering with TransCanada. If there was

an analysis of what the state could afford, she queried the importance of the percentage split. She wondered if the state or any of the other partners cared about the percentage split. She asked for more explanation regarding the relative debt equity structure for the state, and how that might affect the state or other's interests in the project. Ms. Poduval replied that the capital structure, debt equity mix, and the return on equity was most impactful when there was a tariff attached to the project. If the state invested in the project, the focus would not be on the state's shipment of gas. There would be an expectation of the subsidiary to earn a return on its equity. The focus became relevant when contemplating an expansion of the project, and creating access in the project. There should be a competitive tariff offered for the subsidiaries that may use the project for undiscovered gas. She stressed that there should be a return on equity in the state's investment to facilitate the expansion. The state would be acting as a third party pipeline owner and offering commercial terms.

Representative Holmes queried how the expansion would be contemplated. Ms. Poduval responded that the HOA embraced a "pipe within a pipe", which allowed each of the parties to initiate an expansion. The provision would allow the combination of the state and TC to expand the project. The state would look like the equivalent of TC, as a pipeline owner, which offered a service for other producers on the North Slope to use the GTP pipeline and LNG capacity in return for a service fee. The state would have a competitive tariff to earn a return on the state's investment for the expansion. There would be a negotiation with the state for the capacity, so the state would be encouraged to facilitate the expansion.

[2:43:36 PM](#)

Representative Holmes wondered if the debt equity ratio was important in the build out, without looking at expansion Ms. Poduval replied that the debt equity ratio was important, even without expansion, because the state's funds were limited. She stressed that there was some analysis of the GFUR, which was around \$4 to \$5 billion to the state, annually. When that was put with the peak of \$2 billion annually to the project, the state would be strained if it was only financed through equity. She stressed that the project should be financed with debt in

order to retain the current revenues to fund other state project.

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Representative Gara felt that the state was being slightly leveraged by TransCanada. He referred to testimony from DNR which claimed that TC did not have an AGIA claim against the state, because this project took its place. He surmised that the state would be required to pay TC all of the TC investments, if the state refused to sanction the project at that phase. Ms. Poduval replied with slide 5, and agreed with Representative Gara's assumption. She stated that the state would be required to pay back approximately \$230 and \$390 million, depending on whether the state exercised its buyback option before FEED.

Representative Gara stressed that it was a substantial cost to the state, and wondered why that would be considered a good option. Ms. Poduval replied that there could be a focus on the AFUDC numbers, and consider those costs as incremental with TC. She stressed that the state would still be required to make payments to the development costs with or without a TC partnership. The additional expenses was the interest on the TC money, which was slightly over 7 percent. If the state were to look for a partner who would provide a service as an expert to watch over the project, she wondered if the state would be able to find someone with the same expertise as TC.

Co-Chair Austerman handed the gavel to Vice-Chair Neuman.

Representative Gara expressed concern about whether there could be a better deal with a different partner. He wondered if there was a bid for partnership, or if TC was the only partner considered. Ms. Poduval replied that there was no bid for partnership, but rather a negotiated deal with TC. She stated that there was an analysis regarding a commercial bid that would provide value to the state, and the potential downside from losing momentum on the project. She stressed that the AGIA bidding process took approximately two years to complete.

Representative Gara looked at page 11, and remarked that the state got a royalty and production tax without the pipeline. He noted that the cost to the state would be \$7 to \$10 billion to be an owner of certain components of the

line, just for the privilege of not receiving any tax. He felt that there was no discussion of taxing like a sovereign, and not paying the \$ 7 to \$10 million investment. He queried the benefit of that structure. Ms. Poduval replied that the question was not related to the deal with TC. She stated that there had been discussion regarding that issue, especially around the commercial attractiveness of the project without the state's investment. She stated that the analysis with the royalty showed that the AK LNG project was complex and expensive, and would likely need some changes to compete in the market. She shared that there was an examination of maintaining the royalty and tax regime, and reducing the tax rate to improve the attractiveness of the project. She stated that the results showed very little change in revenue, because there was a \$45 million up front investment in the project. The initial investment did not impact the producer returns on the project. She furthered that, by reducing royalty and tax, there was value being transferred from the state to the producers. She stated that it could be effective, if it benefitted the producers enough to make the project commercially attractive. Her analysis showed that it did not change the scenario enough to make it commercially attractive for the producers, which initiated considerations of other options to provide value to the producers without the state losing its value.

Vice-Chair Neuman handed the gavel to Co-Chair Austerman.

Representative Gara asked how meetings with Black and Veatch could be scheduled. Co-Chair Austerman replied that meetings could be scheduled through DNR.

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Vice-Chair Neuman was attempting to measure the value of the dollars. He wondered if the wall street was assumed as the "market." Ms. Poduval replied that her reference to "market" pertained to two aspects: 1) the LNG market; and 2) the financial market.

Vice-Chair Neuman stated that his inquiries would reference the financial market. He believed that the state already paid TC \$300 million, with a cap of \$500 million in AGIA. He wondered if there was a discussion regarding how the money would be used, if TC's exclusive license was revoked. Ms. Poduval deferred to the administration.

Vice-Chair Neuman wondered the total value and total cost of the pipeline. Ms. Poduval replied that the total cost of the project was \$45 billion.

Vice-Chair Neuman remarked that the financial market was approximately at 3 or 3.5 percent. He felt that the market had a substantial effect on the interest rate. Ms. Poduval responded that the different scenarios reflected a sensitivity to what the possible cost of debt could be.

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Vice-Chair Neuman announced that he was trying to measure the risk of the project. Ms. Poduval replied that the two most important risks were price and capital costs. She stressed that the price was the most impactful risk to the project.

Vice-Chair Neuman surmised that the project would not be sanctioned. Ms. Poduval agreed that the project would not be sanctioned.

Vice-Chair Neuman stressed that there should be consideration of the differentials related to the availability of oil and gas in the global market.

Representative Munoz looked at the proposal on slide 11, and remarked that TransCanada 25 percent ownership of the GTP and pipeline; and the state had 25 percent ownership of the LNG plant and 25 percent of the gas share. She also addressed slide 8 related to revenue, with \$4 billion in revenue. She queried the split in revenue between TransCanada and state once the project was complete. Ms. Poduval deferred to Mr. De Stigter.

JASON DE STIGTER, SENIOR CONSULTANT, CONSULTING DIVISION, BLACK & VEATCH MANAGEMENT (via teleconference), stated that the state's revenues would be approximately \$4 billion per year, beginning in 2024. TransCanada's revenues would be approximately \$400 million per year.

Ms. Poduval asked if the TC revenue was the return on investment component. Mr. De Stigter replied that it was the net cash flow after taxes.

Representative Munoz looked at slide 21, and wondered if there was a point at which the project became uneconomic for TC as the cost of debt increased by 6 and 7 percent. Ms. Poduval replied that there could be a point at which the project was uneconomic for TC, as the cost of debt was 6 or 7 percent. She stressed that the key factor was about what would increase the cost of debt. The market movement would keep the rate tracker intact, but if it was based on a change on TC's financial health and assumptions, the project would be uneconomic.

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Representative Costello queried what would happen with the damages issue with AGIA. Ms. Poduval deferred to the Department of Law (DOL).

Representative Costello wondered if TC would be someone that the state could depend on, in terms of bringing the gas to market. Mr. Abt replied that TransCanada was not an active participant in the LNG market, but TransCanada was only a transporter of gas. Ms. Poduval furthered that the arrangement was that the HOA included intent by the producers to market a proportionate share of the state's gas. Rather than competing with the producers, the state would obtain a percentage of the gas market.

Representative Costello asked if TC had the same opportunity to extricate itself from the project. Ms. Poduval responded that TC probably had that option, but deferred to the DOL.

Representative Costello looked at slide 20, and noted that TransCanada had determined certain terms: the debt equity ratio and return on equity of 12 percent. She surmised that the terms could change, if the underlying market changed. She queried who would make the determination that the underlying market would change. Ms. Poduval responded that the MOU included the concept of the rate tracker, which would measure the difference in the 30-year treasury rate between when the transportation service was signed between the state and TC and when the project went to FID. The number would be available at the market, so there would be no dispute.

Representative Costello queried the latest date to determine the market change. Ms. Poduval replied that the

date would be at FID, because the rate tracker would show the four or five years of movement in the market.

[3:10:01 PM](#)

Representative Costello queried the risk to the state as the market was determined. Ms. Poduval responded that there was a general expectation that rates with increase. She opined that the rate tracker would most likely be positive.

Representative Guttenberg surmised that the project would not be feasible without the state's participation. He wondered if the project was feasible, because the value of the gas would be transferred to the producers. Ms. Poduval replied that there was no clear definition of "uneconomic" versus "economic." The global LNG market was very dynamic, so the supply curve was examined for the LNG market to see where Alaska fell in the supply curve. She stated that Alaska was out of the money relative to the band of demand that one would expect to see in the market between now and 2030. She emphasized that it was not a static picture, because all of the different projects would be attempting to look competitive. Therefore, there was not a projected point at which the project would become economic. The focus was on decreasing project costs and increase the returns for the producers, so the project could be more attractive. The state's equity investment in the project would reduce the producer's upfront investment needs.

[3:14:50 PM](#)

Representative Guttenberg surmised that the alignment was not realistic. He felt that the competition was merely more blurred. He remarked that the transfer of value to the producers was considered the state's full value and moving it downstream to processing. He stressed that there was an issue of the difference between tariffs and wellhead price, and this deal would force the state to pay TC to ship the gas. He queried the place of the state in the negotiations. Ms. Poduval responded that the state's equity participation in the project provided each party an equivalent portion of gas and an equivalent equity ownership through the project.

[3:18:03 PM](#)

Representative Guttenberg wondered if the state should take the gas as far downstream as possible or take the gas at

the wellhead. Ms. Poduval replied that the state would be receiving its gas at the wellhead, and own a path through the project to move the gas through the LNG plant at the very least.

Representative Guttenberg remarked that he knew what the pipe feels like when it is cold and empty versus when it's full. He understood each step of manipulation of the gas. He felt that there should be a careful consideration of each step of the process.

Representative Edgmon looked at slide 19, and asked for more information regarding the net present value and the cost of capital price. He specifically queried what the state would lose in the project. Ms. Poduval responded that the "do not delay" path showed the project operational in 2024, and followed the presented timeline with a five-year construction period. The one- and two-year delays moved the project back a couple of years, but the early investments could grow and continue to be invested. She stressed that there would be a cost to the state with each delay at an estimated \$800 billion per year. She stressed that there could be a consideration of sensitivity on prices, which would result in a similar projection of costs. She did not believe that the price would offset the effects of the relative impacts of the commercial terms that the equity structure versus the impact of a project delay.

Co-Chair Austerman handed the gavel to Vice-Chair Neuman.

Representative Edgmon understood the urgency of the project, and would ask his questions off the record.

Vice-Chair Neuman handed the gavel to Co-Chair Austerman.

[3:23:24 PM](#)

Representative Thompson wondered if there would be an issue with TransCanada, if the Keystone project was not complete. Ms. Poduval deferred to TransCanada.

Representative Thompson felt that simultaneous projects might put a strain on the pipe building capacity, and sacrifice the integrity of the project. Ms. Poduval agreed that it would be a factor, and stressed that the LNG market was highly competitive.

Co-Chair Austerman looked at slide 5, and remarked that the range was total cost \$45 billion- \$55 billion. He stated that Alaska had historically been a tax-based state, and would change to a profit-based state. He wondered if that was a fair assessment. Ms. Poduval replied that his summation would be accurate.

Co-Chair Austerman wondered how much involvement there should be with the citizens regarding this "leap of faith."

Representative Gara surmised that there was a total state cost of \$7 to \$10 billion, which did not include the costs of the producers' reimbursements of construction costs and the cost of other forms of shipping infrastructure like roads. Ms. Poduval agreed that the proposal did not include those costs.

Representative Gara wondered if deductions were included in the cost to the state. Ms. Poduval asked what deductions Representative Gara was referring.

Representative Gara understood that Exxon, ConocoPhillips, and BP could deduct certain upstream costs before production from their oil taxes. He queried the total cost of the project plus the cost of infrastructure and deductions. Ms. Poduval replied that the cost of deductions that were available for upstream infrastructure was not shown in the cost picture for the AK LNG project. Those costs were, however, incorporated when examining the impact of the state's revenue. The net of any costs on the oil site from Pt. Thompson's upstream costs allowed as a deductions.

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ADJOURNMENT  
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The meeting was adjourned at 3:29 p.m.