

HOUSE FINANCE COMMITTEE  
April 11, 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

Roger Marks, Legislative Consultant, Legislative Budget and Audit Committee; Janak Mayer, Partner, Enalytica; Nikos Tsafos, Partner, Enalytica.

SUMMARY

^PRESENTATION: DISCUSSION OF OIL AND GAS ISSUES - ROGER MARKS AND ENALYTICA.

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ROGER MARKS, LEGISLATIVE CONSULTANT, LEGISLATIVE BUDGET AND AUDIT COMMITTEE, provided a PowerPoint presentation titled: "Evaluation of SB 138 and Associated Proposed North Slope Natural Gas Commercialization Proposals" (copy on file).

[1:35:52 PM](#)

Mr. Marks began his presentation with slide 2: "Roger Marks - Background." He disclosed that he worked in a private consulting practice in Anchorage specializing in petroleum economics and taxation. From 1983 through 2008 he was a senior petroleum economist with the State of Alaska, Department of Revenue Tax Division. One of his responsibilities was to assess the North Slope gas commercialization issue which he continued to do over the course of his 25 years of service. He pointed out that over a fifteen-year period in the 1980s and 1990s he was likely the only state employee looking at the gas issue. He participated in various study groups with the producers on liquefied natural gas (LNG), pipeline gas, and gas to liquids. He also worked on the Alaska Stranded Gas Development Act under Governors Tony Knowles and Frank Murkowski. He reported that since leaving the state he published on Alaska Gasline Inducement Act (AGIA) in a couple of journals and through his work with various clients he continually assessed commercialization potential of North Slope gas.

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Mr. Marks continued with some background explaining that in early February 2014 he was asked by Senator Kevin Meyer through the Legislative Budget and Audit Committee to prepare an evaluation of the gas proposal. He issued a report in mid-February 2014 which members had in their packets. He announced he would be addressing some of the findings in his report and indicated he would be offering some observations, some suggested questions, and some options to consider. He turned to slide 3: "Outline":

1. Introduction: Market and Timing Landscape
2. Hi-level Decisions
  - a. In -Kind Gas
  - b. Regulation
  - c. Ownership
3. Role of AGIA in Proposal

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Mr. Marks discussed slide 4: "Introduction: Market Challenges":

- Competition
  - Twice the amount of supply as there is demand in Asia in 2030
- Pricing
  - Prices appear to be falling
    - Buyers realize sellers were making windfalls at prices linked to high oil prices and increased competition among sellers
  - Compete based on cost
- Size Burden
  - Need to capture large incremental share of market in short amount of time
  - Higher breakeven price than much of the competition.

Mr. Marks reported 19 countries outside the U.S. with functioning LNG projects that were looking to serve the Asian market. He continued that there were 5 additional projects in the advanced stages of market assessment, also hopeful of supplying Asia. He made the point that if the 2009 nuclear embargo was lifted, the 1,200 trillion cubic feet of gas sitting in the shallow waters of Iran would become an available supply as well. He furthered that the Fukushima disaster in Japan in 2009 [2011] took all of Japan's nuclear capability offline, which accounted for 30 percent of its energy demand. Japan replaced its resource with gas causing the country's energy prices to rise. The Japanese government was very interested in bringing most of its 48 nuclear plants back online. He reported that only 4 of the 48 plants were affected by the Fukushima disaster. The remaining plants were in good condition. He relayed that Japan was also interested in accelerating its coal development and moving away from the use of gas. He informed the committee that China started to explore shale and coal-bed methane and had access to great quantities of pipeline gas from Russia. He surmised that despite encouraging market growth prospects in Asia and in looking at the consensus and most of the forecast, there would be twice as much supply of LNG as there would be demand in Asia by the year 2030.

Mr. Marks moved to the topic of pricing. He stated that, until recently, LNG prices in Asia were oil-linked causing prices to be high, especially as oil and gas prices worldwide seemed to be coupled over the last 10 to 15 years. He continued that the link appeared to be weakening

as buyers in Asia realized producers were making a windfall on oil-linked prices and as competition to sell gas to Asia increased. Previously, LNG prices were around \$18 per million British thermal units (BTU) in Asia, as reflected in old contracts. Newer contracts were being let at prices as low as \$6 to \$12 per million BTU.

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Mr. Marks reported that Rice University's sophisticated world gas marketing model showed that oil prices in Asia would be about \$5 per million BTU over Henry Hub's prediction. The long-term forecast for Henry Hub was a price of around \$5. If Rice University's model was accurate, Asia's price would be \$10 per million BTU, much lower than what it had been. He furthered that, going forward, prices would continue to fall, and competition would have to be based on cost.

Mr. Marks pointed out that Alaska was at a disadvantage regarding cost. He mentioned the size burden of the project. The cost estimate for the total project was \$45 billion to \$65 billion including the gas treatment plant, the pipeline, and the LNG facilities. The cost estimate was done four years earlier and did not account for inflation. Alaska was the only LNG project in the world that would have a pipeline of its magnitude. Alaska required the largest and longest pipeline to bring gas to the point where it would be liquefied. He elaborated that, since it was such a big and expensive pipeline, Alaska would need large quantities of gas to run through it to lower the per-unit price. He stipulated that the gas would have to be sold in a short amount of time, otherwise, a pipe would sit half empty for several years hurting Alaska's economics. The producers worked to find the ideal pipeline size large enough to bring the per-unit cost down but not so big that the volume of gas could not be sold. The volume of Alaska's project would be lower, and the per-unit cost would be higher. He mentioned that in Asia discreet sales could be made utility-by-utility, unlike the United States. All three producers [BP, ConocoPhillips, and ExxonMobil] would have to sanction the project individually in order for the project to move forward. The Asian market was only growing at a rate of 2 billion cubic feet (BCF) per day, per year. Alaska's project would generate 2.4 BCF per day, per year. He suggested that if it took 4 years to get the gas into

the market Alaska would capture 30 percent of the incremental market each year, an ambitious goal.

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Mr. Marks moved to slide 5: "New LNG Projects are Expensive." He pointed out that breakeven prices were estimated at \$8 to \$13 per million BTU in Asia. His breakeven estimate for the North Slope project, depending on what hurdle rate the producers used and the cost of the project, fell between \$11 and \$17 [per million BTU]. Alaska was one of the higher cost LNG projects.

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Mr. Marks advanced to slide 6: "Timing Landscape":

- Terms set up today will determine
  - Risks to state
  - Cost of capital
    - Long-term gas revenues
    - What Alaskans pay for gas in the future
- Options: A modified deal which may take a few months to put together could create more long-term benefits to state

Mr. Marks communicated that the state needed the project to begin as soon as possible, and terms set at present would determine two important things going forward; the risks to the state and the cost of capital. He used the example of interest on a thirty-year home mortgage to explain that the cost of capital determined gas revenues and rates to consumers. Lower terms on capital costs for the pipeline would save significant dollars over the life of the project. He suggested the state consider a modified deal that, if available, would ultimately lower costs for the state and for consumers.

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Mr. Marks referred to slide 7: "High Level Decisions under Proposal":

- State takes its production taxes and royalties as in-kind gas
- Tariffs and expansions will not be regulated

- TransCanada (and perhaps SOA as partner) will own share of GTP and pipeline, and SOA will own share of LNG facilities, commensurate with state's share of gas (about 25%)
- Designed to amicably transition out of AGIA

Mr. Marks stated that tariffs would be regulated under Section 3 of the Natural Gas Act geared for LNG import and export terminals and did not cover tariff and expansion terms. As a result, in order to get reasonable tariffs and expansion terms the state was interested in owning a portion of the project.

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Mr. Marks detailed slide 8: "In-Value vs. In-Kind Gas":

- Helps out the economics of the project considerably
- If the state takes its royalties and taxes in value:
  - The producers pay for 100% of the capital cost, incur 100% of the capital risk, but only get 75% of the revenues
  - Producers pay to state in taxes and royalties an amount of money equal to 25% of the gas
  - They slowly recover over time the cost of the 25% of the capital costs they laid out for the state's share through the tariff deduction
  - But at a midstream rate of return, which is lower than the upstream
  - This waters down their rate of return
- When the state takes its taxes and royalties as in-kind gas, the state assumes the capital commitment for its capacity either through ownership or taking on a firm transportation commitment with a third-party
- The state does not need to own the pipeline to take the gas in-kind

Mr. Marks explained that currently with the Trans-Alaska Pipeline System (TAPS) the producers realized a midstream return of 8 percent. Producers anticipated a minimum hurdle rate of approximately 10 to 12 percent based on where they were looking for a return on the upstream and the project's risks. Taking the oil in-value watered down the rate of return. He also noted that the upstream rate of return not watered down with the midstream increased the producers' rate of return by 1 or 2 percent. The breakeven price

dropped from \$1 to \$2 per million BTU, a significant amount based on the scale of the project. He added that, in terms of alignment, taking the gas in-kind was more important.

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Mr. Marks reviewed slide 9: "Firm Transportation Commitments":

- When the state takes its taxes and royalties as in-kind gas, the state will take on a long-term firm transportation liability (debt) to TransCanada (on the portion of the 25 percent the state does not own).
- Ship or pay regardless of cost, market, reserves
- Used by pipeline company as collateral for financing
- TransCanada will have priority claims on projects cash flows

Mr. Marks elaborated that a firm transportation (FT) commitment was not an operating expense but a capital obligation. It did not vary with operations. In financial terms, TransCanada would become the middleman; the state would sign the FT commitment, TransCanada would take the commitment to the bank, the bank would give TransCanada cash to build the pipeline, and the state would owe the money to TransCanada. He stated that whether the state owned the pipeline itself or took the FT commitment, the obligation and loss of debt capacity would be the same.

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Mr. Marks advanced to slide 10: "Debt Capacity and In-Kind Gas":

- State policy is for debt service to be not more than 8 percent of general fund unrestricted revenues
- Investing in the project will put the state 2-3 times over that amount
- It has been suggested that having TransCanada as a partner would reduce the debt service relative to state ownership
- The debt from taking the FT with TransCanada will have a greater impact on the state's debt capacity than debt used to finance ownership

Mr. Marks gave an example that if the state owned \$1 billion of the project and financed at 70 percent debt and 30 percent equity, the debt would equal 70 percent of \$1 billion. If the state took a FT commitment to TransCanada for \$1 billion, it would be \$1 billion of debt.

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Mr. Marks turned to slide 11: "Marketing the In-Kind Gas":

- By taking gas in-value the state benefits from some of the best marketers in the world
- Consider linking in-kind provision with agreement by producers to market state's gas with their gas at the same price they got
  - Otherwise, risk that state may be marketing at prices considerably lower than producers, which could result in losing money

Mr. Marks reported that with the in-value system, where the state received a share of what the producers received through taxes and royalties, the state would benefit from some of the best gas marketers in the world, the gas producers. The producers would market the gas for no fee to the state. Under Section 8.3.3 of the Heads of Agreement (HOA) it stated that the producers would be willing to negotiate an agreement to purchase and dispose of the state's in-kind gas. He suggested the state consider linking the gas in-kind option in an agreement with the producers, where producers would market the state's gas with their own (including pricing) at no cost. Without such a provision, the state stood high risk. He explained if the three producers sanctioned the project, the state would be passively drawn into participating. The statute for taxation specified that producers had the ability to pay their taxes and royalties in-kind, they could. Once they did so, the state would be forced into an FT commitment with TransCanada. In reading the MOU with TransCanada, he found that the state would have to take the FT before the front end engineering design (FEED) started, at the end of preliminary front end engineering design (pre-FEED), which was not a customary arrangement. Usually, to get to pre-FEED, a company started filing its documents with the Federal Energy Regulatory Commission (FERC), where the open season started. Potential shippers then took out precedent agreements, much less binding than firm transportation agreements. Under the Memorandum of Understanding (MOU) the

state would have to take a firm transportation services agreement before feed started; before the final cost, debt, and equity costs were known; and before being able to assess the market. The construction period, if sanctioned, would be 5 years. If the producers got to the market first, they would likely get the highest prices and the best markets. Even given a tight economic climate, the project would still potentially be feasible for producers by a small margin. However, if the state ended up marketing behind the producers and thus procuring less for its gas, it could mean a loss for the state. In addition if the state was competing with the producers in the same market it could reduce the price it obtained in Asia if the buyers tried to play the state against the producers. Getting the producers to sell the state's gas was exactly what happened with the in-value system. He concluded that the state would have more bargaining power than through negotiation.

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Mr. Marks discussed slide 12: "B. Regulation":

- Proposal under Heads of Agreement (HOA) is for FERC to regulate under Section 3 of the Natural Gas Act
  - Mainly designed for licensing the siting, construction, expansion, and operation of LNG import or export terminals
  - Terminals include facilities used to transport and process gas
  - Appears this would be the only pipeline in the U.S where tariff for consumers' gas is not regulated
- No regulation of tariffs or expansions
  - To get reasonable tariffs and expansions, state ownership necessary
  - Unclear what happens as in-state needs expand:

Mr. Marks stated that, as specified by FERC, an LNG terminal included a treatment plant and a pipeline. Based on FERC's definition, the current proposal would not have any regulations on tariffs or expansions. In the Lower 48, where Section 3 was used and included pipelines, there were interstate pipelines that delivered gas to consumers; FERC regulated the pipelines under Section 7. After consulting with research staff from the National Association of Regulatory Utility Commissioners, the National Regulatory Research Institute, and the Texas Railroad Commission, he

discovered that the proposed pipeline would be the only one in the United States in which tariffs for consumer gas were not regulated. Under the proposal, the pipeline would not be a common carrier or a contract carrier. He continued that the pipe would essentially be four industrial feed lines from the North Slope to Asia. He concluded that the way the proposal was designed, state ownership was necessary in order to get reasonable tariffs and expansions. He also surmised that the state's capacity would possibly become the expansion source of last resort.

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Mr. Marks directed attention to slide 13: "Example - Initial Gas disposition (billion cubic feet per day)":

Initial Gas Disposition (billion cubic feet per day)	
Total Gas	2.4 bcf/d
State Share	25 percent
State Gas	<u>0.6 bcf/d</u>
To Fairbanks	(0.05 bcf/d)
State Gas to Asia	0.55 bcf/d

Mr. Marks suggested that in five years if Cook Inlet production started to decline without the prospect of recovering and Southcentral Alaska needed 0.2 bcf/d, it would be difficult to ensure production of available gas. Long-term contracts with Asia would prevent any obligated capacity from being redirected for in-state use. He volunteered that the state could request the U.S. Department of Energy revoke the export license based on indigenous consumption need. He recommended the state consult with the department for more information. He also suggested including language in the enabling legislation that would compel producers to produce gas if needed for in-state consumption. Under current lease terms it was not possible for the state to do so. He suggested that 0.2 bcf/d was a relatively small quantity of gas, and an alignment of interests between the state and the producers would be necessary. He recommended the state negotiate with the producers about the possibility of expansion if additional in-state supply was needed after the pipeline was running.

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Mr. Marks addressed what the producers would charge the state for their gas. He asserted that without regulation in place a transparent netback price would not be available to determine a reasonable purchase price. He suggested adding a provision be added to the legislation requiring producers to sell their gas to the state, designated for in-state use, at a reasonable price. He furthered that similar provisions were used in the state's tax statues.

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Mr. Marks reviewed slide 14: "Benefit of Regulation of Monopoly":

- Precedent for Regulatory Commission of Alaska to regulate in-state and export pipeline and gas treatment under AS 42.08
- Regulation is the trade-off for privilege of natural monopoly
- May enhance market efficiencies to have transparent pipeline cost
- State may be conflicted as pipeline owner or partner to pipeline owner for accountability

Mr. Marks explained that only one pipeline would be built. The state would grant a right-of-way lease giving the owner of the pipeline a monopoly on the business of transporting gas. He remarked that Section 3 of the Natural Gas Act was not designed to deal with a monopoly power over a gas pipeline in a marketplace setting where consumers receive gas directly. Currently, there was a very efficient system in place for small producers to get their oil to market. The only producers shipping gas on Trans-Alaska Pipeline System (TAPS) were British Petroleum (BP), ConocoPhillips, and ExxonMobil. It would be very inefficient for small producers such as Anadarko, Pioneer, ENI, and others, to get into the gas transportation business based on the volume of gas they produce.

Mr. Marks elaborated that prior to the Exxon-Valdez spill many of the producers shipped their oil on other producers' tankers, an agreement called, "contract of affreightment." After the Exxon-Valdez spill the small producers started selling to the "big-three" producers who then transported, shipped, and sold the gas. The small producers took a slight reduction in their selling price, but in doing so avoided taking on oil spill risk. Also, the netback costs

of the oil on the slope remained transparent. However, with the new legislation, the netback value on the North Slope would be a complete unknown except to the pipeline owners.

Mr. Marks argued that the pipeline owners would have the opportunity to exploit their monopoly, possibly impeding commercial activity and hampering the small gas producers from exploring for and developing gas on the North Slope. He also noted that if TransCanada had 25 percent capacity of the pipeline in partnership with the state to deliver gas for in-state consumption, one of the most significant roles of regulation would be to make sure there was responsible and prudent spending by the owners of the pipeline. However, in the proposed case the owners would have a monopoly, incurring costs and passing them through at their discretion. The owners would be able to make higher equity investments and earn higher investment returns without having to be responsible and prudent in their spending. He expressed his concerns that there would be no neutral place for the consumer to go with a grievance without regulation in place. In the proposed regulatory arrangement the state would potentially be conflicted in terms of accountability. He saw accountability problems for prudent spending as one of the issues to be concerned with under the proposed regulatory arrangement.

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Mr. Marks discussed slide 15: "C. Ownership and Partnership":

- Need for ownership due to no regulation on tariffs and expansion, and for lower tariffs
- State does not necessarily need partner for expertise assistance
  - o Producer expertise
  - o AGDC expertise
  - o TransCanada's expertise in gas treatment unclear
  - o To the extent there is not a need for expertise, if the state needs a cash partner, it does not necessarily need a pipeline company partner, but a general investment partner

Mr. Marks recounted the agreement explaining that the state, in partnership with TransCanada, would own 25 percent of the pipeline commensurate with its share of the gas. TransCanada would own the pipeline and the treatment

facility with an option for the state to buy into its 40 percent. He elaborated that the state would own 100 percent of the 25 percent state share of the LNG facility. He questioned whether the state needed ownership, and if so, whether it needed a partner. He opined that under the proposed regulatory structure there was a need for ownership due to the lack of regulation on tariffs and expansion and for lower tariffs. He reported three reasons outlined in the regulatory structure why the state needed a partner. First, the state's debt limit problem would be reduced by having a partner and taking an FT commitment with TransCanada. Second, a partner would bring expertise to the project. Third, the state needed a bank. He did not necessarily agree that the state needed a partner. As he discussed earlier having a partner and taking an FT commitment with TransCanada would actually increase a debt limit problem. He argued that the state would already have the expertise it needed from the producers. He also emphasized that the state would have the Alaska Gasline Development Corporation's (AGDC) expertise. Under the current proposal nearly half of the cost of the project was for the LNG facility which would be owned by AGDC without a partner; AGDC would be allowed to take on contractors but would have full ownership of the facility.

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Mr. Marks stated that under the Alaska Stand Alone Pipeline (ASAP) AGDC was appropriated more than \$400 million to own, build, operate, and finance the in-state line without a partner. The size of the bullet line project was roughly equivalent to the state's 25 percent share of the AKLNG project.

Mr. Marks moved on to discuss the gas treatment plant and the pipeline. In looking at financial reports he commented that it was unclear how much gas treatment experience TransCanada had. He claimed they were world-class transporters of oil and gas, had businesses in power generation and gas storage, but lacked much or any experience in gas treatment. He furthered that when TransCanada originally submitted its AGIA application it did not want to do gas treatment. TransCanada came back with a gas treatment contract with URS Corporation at the request of the state.

Mr. Marks suggested that if the state needed a cash partner, it did not necessarily need to partner with a pipeline company. He communicated that a general investment partner, such as a large investment bank or a private equity firm, may be a better fit. He also alluded that finance funding could come from the Alaska Permanent Fund to the tune of approximately \$3 billion. The state could invest it at 11 percent, less than TransCanada, and bring an 11 percent return which was a very equitable return.

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Mr. Marks discussed slide 16: "State Does Not Necessarily Need Partner for Cash or Lower Tariffs: 2011 Citigroup AGDC Financing Plan":

- Possibility of 100% debt financing
  - Combination of revenue bonds and state backing
  - Appears to be less risky than ASAP plan
  - Possibility of deferring most cash outflows until gas starts flowing
  - May have short-term impact on credit rating that would reverse once gas revenues start coming in
- Possibility of tax-exempt bonds through Alaska Railroad
  - Directed at industrial development projects
  - Requires IRS private letter ruling
  - Reduces cost of debt about 25% relative to taxable debt
- Would require potentially no or little equity (cash) before gas starts flowing
- To the extent the state does not need a cash partner, its good credit rating and potential for tax-exempt debt could result in a lower cost of capital

Mr. Marks reported that AGDC brought in Citigroup to put together its financing plan in 2011. Citigroup discussed the possibility of 100 percent debt financing through a combination of revenue bonds and state backing. The 25 percent AKLNG project appeared less risky than the stand-alone project in many regards. The stand-alone project was projected to be approximately \$8 billion, whereas the cost of the AKLNG project would only be slightly more. The involvement of the big-three producers would make it less risky for investors, and there would be more gas revenue coming to the state to underpin the debt.

Mr. Marks suggested that, with 100 percent debt financing, cash outflows could be deferred until gas was flowing. He continued that the state could experience some short-term impact on its credit rating that would be reversed once gas revenues started coming in. The impact would likely occur within the first five years. The only time this could become a problem was if there were gas purchase agreements in place and creditors felt comfortable that high gas prices would be coming in after construction.

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Mr. Marks discussed tax-exempt bonds through the Alaska Railroad Corporation. When the state purchased the railroad from the federal government in 1983 part of the legislation that conveyed it to the state opened up the opportunity for the railroad to issue tax-exempt debt. The purpose was to add to industrial development projects. He stated that Senator Ted Stevens authored the legislation and believed it would open the door for the state to get tax-exempt debt through the railroad. Citigroup also believed it was a possibility. He furthered that in order to get tax-exempt debt the state would need a private letter ruling from the Internal Revenue Service (IRS). A legal argument needed to be made to the IRS, which would be costly to assemble, approximately \$100 thousand or more. He explained that tax-exempt debt financing ran about 25 percent less than conventional debt. If the state could get tax-exempt debt it would be a tremendous benefit to the project; 100 percent low-cost debt financing would require little or no equity up front prior to gas output. The state's good credit rating and potential for tax-exempt debt would likely result in a lower cost of capital to the extent the state did not need a cash partner. Higher revenues, lower tariffs, and lower cost gas to Alaskans would also follow. He suggested the state bring in Citigroup as a consultant.

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Mr. Marks discussed slide 17: "Ownership: Risk of Failure to Sanction":

- Sponsors could spend over \$2 billion to get to FID and have a project not materialize, of which SOA would be responsible for 25%, regardless of whether it exercised ownership option with TransCanada
- Are producers better equipped to handle that risk?

- o Diversification - some of their other prospects will get sanctioned
  - o Finite capital competing not only for gas, but for oil
  - o Where other countries do share this risk, the takes are higher
- Will this money make a material difference to the viability of the project?
  - o The more interested the producers are in the project, the less they need state money. The less interested they are, the more the state should avoid this risk.
- Balance:
  - o How near tipping point
  - o Probability of Project
  - o Size of the prize
  - o How material is \$600 mm
- Could pursue arrangement with producers to buy in to project once it is sanctioned (or at least after pre-FEED) and re-pay feasibility costs with interest

Mr. Marks stated that the project could be stopped at any point. The purpose of the FEED process was to spend money to narrow cost uncertainties. At the time of entering pre-FEED, cost uncertainty would be in the area of 20 to 25 percent, too uncertain for going forward. He recommended spending money to get to the point where there was a confidence level of plus or minus 10 percent. He opined that it would take about 3 to 5 percent of the total project cost to get to the proposed level of comfort, reflected in the \$2.2 billion that was estimated to get through pre-FEED and FEED.

Mr. Marks discussed the challenge of developing a gas marketing plan without knowing costs. He specified that the state needed to ensure that it could generate enough income to cover its costs. He indicated that there were multiple reasons why the state could spend a lot of money and still walk away with nothing. Other projects could step into the market, prices could crash, and exchange rates could change unfavorably affecting gas prices. He was uncertain if the state should take the risk of ownership and wondered if producers were better equipped to handle the exposure. He asserted that the producers had diversification in their favor compared to the state. He explained that companies had a finite amount of capital and asserted that the current project was competing with other LNG projects as

well as higher value oil projects. The producers were the active decision makers while the state was the passive recipient.

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Mr. Marks referenced the Denali project that BP and ConocoPhillips took on a few years ago. He stated that their goal was to spend \$600 million to get to open season without an inducement act, HOA, MOU, or state participation. He claimed that in other countries, where they took the risk of incurring the costs of feasibility, they were limited to national oil companies where the government takes were much higher than Alaska's potential project. Additionally, he stated that what the producers spent on sanctioning costs would be paid for through state and federal government income tax deductions. He also claimed that the market cap of the big-three companies was about \$750 billion, dwarfing the state.

Mr. Marks posed the question whether the money the state spent would make a material difference to the viability of the project. He believed there was a tipping point where state participation would make a difference. However, there was no way of knowing where the tipping point was. He asserted that the more interested the producers were, the less they would need the state's money for feasibility. The less interested they are in the project, the more the state should stay away from the risk.

Mr. Marks commented that there was a balance between the tipping point, the probability of the project, the size of the prize, and how materially it would be if the state invested \$600 million and came away with nothing; AGIA did that with \$350 million. He stressed that what the producers needed was long-term alignment.

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Mr. Marks discussed slide 18: "Role of AGIA in Proposal":

- Public comments by administration:
  - o Aggressive time frame to get gas to market
  - o Desire to avoid potential lengthy and costly legal fight over ending AGIA license
  - o Proposal designed to end AGIA license amicably

- Appears plan was crafted (at least in part) around giving TransCanada a material role to avoid potential AGIA liabilities
- License project assurances (treble damages) clause in AGIA
- Could there be better terms if state was not so constrained by AGIA?

Mr. Marks claimed that if the state proceeded without TransCanada there would be a risk of legal and financial exposure through the license project assurances clause in AGIA, which asserted that if the state gave preferential tax treatment or a grant of state money for a competing project it had to pay TransCanada three times what it spent. In referring back to the public comments made by the administration, he believed that the state was placed in a poor bargaining position in crafting terms with TransCanada. He wondered if better terms could be agreed upon if the state was not so constrained by AGIA.

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Mr. Marks discussed slide 19: "Areas Where State Could Possibly have Better Terms If It Had No Partner":

- Possibility of full ownership of 25 percent share of GTP/Pipe with 100 percent debt financing and possible tax-exempt debt
- Lower cost of capital: higher gas revenues/lower cost gas to consumers
- There is a misalignment of interests between shippers and non-shipper partners

Mr. Marks reported in the current project the state would be the shipper and TransCanada would be the transporter. He emphasized that the biggest risk of the project (other than the market) was cost-overruns and expensive expansions. TransCanada would make money while the state would lose money on overruns. TransCanada made money on its return on equity; the higher the equity invested the more money it made. He asserted that TransCanada did not have incentive to be efficient with spending whereas it was critical for the state to avoid cost overruns.

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Mr. Marks moved to slide 20: "Areas Where State Could Possibly have Better Terms If It Had a Different Partner (or could re-negotiate MOU) ":

1. Sharing failure to sanction risk
2. Share in benefit of lower interest rates
3. Higher ownership share than 40% (of 25%)
4. Better cost of capital terms in tariff
  - o TransCanada's terms are about the same as other Canadian pipelines
  - o 100% or tax-exempt debt may be preferable
  - o Given producer involvement, terms on existing pipelines may not be relevant

Mr. Marks relayed that the state could potentially negotiate better terms by putting the project out for competitive bid or renegotiating the existing terms. He reported that there were at least ten pipeline companies in Canada and the United States that were capable of doing Alaska's project. He identified four areas of the MOU that could be adjusted to benefit the state. Currently, the state assumed all of the risk of failing to sanction. He suggested that risk could be shared. He also proposed sharing in the benefit of lower interest rates. Under the current MOU TransCanada proposed a 5 percent cost of debt. If interest rates were to go down and TransCanada were to refinance at a lower interest rate it would not be obligated to pass the lower interest rate on to the state. The state would have to continue paying the higher interest rate. A different partner could offer to share in the benefit of lower interest rates. The state could also negotiate a higher ownership share than 40 percent.

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Mr. Marks stated that the final area in which terms could be adjusted was better cost of capital terms. He recounted that what TransCanada proposed was better than U.S. pipelines under FERC, and what it received currently was about the same as other Canadian pipelines. He suggested that the 100 percent or tax-exempt debt was preferable to what TransCanada offered. Also, with producer involvement, terms on existing pipelines could be irrelevant. Private equity firms could come in wanting lower returns. Also, the state's portion of the pipeline was 25 percent. The remaining 75 percent belonged to the producers who were well-financed, well-capitalized, well-motivated, and well-

experienced. Other entities could look at the project as less risky than terms on existing pipelines. Another bidder might need a lower return and might be willing to share some of the sanction risk. He reiterated the importance of going out for bids on such a significant project.

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Mr. Marks directed attention to slide 21 titled "How Bound is State by AGIA?":

- The easiest way out of AGIA is abandonment of the project as uneconomic (AS 43.90.240)
- Official project plan is still the pipeline to Alberta
- Uneconomic defined as:
  - “predicted costs of transportation at a 100 percent load factor, when deducted from predicted gas sales revenue using publicly available predictions of future gas prices, would result in a producer rate of return that is below the rate typically accepted by a prudent oil and gas exploration company for incremental upstream investment that is required to produce and deliver gas to the project.”
- If parties disagree it is settled by arbitration
- If it is found uneconomic - treble damages no longer apply
- Economically, this would not be difficult to show

Mr. Marks defined an "uneconomic" project to be one that, given predicted costs and gas prices, had a sub-economic rate-of-return. He commented that the standard in statute, referred to as a preponderance of evidence, was a low threshold. He explained that if there was a 51 percent chance that the pipeline to Alberta project was not economic, the state would not be bound to the project. Under AGIA, if the parties disagreed on the economic viability of the project, they would settle their dispute via arbitration. He continued that if the project was found to be economic then treble damages would no longer apply [Note: slide reads "If it is found uneconomic - treble damages no longer apply"]. He asserted that it would not be difficult to show that the project to Alberta was uneconomic. He furthered that he had informal conversations with Don Bullock, at Legislative Legal Services, who believed that it would not be difficult to show that the

project was uneconomic. Mr. Marks reported that the most recent cost estimates for the project was \$30 billion to \$40 billion excluding transportation costs from Alberta to the Lower 48. He surmised that today, given the cost estimates of the project and the forecasted prices in the Lower 48, the project would lose money. He disclosed that currently there was approximately 1,200 trillion cubic feet of gas available in the Lower 48 closer to the market at a lower cost than what Alaska could offer.

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Mr. Marks discussed slide 22: "Fiscal Stability":

- Producers have continually expressed necessity
- Some fiscal stability may be necessary
- SB 138 not stable
- Scope out producers intentions as to what constitutes adequate stability.

Mr. Marks affirmed the necessity of fiscal stability. He believed that it was a serious issue based on the history of the state over the last 25 years. He opined that SB 138 in its current form was not stable. He acknowledged the in-kind gas provision but asserted that there was nothing in the bill that would prevent a future legislature from coming in and imposing an additional tax. He suggested approaching the producers to find out what they believed to be adequate stability. He referenced Section 9.3.2 in the HOA that addressed other terms that made the contract predictable and durable. He did not want the state to be in a position where it made a \$600 million investment just before sanctioning only to have producers set an additional stipulation such as a change in the constitution.

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Co-Chair Stoltze asked if the legislature had time to explore everything Mr. Marks suggested.

Mr. Marks stated that he had laid out some questions that needed to be asked and some options that needed to be explored. He posed the question whether it would make sense for the state to go forward before answering the questions and exploring its options.

Co-Chair Stoltze asked if enough tweaks could be made to provide a higher level of comfort and certainty for Alaskans based on Mr. Marks' recommendations.

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Mr. Marks responded with caution by stating that he understood the legislature did not want to be told what to do. He reiterated that there were some big questions to ask such as whether the state should enter into the project prior to the sanction point. He suggested putting a mechanism in place where once the project was sanctioned the state would enter into a commitment with the producers. The state would then have the time to arrange its financing and give the producers the long-term alignment they needed. The largest alignment between the state and the producers would be for the state to commit to taking its gas in-kind. He suggested that the state consult with Citigroup about financing options.

Mr. Marks recommended declaring the AGIA project uneconomic. The state would then be free to move forward without TransCanada. He warned that if the state was bringing TransCanada in because of AGIA, the state was really limiting its options. He continued that if the project was put out for bid it was possible that the state would find out that TransCanada was an ideal partner. He contended that in the case of large projects most businesses go out to bid in order to consider all possibilities.

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Co-Chair Stoltze mentioned that the state would have another chance to approve a contract and that a special session might be on the horizon for next year. He asked Mr. Marks to elaborate on how much the state would be obligating itself in taking the next step.

Mr. Marks replied that his understanding of the enabling legislation was that it eliminated the option of going forward without TransCanada. He avowed his concerns.

Representative Gara asked about Mr. Marks' availability to help with amendments if necessary. Mr. Marks confirmed his availability.

Representative Gara asked for clarification regarding Mr. Marks' statement about statute rather than negotiation.

Mr. Marks replied that, in terms of the state getting what it wanted, it had much greater bargaining strength putting something into statute than sitting down to negotiate. However, he interjected that all parties should be considered.

Representative Gara expressed his concerns that if he did not vote for the legislation the state would be saddled with the Alaska Stand Alone Pipeline (ASAP) project. He asked for further clarification. He also asked why Mr. Marks thought the project had a lower risk than ASAP.

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Mr. Marks remarked that if he were a creditor looking at the two projects he would be inclined to loan money to the state for the AKLNG project because it appeared less risky than the ASAP project. Citigroup said that under ASAP the state could get \$8 billion and possibly 100 percent debt financing at good interest rates. There would be no producer involvement, and a much lower revenue stream with ASAP. The state would have a 25 percent buy-in, approximately \$11 billion, with producer involvement, and a higher revenue stream with the AKLNG project.

Representative Gara asked if the state should leave its options open when considering the risks and benefits of revenue in-kind versus revenue in-value.

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Mr. Marks recommended taking the gas in-kind and opined that it was a powerful economic incentive for the producers to continue with the project. In considering a project of its magnitude being able to move the rate of return by one or 2 percentage points was significant. He also advised including the stipulation that the producers sell the state's gas with their gas at the same price, which he believed would remove significant risk.

Representative Edgmon referred to slide 20. He asked Mr. Marks if his recommendation would be to explore the four items listed prior to passing SB 138.

Mr. Marks responded strongly in the affirmative. The legislation would wed the state to TransCanada, thus removing the option for a lower cost of capital on TransCanada's portion. He thought the exploration was prudent in securing the best deal for the state.

Representative Edgmon brought up the difference between Mr. Mark's analysis of the project and that of Black and Veatch. He noted Black and Veatch's evaluation favored TransCanada as a worthy partner for a number of reasons. He cited a reduction in up-front costs to the state of \$4 billion to \$7 billion, and the expertise accompanying TransCanada. He questioned why Mr. Marks' assessment of the project differed so much.

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Mr. Marks concurred that he disagreed on the points offered by Black and Veatch. He specified that if the state could not get 100 percent debt and did not have the cash, there were other possible investors who would conceivably be willing to invest at lower rates of return. He mentioned that he had looked through the company's financial reports and did not find evidence to support TransCanada's expertise in the business of gas treatment. He encouraged the state to have a candid conversation with TransCanada on the subject. He spoke of access to studies done during the AGIA process of the pipeline between Prudhoe Bay, Fairbanks, and Nikiski. He believed that the state already had the expertise of the producers available.

Representative Edgmon asked about the state's current financial obligation to TransCanada. Mr. Marks replied that pursuant to the MOU no spending had occurred.

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Representative Guttenberg asked why the project remained viable when there were cheaper, closer, and larger volumes of supply available on the market.

Mr. Marks replied that all of the proposed LNG projects had problems. The advantage of the AKLNG project was that the gas would be produced and ready to go. Other projects would require development along with production. However, the advantage was offset by the cost of the pipeline. The majority of other projects did not have to incur pipeline

costs. Another big challenge of the AKLNG project was bearing the cost of the treatment plant, 25 percent of the total cost. It was necessary for Alaska's gas to be treated for carbon dioxide (CO2) removal. Both Prudhoe Bay and North Slope gas contained about 12 percent CO2, higher than average. In liquefying gas all CO2 must be removed, driving up costs.

Representative Guttenberg asked about tax-free debt.

Mr. Marks explained that if the state owned 25 percent of the project and could acquire tax-exempt debt, it could issue tax exempt bonds for 25 percent of the project, unlike TransCanada. Since the bond holders did not pay tax on their earnings, they would accept lower return rates on tax-exempt bonds. He reported that generally tax exempt bonds were about 25 percent lower than a taxable one, a big savings in the cost of capital on the pipeline.

Representative Guttenberg asked for clarification on TransCanada's role to the state. He asked if the entity would operate as a bank to the state.

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Mr. Marks replied that TransCanada was a bank for the state as well as a resource for its expertise on the pipeline. Regarding the tax-exempt debt, any piece that TransCanada owned was a piece the state could not borrow against.

Co-Chair Austerman reiterated Mr. Marks' comment that the liability of the project was enhanced by Alaska taking its gas in-kind and selling it alongside the producers. He furthered that, from Mr. Marks' comments, it was beneficial to the producers. He wanted to know what the most optimal plan was for the state and what that meant for Alaska.

Mr. Marks replied that Alaska taking its gas in-kind would likely determine whether the project moved forward. Moving the rate of return one or two percentage points and lowering the breakeven price \$1 to \$2 could make or break the project.

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Co-Chair Austerman addressed the possibility of producers selling the gas for the state. He asked Mr. Marks to comment about concerns producers had about competition.

Mr. Marks responded that he believed the producers were able to find the best buyers and command the best price for gas ahead of the state. Given how much gas would need to be sold if the state was fourth in line to sell its gas it could potentially lose a few dollars per million BTU, an excessive dollar amount; it could mean the difference between making and losing money on the project. The state could opt for hiring a gas marketer; however, the producers had experience and contacts in the Asian market. Once the producers sanctioned the project the state would be passively "all in". He furthered that the producers could pay their taxes in-kind forcing the state to take the FT commitment and to sell its own gas. He reemphasized that if the state fell to fourth place in the marketplace then it could end up with several dollars less per unit than the well-connected producers.

Co-Chair Austerman wanted to know if there would be an anti-competition issue. Mr. Marks responded that the state would have separate and succinctly different deals with each of the producers.

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Representative Gara asked about firm transportation. He also asked how the state could limit its risk of paying for capacity in the pipeline that went unused. Mr. Marks responded that the risk was low. He furthered that the investment made by the producers would serve as an incentive to keep gas in the pipeline unless there was some unintentional damage to the reservoir preventing gas from being produced.

Co-Chair Austerman reminded members that any requests for services from any of the state-hired consultants had to be written and processed through Senator Anna Fairclough's office.

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JANAK MAYER, PARTNER, ENALYTICA, encapsulated the discussions, issues, and questions from previous weeks regarding the project into one fundamental theme; making

choices and commitments. He focused on the state's approach related to how much it should commit to at present and how much it should negotiate over time. He understood the difficulty, from a legislative perspective, in making decisions with only tools of statute, rather than tools of direct negotiation. He referred to the Stranded Gas Development Act (SGDA), which he indicated set the fundamental terms of the agreement prior to any money being spent on feasibility or further stages. The approach to the AKLNG project was about setting initial framework, having all of the partners together committing money and resources to finding out more about the project, and making a series of stage commitments as the process unfolded. He wanted to further discuss the fundamental question of making decisions at present versus making decisions in the future (i.e. A project now versus a different project later, the state trying to be carried through the process of feasibility without having to currently devote funds, and the role of TransCanada).

Representative Edgmon clarified that Mr. Mayer's main point to the committee was not to get too overwhelmed with all of the information, as the project was only in the pre-FEED stage. Mr. Mayer agreed.

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NIKOS TSAFOS, PARTNER, ENALYTICA, believed the biggest question that needed to be answered was whether the legislation in front of the committee should be passed or if the state should choose another path. He surmised that the most difficult part of LNG projects was that everything had to happen in parallel, rather than in a sequential process. Gas could not be sold if people did not have confidence in supply availability. Marketing would be an impossible task without pricing, and financing would be difficult to obtain without cost. He contended that the overarching challenge of the project was to determine the approach. He suggested there were two approaches; first was to make all of the decisions up front then carry them out. He favored the second approach which was to recognize that there were multiple parallel paths that were dependent and built upon each other. He noted that the fiscal notes included the state committing to less than \$100 million in the pre-FEED stage. He also suggested that projects changed over time. New partners could come in and possibly reduce

the state's exposure. He emphasized things would change as the project progressed.

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Mr. Mayer discussed the state's exposure over the next couple of years. He relayed that the HOA outlined the state's role as an equity partner contributing 25 percent of the costs through the pre-FEED and FEED process. He furthered that the state would ultimately be liable for its equity portion no matter TransCanada's participation. There were some concerns raised whether the state was in a position to assume the proposed risk. Risk for producers was spread among a number of LNG projects, whereas, the state had a compelling interest in only one project. The current framework included in the HOA, a non-binding agreement of the parties that outlined the vision of the project. He asserted that the agreement was appealing because the parties agreed to encounter the feasibility process without having all of the details defined. The alternative was to start from scratch with the state assuming less exposure and negotiating a comprehensive contract. The agreement would encompass the entire fiscal framework and the exact nature in which the state would participate prior to moving forward.

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Mr. Mayer emphasized understanding the nature of the project and investing incrementally over time as opposed to committing upfront without much information just to save money in the first year of the feasibility stage. He claimed that when he looked at both options it was more appealing for the state to enter into slowly escalating commitments in tandem with details of the project, thus minimizing risk. He reiterated the question came down to making choices now or later.

Mr. Tsafos added an additional point about marketing to his discussion from the previous day. He cautioned the committee about committing to have the producers sell the state's gas on their same terms. Although intuitively appealing, gas was very contract dependent, unlike oil. One of the particular features of contracts were measures that allowed the state to limit its volatility such as having a floor or ceiling in a contract. He suggested that as a sovereign the state might want a different exposure level

than that of the producers. The producers had assets all over the world and viewed risk management and commodity exposure in a fundamentally different way than the State of Alaska. He wanted to caution and challenge the assumption that if the producers sold the state's gas on its behalf that the terms would automatically be the best terms for the state. It was highly possible that the producers' risk tolerance differed from the state's. It was also highly possible that the contract that producers signed would have a risk exposure quite different from what the state would like.

Mr. Tsafos addressed the broad idea of making a decision today versus in the future. He alleged that if the state set certain marketing terms at present it would also take on certain risk exposures that it would not have control over. Whereas if the state waited one, two, or three years out it might have more say in managing its risk. The state could clearly ask for its gas to have a guaranteed floor of \$10 and a ceiling of \$15, for example, with certain terms attached. The producers might not want to market their gas in such a way. However, if the state agreed to receive whatever the producers collected, it would also have to be willing to adopt their risk tolerance appetite, something the state needed to know more about.

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Mr. Mayer discussed some of the specifics of the MOU and the role of TransCanada. He indicated that he had some concerns about certain terms of the MOU. He prefaced himself by saying there were many things he liked about the relationship with TransCanada. He opined that TransCanada was a highly capable partner with a strong interest in expansion. However, he had substantial concerns about the sharing of risk and reward in the contract. He also pointed out there were concerns about what to do if the state sought to finance its portion entirely on its own. He wanted to know the state's true financial capacity, true cost of capital, and how the two things compared. If the legislature was asked to firmly commit to the project in partnership with TransCanada before other decisions were made he would be very concerned. As the legislation and agreements traveled through both legislative bodies he had been asked a multitude of questions about the specific timing of things. He had a higher degree of comfort with what was proposed because of what he had learned in the

process about the timing involved. He relayed that the MOU was a term sheet that identified the terms that would be a part of subsequent agreements that the state would negotiate in more detail at a later date. He mentioned three fundamental agreements including a pre-set agreement setting out basic terms, an equity option, and most importantly a firm transportation services agreement. The signing of the transportation services agreement was the point at which the state would make a firm and binding commitment with TransCanada to build and be bound for several decades to pay for the capacity built. The terms of the agreement would be negotiated over the next year or more and brought before the legislature for approval. Until then, the initial preceding agreements would be implemented including the termination of AGIA. One of the things that gave him additional confidence in the project was the requirement found in the enabling legislation that mandated the state to conduct a study of its financing options without TransCanada's involvement. He would feel capable of understanding the state's choices being able to look at the study and assess costs and benefits associated with each option.

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Mr. Mayer reiterated the focus on current decisions versus decisions later. He proposed that the state wait for the negotiation process to take place before making decisions. He believed making a decision and getting locked in at present, would not be in the state's best interest.

Co-Chair Austerman indicated he would allow some questions. However, he cautioned members to study the bill. Co-Chair Stoltze added that SB 138 was officially transmitted to the committee.

Representative Holmes asked about having the administration come back to the committee to review the sectional analysis. Co-Chair Stoltze confirmed that the administration would come before the committee again. Co-Chair Austerman indicated the importance of reviewing the bill in order to know what questions to ask.

Representative Gara asserted that fundamental policy calls should be made at present rather than later. He communicated that the current contract required the state to reimburse TransCanada hundreds of millions of dollars if

the project did not move forward. The state would have invested millions without knowing whether the project would be successful. He mentioned market changes and producer decisions that could influence or stop forward progress of the project, items out of the state's control. He recalled Mr. Marks specifying that with the risk of paying so much money up front, other sovereigns received higher state shares than was anticipated for Alaska. He asked Mr. Mayer to comment.

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Mr. Mayer did not agree that all sovereigns had a higher state share. He agreed with Mr. Marks' characterization that by-and-large sovereigns that took the most risks did so through national oil companies.

Representative Gara reiterated that by-and-large, sovereigns that took the most risk received the greatest return, larger than Alaska's share.

Mr. Tsafos responded that he was not sure if the causation was correct. He commented that states that had bigger shares and had a 70 or 80 percent share of an LNG project naturally assumed the costs of studying an LNG project. He was not sure the causation was that the less the state paid up front the more the state received later.

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Representative Gara asked about the maximum state liability for the state's share and TransCanada reimbursement costs if the project was halted at decision time.

Mr. Tsafos referred to slide 30 [SOA'S Cash Calls and Off Ramps] of the presentation from March 28, 2014. He estimated the total cost to the State of Alaska to be approximately \$600 million through the pre-feasibility and feasibility stages with the exclusion of TransCanada. The costs could increase with additional studies. The state's liability to TransCanada was whatever portion of the 25 percent ownership TransCanada financed plus 7 percent interest. If the state was to abandon the project at the time the work was done, it would be liable to TransCanada for \$150 million to \$400 million. However, he conveyed that spending would increase as confidence in sanctioning the project increased based on the results of the studies. If

the studies provided doubts on the viability of the project the state would be less likely to spend its money. The range of what the state would owe depended upon whether the state exercised the equity option.

Representative Gara restated his question about the maximum dollar amount the state would be liable for at the time a decision was made whether to abandon the project. Mr. Tsafos responded with \$700 million including the 7 percent interest paid to TransCanada.

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Representative Wilson wondered if partnering with TransCanada was the best way out of AGIA or the best partner for the State of Alaska. She inquired whether Mr. Tsafos would seek TransCanada as a partner for the AKLNG project. She expressed her concern about the concessions the state would make with TransCanada based on its previous agreement under AGIA.

Mr. Tsafos responded that rather than advocating in favor or against a partnership with TransCanada his job was to assist lawmakers in examining potential trade-offs and options for the state. He opined that the state would not be on the path that it was currently on if the AGIA license and obligation were not at play. If the state was starting from scratch there would be several options for it to consider. He suggested that one of the questions the state needed to ask itself was whether it wanted a pipeline partner. A partner such as Citibank did not have the technical expertise that another partner would be able to offer. The state needed technical knowledge and could either hire it or find it in a partner. He furthered that a partner with a stake in the results of the decisions being made would have more of a buy-in than a consultant. He was unclear whether or not it would be worth hiring a consultant versus paying TransCanada 7 percent of approximately \$50 million over the next 18 months for a pre-feasibility study.

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Mr. Tsafos discussed alternatives to TransCanada. He referenced a benchmark study that he reviewed with the committee previously regarding tariff terms. He mentioned that, in particular, the 75/25 capitalization ratio, which

yielded a low tariff return, was attractive. PFC Energy put out a document called the "PFC Energy 50" that provided a list of the 50 largest market capital companies. He looked at the segment analysis of the different companies including the midstream infrastructure segment. The ranking of market capitalization companies as of December 31, 2013 included Enterprise with a market cap of \$62 billion, Kinder Morgan with a market cap of \$37 billion, Enbridge with an market cap of \$36 billion, TransCanada with a market cap of \$32 billion, Energy Transfer Partners with a market cap of \$24 billion, Williams with a market cap of \$22 billion etc. Although "market cap" was not the only measure to look at, it indicated which companies would be willing and able to take on a \$6 billion commitment. He indicated TransCanada, the only company that qualified under AGIA, emerged out of a process. He recommended asking why there were more parties interested in the AKLNG project than the AGIA project, understanding that the projects were fundamentally different. He remarked that it was possible for the state to negotiate a better deal, but he could not guarantee it. He reemphasized the importance of the firm transportation agreement and knowing when it would become final.

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Representative Wilson suggested that all of the consultants come back to the table at the same time in order for committee members to address their questions and concerns.

Co-Chair Austerman indicated that he shared the concerns of other committee members. He was unsure if TransCanada was the right choice or if the state should find its own funding and join together with the producers out to bid. He hoped some answers to his questions would become clear looking at the bill. He stated that he had more concerns with the MOU than with the HOA. He intended to focus on better understanding the MOU.

Co-Chair Stoltze commented that although the consultants could not give the state its answers, they could provide tools and the best information possible. He relayed that the committee would do its best with the limited time and information it had.

Co-Chair Austerman discussed the schedule. Co-Chair Stoltze announced that public testimony would be taken in the morning at 8:00 am and discussed additional housekeeping.

#

ADJOURNMENT

3:48:08 PM

The meeting was adjourned at 3:47 p.m.