

HOUSE FINANCE COMMITTEE  
THIRD SPECIAL SESSION  
October 26, 2015  
1:38 p.m.

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CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:38 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair  
Representative Steve Thompson, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Bryce Edgmon  
Representative Les Gara  
Representative Lynn Gattis  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Cathy Munoz  
Representative Tammie Wilson

MEMBERS ABSENT

Representative Lance Pruitt

ALSO PRESENT

Marty Rutherford, Deputy Commissioner, Department of Natural Resources; Deepa Poduval, Principle Consultant, Black and Veatch; Representative Liz Vazquez; Representative Geran Tarr; Representative Dan Ortiz; Representative Paul Seaton; Representative Andy Josephson; Representative Gabriel LeDoux; Representative Shelley Hughes; Representative Sam Kito III; Representative Cathy Tilton.

SUMMARY

HB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.

HB 3001 was HEARD and HELD in committee for further consideration.

PRESENTATION: TRANSCANADA BUYOUT PROPOSAL, BLACK and VEATCH REPORT

Co-Chair Neuman relayed that the committee would continue to address the presentation from the previous day ["TransCanada's AKLNG Participation" dated October 25, 2015 (copy on file)]. He noted that if there was time he would ask Pat Pitney, Director, Office of Management and Budget, Office of the Governor to continue further discussions on the HB 3001 budget analysis.

Representative Gattis asked if the presenters were free to discuss anything outside of proprietary information. She wondered if the presenters had been prepared by the attorney general to speak only about certain subjects.

MARTY RUTHERFORD, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES (DNR), responded that they had done some preparations for the meeting, but that was not unusual. The only issues they could not discuss was AKLNG confidential data. She noted that the state's Precedent Agreement (PA) with TransCanada had been released and was now available for discussion.

Representative Gattis remarked that the committee should be provided with organizational charts and other similar items. She stated there appeared to be significant hold back.

Co-Chair Neuman noted that the co-chairs were starting to compile all of the information, which he believed was available in paper format and online. He pointed to a Black and Veatch report in members' packets on the TransCanada decision primer ["TransCanada AKLNG Participation Decision Primer" dated October 24, 2015 (copy on file)].

#hb3001

House Bill No. 3001

"An Act making supplemental appropriations; making appropriations to capitalize funds; making appropriations to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) in accordance with sec. 12(c), ch. 1, SSSLA 2015; and providing for an effective date."

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^PRESENTATION: TRANSCANADA BUYOUT PROPOSAL, BLACK and VEATCH REPORT

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Ms. Rutherford addressed a PowerPoint presentation titled "TransCanada's AKLNG Participation" dated October 25, 2015 (copy on file). She began with slide 2 titled "Executive Summary." She read from the slide:

Background:

- In June 2014, the State of Alaska (SOA) and TransCanada Alaska Midstream LP (TransCanada) entered into a key agreement authorizing TransCanada to pay the upfront capital costs and hold the State's 25 percent share of ownership in the midstream components of the Alaska LNG (AKLNG) Project. These midstream components are the Gas Treatment Plant (GTP) and pipeline portions of the overall project.
- The agreement, called the Precedent Agreement (PA), was based on terms of a Memorandum of Understanding (MOU) between the State and TransCanada signed in December 2013. While the Alaska Legislature was not a party to the PA, it reviewed and debated the terms of the MOU during the 2014 legislative session.

Co-Chair Neuman asked for a brief summary of the content of the MOU and the PA.

Ms. Rutherford referred to the key terms of the PA between the state and TransCanada on slide 5.

- TC Owns the State's ~25 percent Entitlement to GTP + Pipeline
- Funds up front midstream cash calls
- Technical lead for pipeline during pre-FEED
- State to Commit to 20-25 Year Transportation Agreement with
- TC by December 2015 to Pay for Using GTP + Pipe

Ms. Rutherford elaborated that the FTSA [Firm Transportation Services Agreement] laid out the commercial agreement between the state and TransCanada; it outlined how the state would repay the costs once the project was

operational. She noted that the costs were throughput charges.

Co-Chair Neuman wondered if the administration had a flow chart showing how the state would repay the costs. Ms. Rutherford replied that the administration was working on the information for the committee. She relayed that the state's contracted financial experts including Greengate LLC, FirstSouthwest, and Lazard had presented to the committee earlier in the week. The finance group worked with the Department of Revenue (DOR) and was primarily responsible for talking to the legislature about the financial side of the project. The current presentation was related to the initial payback responsibilities and how the department saw the exchange of values.

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Representative Wilson asked if the DOR commissioner would be available to testify on the financial portion of the project.

Co-Chair Neuman replied that he would put in the request, but he did not know if the commissioner was available.

Representative Wilson wondered about other issues including royalty in kind [RIK] and royalty in value [RIV]. She thought the special session related to contracts in addition to the consideration of buying out TransCanada. She asked if there was another checklist.

Ms. Rutherford responded in the negative. She explained that the Heads of Agreement (HOA), which the legislature was party to, specifically laid out that the RIK versus RIV decision would follow the completion of commercial agreements that would affect the decision. She elaborated that there was nothing in SB 138 [legislation passed in 2014 related to a gas pipeline, AGDC, and oil and gas production tax] that specified due dates with the exception of a couple of reports that would be due to the legislature from AGDC and DNR (none of the dates had been triggered yet). The department was compiling information that would show the committee the dates and what they were linked to.

Representative Wilson remarked that the decision to terminate TransCanada could have already been made by the DNR commissioner. She believed the state had 90 days from

the point of termination to pay off the contract. She wondered why the department had not terminated the contract and come to the legislature for a supplemental appropriation during the regular legislative session [in 2016].

Ms. Rutherford answered that the primary reason was that a work plan and budget decision needed to be made simultaneously. The original commitment date by every party to AKLNG, was November 15 [2015], but the parties had agreed to delay the date to December 4, 2015 at the latest. She continued that the work plan and budget funding would have to be available in order to continue moving the project forward if the state decided to terminate the PA with TransCanada.

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Representative Wilson suggested that DNR did have an approved budget. She reasoned that the purpose of the supplemental budget was to pay for items that had not been anticipated in the original budget (e.g. funding for wildfires). She understood that the department could not appropriate. She stated that year after year issues had been taken care of with the supplemental budget. She noted that the appropriation [in HB 3001] was one amount of around \$144 million that could have been included in the governor's supplemental request. She remarked that the legislature had already communicated that it would pay the amount by passing the legislation [SB 138].

Ms. Rutherford responded in the negative. She explained that there had been money appropriated for the various agencies. For example, DNR had received approximately \$8.9 million out of its \$13 million request; the department had known the charges associated with the commercial agreements would run high and HB 3001 included a request from DNR for half of the additional funding that had been eliminated. Additionally, the Department of Law (DOL) was asking for funds for work conducted by outside law firms (Greenberg Traurig LLP and Milbank, Tweed, Hadley & McCloy LLP) because the state was working diligently to get the commercial agreements in place. She relayed that DOR had an additional funding request as well. However, the real critical component was the additional pre-FEED [Front End Engineering and Design] work funding that must be appropriated by the legislature in order for AGDC to commit

to the work plan and budget no later than December 4, 2015. She stressed that AGDC could not make the commitment without the funds.

Representative Wilson suggested having David Teal, Director, Legislative Finance Division explain the difference between the supplemental before the committee and the typical supplemental budget bill. She thought the legislature had budgeted through June 30, 2016. She reasoned that DOL and DNR still had money. She stated that the departments may have to take funds from other areas to fulfill the need. She wanted a better understanding why the issues could not have been addressed during a regular session.

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Representative Gara believed that a large gas pipeline that would make gas available to Alaskans and for export, had been a dream of Alaskans for a long time. He stated that the last thing the state would want to do was kill the project. He referred to testimony that continuing with TransCanada would cost the state significantly more due to the 7 percent interest on top of TransCanada's costs. He reasoned that if the state continued forward with TransCanada, no legislative appropriation would be necessary, but testimony had asserted that the cost was higher than the state should pay. Alternatively, if the state chose to terminate TransCanada and did not receive an appropriation to cover the costs, it would inadvertently kill or temporarily halt the project.

Ms. Rutherford responded in the affirmative. She elaborated that the AKLNG partners had specifically stated that the project could stop (employees would begin to be removed from the AKLNG office) if any particular party failed to fund the work plan and budget by December 4 [2015] through the end of pre-FEED. She furthered that project was required to have the appropriation in place. She discussed that FY 15 budget funded AGDC for the liquefaction portion of the work plan and budget. The administration's proposal was to replace TransCanada's role in the pipeline and gas treatment plant (GTP) with ADGC, which required an appropriation to fund those portions of the work plan and budget going forward. She stated that without the appropriation, the project would either stop completely or slow down.

Representative Gara elucidated that when the budget was passed in 2015, TransCanada had been in the project paying the costs and charging what he believed to be an excessive interest of 7 percent. He asked for verification that the legislature did not appropriate any funds for the state to take TransCanada's place.

Ms. Rutherford replied in the affirmative.

Representative Gara asked for verification that the purpose of asking for an appropriation was that money would be saved by removing TransCanada from the project, but money was needed to make the project move forward.

Ms. Rutherford answered in the affirmative. She detailed that the monies were built into the analysis that DeepaPoduval with Black and Veatch had provided in terms of the additional upfront costs that were the exchange for the higher cash values to the state once the project was operational.

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Vice-Chair Saddler disputed Ms. Rutherford's statements. He communicated that money had been provided for the project to continue absent a TransCanada termination. He stated that Ms. Rutherford was making the case that the money was needed because it was not available to terminate TransCanada. He stated that the status quo was to proceed with TransCanada. He furthered that money had been provided and under the traditional financing mechanisms, the administration was able to adjust money to cover exigencies for supplemental expenses such as wildfires. He believed the money was available. He pointed to background information on slide 2, specifically to language stating that the legislature was not a party to the PA, but that it had reviewed and debated the MOU. He agreed, but noted it had taken place over 1.5 years earlier. He remarked that the legislature had only received the PA earlier in the day and the administration was asking the legislature to execute the termination, which he believed to be one of the most critical elements. He stressed the importance of knowing what the PA included prior to moving forward.

Ms. Rutherford clarified that she had understood Representative Wilson's earlier question to be about why the administration had come forward with the proposal at the current time. She explained that the commitment to the work plan and budget would have to be made by December 4 [2015]. She furthered that if the state was going to remove TransCanada from the project, it had to be done at present. Alternatively, the state had the option of entering into an FTSA with TransCanada by the end of December [2015]. She explained that once the state entered into an FTSA it would be much more difficult to terminate its relationship with TransCanada, given that the company would be provided with back-in rights. She noted that Ms. Poduval would discuss back-in rights in her presentation. She explained that the state did not want to lock-in the FTSA with TransCanada and did not want the back-in rights. Additionally, the state did not want to carry the 7 percent interest. She recognized that the legislature had just received the PA, which had previously been confidential (TransCanada had agreed to make the document public). She certainly appreciated that the legislature was not ready to take an action based upon the document after four hours of review. The administration was not asking the legislature to make the decision that day.

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Vice-Chair Saddler surmised that Ms. Rutherford's implication was that the inhibiting factor had been TransCanada's unwillingness to have the PA made public. From the perspective of the administration, he wondered at what point the PA could have been made public. Ms. Rutherford replied "yesterday morning."

Vice-Chair Saddler asked if it could have been any earlier than the previous day. Ms. Rutherford in the negative. She detailed that the state did not have an agreement with TransCanada to release the PA until the previous day.

Vice-Chair Saddler asked for verification that it was not only up to TransCanada to determine whether the document was made public. Ms. Rutherford replied that the state could not release the PA without TransCanada's approval. She stated that the document had been confidential and TransCanada got to make the decision about whether to make it public. Additionally, the administration had been asking

TransCanada to allow the state to release the PA for some time.

Vice-Chair Saddler asked when DNR would have been ready to release the PA with TransCanada's approval. Ms. Rutherford believed she had first asked TransCanada for the ability to release the document one month earlier.

Vice-Chair Saddler remarked that Ms. Rutherford's testimony that the document could not be released without TransCanada's approval implied that TransCanada had been the hold up. He furthered that it implied that DNR would have been willing to make the document public at any time. He asked if his statements were accurate. He asked if the administration would have agreed to release the documents 6 months earlier if TransCanada had approved.

Ms. Rutherford answered that she had not asked TransCanada for its approval to release the PA until about one month earlier. She would have been happy to release the document that day if they had approved. She stressed that she had not asked the question 6 months ago.

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Vice-Chair Saddler asked absent the permission from TransCanada when DNR would have been willing to release the PA. Ms. Rutherford responded that the state was not the party that had been unwilling to release the PA. She relayed that the state probably would have made the document public from the day the administration took office.

Co-Chair Neuman asked if there was a provision in the PA that addressed the authority for either party to decline releasing the document to the public. Ms. Rutherford believed there was. She qualified that it had been some time since she had read the entire document.

Co-Chair Neuman asked for verification that the PA included language specifying that both parties had to agree before the document could be released to the public. Ms. Rutherford replied in the affirmative.

Vice-Chair Saddler referred to the commitment to the work plan and budget. He wondered why the decision to get the appropriation in time for the work plan and budget was

occurring at present. He wondered if the issue was outlined in the PA. He asked where it was decided and by whom.

Ms. Rutherford responded that the November 15 date that had slipped to December 4 was a function of the joint venture agreement on AKLNG.

Representative Munoz addressed that SB 138 had contemplated an integrated model with the state participating as an owner throughout the value chain. She wondered what would happen in the future with the process that had been established in SB 138 if the state chose to buyout TransCanada from the project. She was concerned that the governor had stated that he had inherited a flawed process.

Ms. Rutherford did not believe that TransCanada's role impacted the path forward. She believed the reason Governor Walker had referred to SB 138 as flawed related to the fact that if any party that owned gas in Prudhoe Bay and Point Thomson backed out of the project that the project could arguably be stopped or stalled. She furthered that the governor had been concerned about a commitment from the parties in AKLNG to commit their gas should they decide not to continue to move AKLNG forward for one reason or another.

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Co-Chair Thompson asked if the PA was the only agreement between the state and TransCanada. He had heard that an amended PA had been considered during the summer.

Ms. Rutherford responded that the current PA was the only agreement that she was aware of. She elaborated that since the new administration came into office there had been some discussions about some potential amendments to the PA. She furthered that like any new administration it had looked for ways to improve the state's position. She conferred with Ms. Poduval who agreed with the information she had provided. She reiterated that there had been discussions about an additional amendment, perhaps a termination to the PA, but the administration had determined that it was not willing to terminate the agreement without coming to the legislature to find out whether the legislature was willing to fund the termination and the cash calls moving forward.

Co-Chair Thompson wondered if the current PA laid out how the state would exit the partnership with TransCanada in the event of a buyout. Ms. Rutherford stated that the PA laid out the prerogatives for the state to terminate either by December 31 [2015] or subsequently; it also laid out the conditions the terminations meant. Additionally, the PA provided that TransCanada had the right to terminate the agreement as well. She believed SB 138 had laid out that in addition to holding the state's liquefaction asset, it would also hold the pipeline and GTP if TransCanada was no longer in the project.

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Vice-Chair Saddler wondered if Ms. Rutherford had been party to discussions about any amendments to the PA. Ms. Rutherford answered that she had been party to discussions with TransCanada beginning in December [2014] until the end of May about potential changes to some of the commercial terms of the FTSA. Subsequent to that she had not been party to any discussions with TransCanada about a potential termination, which had been an additional amendment under consideration.

Vice-Chair Saddler relayed that he planned to ask others in the administration about knowledge of any amendment to the PA. He pointed to the administration's recommendation to terminate the state's relationship with TransCanada by December 2015 (slide 2). He stated that the previous day DNR Commissioner Mark Myers had acknowledged that the current law gave the DNR commissioner the authority to make the determination. He remarked that the state was recommending that action be taken, but Commissioner Myers had "refused to make that termination decision." He wondered about all of the reasons that the administration was unwilling to make the determination and follow the process through to the conclusion.

Ms. Rutherford replied that she could only speak to the reasons that she knew about. She reported that Commissioner Myers felt strongly that it was a significant decision and that even though he had the prerogative, it would have been presumptuous to terminate the PA and provide the legislature with a \$68 million bill in addition to the necessary cash calls for the work plan and budget required for the completion of the pre-FEED stage. She added that under the scenario if the appropriation was not made, the

project would stop. She and the commissioner had discussed the option and had determined that it was not the right path forward. She presumed the reasons she had cited were also the reasons that Governor Walker had agreed with the decision by Commissioner Myers.

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Co-Chair Neuman asked about the type of decisions the DNR commissioner would have to deal with when making the final decision to exit the agreement with TransCanada.

Ms. Rutherford replied that the commissioner would look at the same information that was being provided to the committee from Black and Veatch and the state's financial advisors. She stressed that it had been fairly easy to know what the legislature may need in order to make the decisions, based on the questions the commissioner had asked [in his evaluation].

Co-Chair Neuman was interested in a flow chart on the development and how the decisions had to be made.

Vice-Chair Saddler recalled Ms. Rutherford's earlier testimony that SB 138 envisioned the TransCanada termination buyout. He stated that the bill also envisioned that the decision would be made at the [DNR] commissioner's discretion. He had also heard that the review of the bill by the administration had discovered the flaw that there was not any compulsion on all of the parties to proceed to FID, which he noted was not new. He did not consider it a flaw, but a perspective. He thought the entire process was predicated on people agreeing and working together towards success. He reasoned that working towards success meant that less time was spent worrying about failure. He wanted clarity what would happen if the legislature did not pass the appropriation and the commissioner did not sign a [termination] decision.

Ms. Rutherford discussed a distinction between not going to FID versus not having the gas. She elaborated that FID would be based on many things including the final engineering and design, the ability to obtain buyers for the gas, and all of the issues associated with financing. The governor had been concerned about the potential of a partner opting out of the project and taking its gas. She specified that it was a different thing than whether or not

an appropriate determination on FID would be made. She relayed that assuming TransCanada was willing, the administration would sign the FTSA by December 31 [2015] if the legislature did not fund the buyout of TransCanada or AGDC stepping into the pre-FEED work plan and budget role. She explained that under the FTSA TransCanada would have a long-term back-in right if the project was terminated at a later date.

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Representative Saddler asked if the path forward was acceptable and was something that DNR could work with.

Ms. Rutherford responded in the affirmative. She relayed that the department had asked the question many times of its attorneys. The department believed it would take approximately 2 weeks to finalize the FTSA.

Representative Saddler asked for verification that if the legislature did not fund the appropriation that the DNR commissioner would not make the decision [to terminate TransCanada]. Ms. Rutherford answered in the affirmative. She stated that the costs to the state would be higher under the scenario.

Representative Saddler remarked that the costs had always been known. He thought it was curious that the administration's recommendation was that the agreement with TransCanada should be terminated, but it would not proceed forward with the decision if the legislature failed to fund the appropriation. He thought there was a logical disconnect about making a recommendation but not following through with the decision if the legislature did not provide the funding. He did not understand the line of thinking.

Ms. Rutherford replied that the state would not have the work plan budget monies to allow AGDC to step forward [without an appropriation]. She stressed that it was a huge amount of money. She agreed that the administration could have made the decision without the legislature's involvement and the legislature would have received the bill for paying off TransCanada; however, the state would not have the money for AGDC under the scenario.

Representative Saddler reasoned that the issue was one of a separation of powers. He stated that the administration was responsible for making policy decisions and the legislature was responsible for paying them or not. He believed it was an important distinction to keep in mind.

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Representative Neuman remarked that the administration had made a recommendation that the state should terminate its partnership with TransCanada. He wondered what the decisions were based on. He asked if the issue was financial, political, mechanical, commercial agreements that could not be achieved, or that the two entities could not work together. He stated wondered if there were specific parts or principles within the information that had been provided that the administration had looked at in coming to a decision to recommend terminating with TransCanada.

Ms. Rutherford replied in the affirmative. She spoke to the issue of alignment. She detailed that the administration felt strongly that having an alignment between the gas throughput and the state's direct ownership in the project at approximately 25 percent for both was critical. The administration believed that voting on the state's 25 percent interest in the project would be much cleaner if there was only one party owning all three project elements. Additionally, removing TransCanada would eliminate the struggle about determining who would vote under what circumstances. She relayed that there would be less confusion about how to access information. Mostly, the administration had been affected by the economic analysis that Black and Veatch had been providing to the committee. She noted that the findings had been supported by the financial group's analysis, which specified that the state could afford to finance the project moving forward without TransCanada's involvement. She emphasized that she and Commissioner Myers were concerned about the negative net-back risk that could occur once the project was in place. She furthered that oil prices had crashed, which had not been expected; she added that it would be a couple of years of dealing with the situation. Once the state had an equity position in the pipe and had gas throughput, negative net-back could occur where both the state's production taxes and royalties went negative. She stressed that the additional \$150 million to \$400 million cushion [estimated

savings without TransCanada] that would be available to the state would be significant in a potential risk situation. She characterized the final point as the most important element in the decision.

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Representative Guttenberg asked if the PA had been available to anyone who would sign a confidentiality statement. Ms. Rutherford answered in the negative. She elaborated that the existing confidentiality agreements between the legislature and DNR and DOR were specific to AKLNG and not to the confidential relationship between the state and TransCanada.

Representative Guttenberg remarked that the PA had been signed January 14, 2014. He asked if anyone had requested the release of the document during the two legislative sessions since that time. Ms. Rutherford replied that she could not speak to anything prior to her most recent employment with DNR, which began in December 2014. She relayed that approximately 2 months ago the department had received the first request for the PA.

Representative Guttenberg remarked that the committee had heard considerable information from Black and Veatch and the financial consultants. He believed it seemed clear that the [DNR] commissioner did not want to make a unilateral decision on canceling the relationship with TransCanada because of the fiscal responsibility. He applauded that decision. He agreed that there were separation of powers, which he believed were very important. He would have been concerned if the commissioner had made the decision [to terminate the agreement with TransCanada] and had put the obligation onto the state. He thought there would have been "fire in the building," which he believed would have been justified. He remarked that the fiscal analysis on the separation of the state's relationship was clear. He believed the commissioner was probably working on a final best interest findings or something similar. He wondered when the analysis was expected to be completed.

Ms. Rutherford thanked Representative Guttenberg for his comments. She relayed that the finding on the RIK decision that would trigger the option for the producers to pay their production tax as gas, would be made as quickly as the commercial agreements that affect the royalty values

could be agreed upon. Some of which were the most difficult agreements because they were underpinned by an agreement between the companies on how they would participate between Point Thomson and Prudhoe Bay, which had also not been completed. She furthered that there was often a large amount of integration between the agreements, but agreements on gas supply, field cost allowance, upstream cost allowances, and disposal of carbon dioxide were critical to making a finding and showing the analysis to the legislature and public about what the tradeoffs would be in value. As soon as the commercial agreements were complete the state had agreed to have the finding complete within 60 days; the framework was completed and the department had been collecting and developing all of the background data, but the final analysis could not be done before it was known how the agreements would affect the state's royalty values.

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Representative Guttenberg wondered what the PA contained that had made the document confidential until the current day.

Ms. Rutherford stated that TransCanada was a very successful private commercial party; there were terms under which the company would make transportation arrangements with potential shippers, which TransCanada had been concerned about releasing. She believed the company had gone a very long way in limiting the amount of information it had redacted in the PA in favor of providing the document to the legislature and the public. She thought the company had stretched its willingness to provide information, but had done so in the interest of trying to be supportive.

Representative Gara discussed that out of all the gasline projects the legislature had discussed, the AKLNG project brought Alaskans the cheapest gas and the most revenue. He would have been disappointed if the administration did not come to the legislature for the funds needed to move the project forward. He stated that if the department had made the unilateral decision to terminate the agreement with TransCanada it would save the state money, but there would have been no money to move forward with the project, which would inadvertently stopped the project. He discussed that the testimony thus far had been that TransCanada was not

thrilled about being in the project and that the company would like the state to buy it out. He believed the state should buy a company out when it was charging more than it would cost for the state to finance the project on its own. He stated that if TransCanada was kept in the project, it had a blanket right under the current structure to get paid its full costs plus a 7 percent interest. He remarked that if he were to build a house he would not want to hire someone who did not really want to do the work and who would charge the cost plus 7 percent. He surmised that there did not appear to be a perfect incentive for TransCanada to minimize the cost and be completely efficient in the project. He continued that the state's promise was to pay all of the company's costs plus 7 percent interest, but the company did not want to be involved. He wondered if it was the optimal arrangement.

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Representative Wilson interjected that the committee had not heard from TransCanada and she believed to assume that the company did or did not want to be a part of the project was premature. She noted that the company was on the schedule to present to the committee at a later time. She believed that putting down a company that the state had an agreement with was the wrong way to conduct business.

Representative Gara believed he was allowed to ask a question. He addressed Ms. Poduval. He discussed that he would like to be a partner to entities with an incentive to keep costs down. The word the committee had received was that TransCanada would rather not be in the project. He noted that under the agreement the company would get fully reimbursed for its costs in addition to a 7 percent interest. He asked if the arrangement was the most optimal regarding maintaining low costs.

Ms. Poduval answered that the agreement was structured so that costs TransCanada incurred would be passed through to the state. She addressed the checks and balances in the system and broke the costs out into two buckets. She explained that the largest "cost bucket" was related to the AKLNG work plan and budget. Those costs were controlled and managed by the AKLNG project management team (PMT); the state had the opportunity to direct TransCanada's vote on related items. She detailed that the producer parties and the state wanted to keep the costs very low in order to

maximize value from the gas and even though TransCanada was a midstream player that passed the costs through, the process was set up where cost control should work efficiently. The second bucket was related to TransCanada's internal costs. She explained that there was process for review of the costs and hopefully that process also worked well. She remarked that the items she had discussed were the checks and balances in the system to counter the fact that any pipeline company made more money the higher its rate base and cost basis was.

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Representative Gattis referred to Representative Gara's analogy of building a house. She addressed what provided incentive to keep costs down. She stated that she had built houses "like that" and she stated that the owner was the person ensuring costs did not get out of control. She understood that there were checks and balances in the AKLNG project and it was the state or project's job to ensure that TransCanada was held in check. She believed it appeared the checks and balances had been set up correctly. She remarked that at one point TransCanada was revered and the state had wanted the company in the project. She discussed the current day and remarked that the governor and the [DNR] commissioner had already made the decision (and had the right) that TransCanada needed to be out of the project. She believed the administration wanted the money to make the decision possible. She believed it seemed relatively simple. She asked for verification that the reason for the current special session was to discuss whether the legislature would pay to get TransCanada out of the project.

Ms. Rutherford agreed that the administration was present to request the legislature's support for the money to buyout TransCanada, for the work plan and budget funds that would allow AGDC to take on TransCanada's role going forward, and for the agencies to continue to negotiate the commercial agreements.

Representative Gattis asked for verification that the decision related to TransCanada had been made along with the other items Ms. Rutherford had listed. Ms. Rutherford responded that the administration did recommend the actions [removal of TransCanada] and did request the money. However, the administration had not sent a termination

notice to TransCanada, which constituted a big difference because it was a contractual action that had not occurred.

Representative Gattis surmised that the technicalities had not been dealt with, but the administration had made the decision [that it wanted to terminate the agreement with TransCanada]. Ms. Rutherford responded that it was the administration's recommendation; however, it would proceed with the FTSA with TransCanada by the end of December if the legislature did not fund the appropriation.

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Co-Chair Neuman asked for clarification about the vernacular "buying out TransCanada." He stated that it was not actually a buyout of TransCanada; there was debt due for services. Ms. Rutherford in the affirmative. She stated that she did not mean "buying out" or "terminating" TransCanada. She clarified that she meant terminating the PA and buying out TransCanada's interest in the AKLNG project for the state.

Co-Chair Thompson assumed that the December 4 deadline was for the budget to enable the AKLNG project to move forward and that it was the budget put out by the three producers, TransCanada, and the state.

Ms. Rutherford responded that the work plan and budget was the appropriation to AGDC to pick up the responsibility currently held by TransCanada. She detailed that the numbers had been created by the AKLNG project made up of the three producers, AGDC, and TransCanada.

Co-Chair Thompson asked for verification that AGDC was the state's representative. Ms. Rutherford replied that AGDC was the state's representative for the liquefaction portion of the project.

Co-Chair Thompson remarked that the committee had received information that the cost through FEED was \$675 million; however, a Black and Veatch report showed that the state was asking for \$490 million through December 31, 2018. He stated that there were conflicting numbers. He asked for clarification.

Ms. Rutherford deferred to Ms. Poduval.

DEEPA PODUVAL, PRINCIPLE CONSULTANT, BLACK AND VEATCH, replied that the \$490 million was an approximate estimate of the amount it would take to terminate the agreement with TransCanada. Alternatively, if the PA was not terminated and TransCanada remained in the project through FEED the appropriation would need to be approximately \$500 million (the number was higher because the costs associated with TransCanada would continue to grow, which would be compounded by interest). Funds needed at present were approximately \$70 million to repay TransCanada's development costs plus interest and about \$60 million to fund AGDC for the remaining pre-FEED work.

Ms. Rutherford noted that Ms. Poduval's explanation pertained to the distinction between \$490 million and \$675 million (slide 15).

Co-Chair Neuman asked the presenters to identify slide numbers when speaking.

Co-Chair Thompson discussed that to fund the current budget cycle the legislature had withdrawn money from the Constitutional Budget Reserve (CBR). Additionally, the legislature had added \$500 million to the CBR draw in anticipation that money may be needed to advance the AKLNG project. He surmised that some of the money would be spent on the supplemental budget due to the number of wildfires and other. He explained that the money had been set aside, but an appropriation by the legislature would be required in order to spend the funds. He furthered that the committee was currently considering the appropriation bill to determine whether the state would continue forward with or without TransCanada. He agreed with Representative Gattis that the decision to terminate the contract with TransCanada had been made by the governor and the DNR commissioner; however, until the legislature approved the appropriation no action [to end the contract with TransCanada] would be taken.

[2:41:04 PM](#)

Co-Chair Neuman asked what the state would be committing to if it signed an FTSA with TransCanada by December 31 [2015].

Ms. Poduval replied that if the state committed to an FTSA with TransCanada in December, it would be committing to a

long-term arrangement where TransCanada would continue to hold the 25 percent equity in the GTP and pipeline and the state would contract for capacity, processing, and transportation service from TransCanada; the state would pay TransCanada a tariff for the service over a 20 to 25-year period, which would include a 7 percent interest expense.

Co-Chair Neuman asked if the state could commit to shipping gas to TransCanada by December 31 [2015]. Ms. Poduval responded in the affirmative.

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Co-Chair Thompson commented that the presentation primarily used a cost of debt assumption of 5 percent. He remarked that the state did not know what its credit rating and [interest] rates would be by 2018. He requested an analysis showing what it would cost the state at 6 and 6.5 percent interest.

Ms. Poduval provided clarification on Co-Chair Thompson's earlier question about how the \$490 million at the end of FEED compared with the \$675 million shown on slide 15. She explained that the \$490 million was the amount that TransCanada would accrue in cost for the GTP and pipeline on the state's behalf to get through FEED (including TransCanada's internal and interest costs). The \$675 million was the amount the state would be contributing to FEED in a scenario without TransCanada. The \$365 million shown on slide 15 [under the column titled "SOA Current Up Front Cash Calls w/ TC" associated with FEED] was the LNG component. The \$310 million shown on the slide [under the column titled "SOA Up Front Cash Calls w/o TC" associated with FEED] was the GTP and pipeline component. The state's total investment in FEED given preliminary cost estimates was approximately \$675 million.

Co-Chair Neuman believed the biggest question was related to how the state would fund the project. He was very concerned about the financial plan and where the state would come up with the money.

Ms. Poduval addressed Co-Chair Thompson's question related to the presentation's 5 percent interest rate assumption for the state's cost of debt. She addressed a scenario where the state's financial position worsened over time and

how the state would be impacted by a higher cost of debt. She directed attention to slide 21. She relayed that the baseline for the data assumed that the state would finance the project with a standard 70 percent debt/30 percent equity structure; the debt cost was assumed at 5 percent. She furthered that under the scenario the state was expected to achieve additional net cash flows of \$360 million (rounded up to \$400 million in the presentation). However, if the state opted to finance the entire project, there were different assumptions for what the cost of debt would be. The bars shown on the chart (slide 21) represented what the incremental value would be for the state without TransCanada at various costs of debt. For example, if the state was able to obtain a 5 percent cost of debt, the additional value it would receive without TransCanada on an annual basis would be about \$170 million. She detailed that at a 6 percent cost of debt, the state would still receive an additional \$100 million per year without TransCanada.

Ms. Poduval continued to address Co-Chair Thompson's question. She noted the importance of understanding where the state was likely to land amongst the different costs of debt. She referred the committee back to a recent presentation from the finance team. The team had considered that the amount of money the state would borrow was significant and would have a credit rating impact on the state (with or without TransCanada). The analysis had showed that at a credit rating as low as A-, the state's cost of debt would be about 5.5 percent in the present day conditions. She noted that it was important to think about the relative cost of debt between the state and TransCanada. She highlighted two factors could increase the state's cost of debt. The first was the state's credit rating, which impacted the state alone. She explained that the state's cost of debt could rise if its credit rating deteriorated (as shown by the bar chart on slide 21). The second factor was a general inflationary environment. She discussed that interest rates were currently at historic lows and there was a likelihood that they would begin climbing. She added that the agreement with TransCanada built in a rate tracker where if the 30-year Treasury yield increased the 5 percent cost of debt and 12 percent return on equity would increase. She expounded that under an inflationary environment the cost of debt for the state and TransCanada would increase. She concluded that the state should be focused on the differential movement between the

state's cost of debt and TransCanada's cost of debt, which would be affected by the state's credit rating.

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Co-Chair Thompson asked the presenters to have the state financial advisors look at the chart (slide 21) and provide the committee with advice.

Co-Chair Neuman agreed.

Ms. Rutherford responded that the administration had asked Black and Veatch to work with analytica [advisor to the legislature]. The two firms had been working together over the past several weeks in order to share the state's model and premises.

Co-Chair Neuman remarked that the legislature had been presented with a multitude of numbers in the past and had been given many opinions that may not have been the most accurate. He wanted to double check with the financial advisors.

Ms. Poduval replied that Black and Veatch had worked closely with analytica. She relayed that analytica had seen the numbers before they had been presented to the committee.

Representative Munoz asked about the withdrawal agreements that were anticipated from other producers. She believed the governor had announced a deadline of early December for the commitment agreements. She queried the state's plan to move the project forward if the agreements were not obtained.

Ms. Rutherford replied that she did not have the answer. The companies had indicated a commitment to develop sales agreements with the state by that date [early December 2015]. She had not been party to any discussions about what may happen if the companies did not sign agreements.

2:52:33 PM

Representative Munoz stated that it was unique to require a company to commit gas to a project that it may or may not have ownership in. She asked if the withdrawal agreement concept was unique to Alaska.

Ms. Rutherford replied that there had been some presentations the past Saturday by some financial advisors that indicated it was not unusual. She furthered that the governor's request of the producers was to either make some tolling or gas sales arrangements. She believed the producers were probably more interested in the gas sales arrangement based upon past discussions. She affirmed that gas sales agreements did occur around the world in certain situations.

Representative Munoz asked if the state had commitment from all of the producers to move forward with the agreements by early December. Ms. Rutherford had seen letters from BP and ConocoPhillips, but had not seen one from ExxonMobil. She noted that the governor had indicated that ExxonMobil was working on a letter, but she did not know the status. She added that in the past ExxonMobil had been more than willing to discuss some sort of withdrawal agreement; therefore, she guessed that it was not outside "the possible."

Vice-Chair Saddler did not think anyone begrudged a company for making a profit for its labor, but he thought he had heard the 7.1 percent interest [charged to the state by TransCanada] characterized as pure profit. However, his understanding from SB 138 was that it was allowance for funds used during construction (AFUDC). He asked if it was properly understood as profit.

Ms. Poduval stated that she had never characterized the 7.1 percent as profit because she thought of profit as being different. She relayed that she had maybe approximated it as a 7 percent interest to TransCanada. She explained that it actually represented a weighted average cost of capital with two different components. She expounded that the TransCanada agreement assumed that it would be 70 percent debt and 30 percent equity during construction up to the second year of project operation; the cost of debt was assumed to be 5 percent and the return TransCanada would earn on its equity was 12 percent. Once the project was in operation the debt equity mix would become 75 percent debt and 25 percent equity; the 5 percent cost of debt and the 12 percent return on equity would remain.

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Vice-Chair Saddler remarked that he had wrongly assumed that the 75/25 debt to equity was throughout the entire project. He asked for verification that it only applied to project operation through the initial term (23 years).

Ms. Poduval replied that the AFUDC built up at a 70/30 debt to equity ratio and starting from the second year of operation it switched to 75/25 debt to equity.

Vice-Chair Saddler asked for verification that it was not a guaranteed 7.1 percent profit; it was allowance for funds used or interest costs the state would have to pay anyway.

Ms. Poduval answered that the interest costs that TransCanada would presumably be passing through would be associated with a 70 or 75 percent debt component, which related to the 5 percent. The equity that TransCanada put into the project would earn a 12 percent return.

Vice-Chair Saddler surmised that the state was uncertain about what may happen absent TransCanada's participation. He stated that under the scenario the debt to equity ratio was not known; therefore, it was difficult to determine an exact estimate of AFUDC to the state.

Co-Chair Neuman referred to Ms. Rutherford's earlier testimony related to the effects of negative netback. He believed the issue may pertain to part of what Vice-Chair Saddler was discussing. He referenced slide 26 of a Black and Veatch report ["TransCanada Participation Decision Impact on State of Alaska" dated September 30, 2015 (copy on file)] that discussed negative netback. The slide addressed that with a RIK election, the state could be exposed to negative netback if the volumes or value of gas were down. He asked Ms. Poduval to address the issue.

Ms. Poduval explained that the state would have a certain cost basis for the project and the revenues the state would achieve through the sale of LNG needed to cover the cost basis. The higher the cost basis, the higher the bar would be that revenues would have to cover to prevent negative cash flows to the state (or the need to request an appropriation from the legislature). She furthered that because there was an expectation that the state had a lower cost of debt than the 7 percent it was paying TransCanada, without TransCanada the state's cost basis would be decreased. She expounded that because the cost basis was

lower, the revenue needed to prevent a negative netback was lower as well. She relayed that the Black and Veatch analysis estimated the difference at about \$0.90 per million British thermal units (mmbtu). She detailed that having TransCanada in the project would increase the cost basis by about \$0.90 per mmbtu, meaning that the state's price would need to be that much higher in order to cover the cost basis. She added that it assumed that all of the state's costs need to be covered with just the revenues coming from the sale of its LNG and not from other tax payments from the project (i.e. payment in lieu of taxes (PILT) or state corporate income tax) or the General Fund.

Co-Chair Neuman asked Ms. Poduval to expand on the topic when the committee had time to go through the Black and Veatch presentation. He stated that the committee had spent a considerable amount of time discussing the time value of money and the state's exposure to having the money in the market versus in hand. He was interested in hearing specifically about the state's exposure and risk. He remarked that the state was using someone else's money, but reasoned that it could use its own money to make more money.

[3:00:40 PM](#)

Representative Wilson asked for verification that the state would be paying TransCanada for duties that would need to be performed either in house or by another company.

Ms. Poduval answered that there were several different components of the state's obligation to repay TransCanada. The first was the AKLNG work plan and budget. She agreed that the state would have borne the cost regardless of TransCanada's involvement. The second was internal costs, which would possibly come to fruition with or without TransCanada. The third cost was the interest expense (the 7 percent weighted average cost of capital). She elaborated that it was the third cost that the state believed it would have a lower cost basis and could fund the financing for less than 7 percent.

Representative Wilson asked for verification that the state would not save the entire 7 percent because it would still be responsible for paying some interest (i.e. 5 or 6 percent).

Ms. Poduval pointed to the presentation [slide 21 of the presentation titled "TransCanada's AKLNG Participation"] and agreed that if the state financed the project on its own at an interest rate of 5 percent, it would have a savings of 2 percent, which would result in about \$170 million per year in additional net cash flows to the state.

Representative Wilson remarked that the analysis assumed a significant number of things. She reasoned that currently the state essentially had a bank that would fund the state's portion of the project through construction as long as the partnership remained intact. Alternatively, the state would have to go to the open market in hope of finding money. She furthered that the state did not know how much money it would have in its coffers at that point and how difficult it may be to get the money. She believed it was a guessing game and that the state's ability to obtain the funding in the future was not guaranteed.

Ms. Poduval recommended speaking to the finance team in more detail about the subject. She believed the finance team had mentioned that the state's credit rating had never been worse than A- since the 1970s (prior to Trans-Alaska Pipeline System). The finance team had showed that at an A- credit rating, the state's cost of borrowing in the current market would be about 5.5 percent. She believed that even if "things get pretty bad" there was probably some cushion in terms of the state being able to finance cheaper than the robust rate of 7 percent. TransCanada did have the option of walking away from the project if the financing terms did not line up with its expectations. She furthered that TransCanada had committed to a 5 percent cost of debt to the state in the PA and were not able to finance within that; TransCanada could walk away, which would mean the state would have to go to the financial market for financing, potentially with short notice.

[3:05:21 PM](#)

Representative Wilson queried how there had been a December 31 deadline, which she believed had been moved up to December 4, 2015. She wondered if there was something in writing from the partners specifying that they would be out if the state did not provide money for the transaction by December 4.

Ms. Poduval responded that the December 4 date was not relevant to the PA with TransCanada. She clarified that the state needed to make a decision by December 31, 2015 on whether to terminate the PA or continue.

Representative Wilson asked "and with the money as well."

Ms. Poduval replied in the affirmative. She noted that Ms. Rutherford would clarify what it meant from an appropriation perspective, but the PA itself was not hinged on the December 4 date.

Ms. Rutherford expounded that the date had been November 15, 2015, but due to special session the AKLNG joint venture partners had agreed to push the date to December 4, 2015. She clarified that it was a date that was embedded in the joint venture agreement, which was confidential.

Representative Wilson asked about \$500 million the legislature had appropriated in the past year. She wondered if the current request to fund the contract would come out of the \$500 million.

Ms. Rutherford deferred the question to Ms. Pitney. She believed there was a net increase beyond the amount.

Representative Wilson referred to the first section in oil and gas statute AS 31.25.080 related to powers and duties of AGDC. She believed the statute would allow AGDC to take on all of the powers to take over for TransCanada's current role, including the gasline, infrastructure, and shipping to partners. However, she observed that under subsection 23 of the statute it appeared that the powers for AGDC would be limited to an instate gasline only. She believed that based on the section someone else would be in charge of shipping and other responsibilities. She was concerned that AGDC may not have all of the necessary approval to make all of the needed decisions.

Ms. Rutherford replied that DOL was looking into the question that had been raised by House leadership. She noted that subsection 23 of the statute dealt with liquefaction, which AGDC already held. She relayed that the administration was fairly comfortable that AGDC already had the authority because they were holding the liquefaction; however, it would be DOL that would respond.

Representative Wilson wanted to know whether AGCD would have the ability to act on the state's behalf in the role currently held by TransCanada without any further legislation.

Ms. Rutherford replied in the affirmative. She stated that the same section that dealt with liquefaction also dealt with the pipeline and GTP.

[3:10:03 PM](#)

Co-Chair Neuman believed the committee had also asked the question the previous day.

Representative Guttenberg remarked that TransCanada was a respected and well established company. He stated that the project had a gated decision making process. He stressed that it was not a random decision by the governor; SB 138 had envisioned that the legislature and administration would conduct the analysis at the current point in order to determine the best interest of the state. He imagined that if the administration had determined that maintaining the PA with TransCanada was the best action for the state there would have been an announcement on the decision and a special session would have been unnecessary. He discussed that the fiscal analysis had been going on for a long time to get to the current point. He addressed the cost of money and the difference between TransCanada and the state doing the work. He continued that TransCanada had done "hundreds of millions of dollars of work" for the state already. He surmised that the company had probably gone to the bank to cover the costs. He reasoned that because the project was not yet in construction, there was no debt ratio. He elaborated that TransCanada had borrowed the money at a low interest rate and the company was billing the state for the work including the cost of borrowing capital. He stressed that the company was getting 7 percent on top of the work cost. He asked for verification that the 7 percent was not included in TransCanada's cost of capital.

Ms. Poduval replied that she did not know. She clarified that she did not believe that the amount the state was paying to TransCanada was 7 percent on top of a cost of capital for the company. She explained that the cost components of the \$70 million the state currently owed TransCanada consisted of the work plan and budget, TransCanada's internal costs (i.e. costs for management,

lawyers, and commercial people), and the interest expense. The third component was the weighted average cost of capital of 7 percent that represented the interest the state was paying on the first two cost components for TransCanada.

Representative Guttenberg remarked on Ms. Poduval's response that she did not know if it was part of the equation. He did not know if TransCanada had been audited and "that has been perceived as part of it or not."

Ms. Poduval responded that the AKLNG work plan and budget only included the engineering and technical work and did not include anyone's cost of capital. Additionally, TransCanada's cost of capital could not be claimed as an internal cost. She stated that TransCanada was permitted to earn 7 percent interest on top of all of the combined allowed costs.

Representative Guttenberg asked Ms. Poduval to look into the question.

[3:14:40 PM](#)

Representative Guttenberg asked if the producers were capable of continuing with the project if the state was unable to continue forward for some reason.

Ms. Rutherford responded that the producers could continue; however, they were concerned about having to carry the transportation costs for the state on its RIV gas and felt that they needed certain fiscal stability terms. There were various reasons the producers may have concerns about moving forward without the state. On the other hand, the state had a lease relationship with each of the producers and there was a duty to develop. Therefore, an argument could be made that the producers would have a responsibility to finding a path forward without the state should it become necessary. She believed one of the reasons SB 138 was working for people was because it began to align some of the interests. She stressed that it was critically important that the state pay attention to what additional responsibilities and risks it was taking on in exchange for moving the project forward. She noted that it was part of the dialogue associated with the commercial agreements and would be part of the finding on RIK versus RIV.

Representative Gattis noted that one of the presenters had mentioned that if the state did not terminate the PA with TransCanada, the company could continue on with the state and could also choose to walk away from the project. She wondered if a decision by TransCanada to exit the project was a clear indication that the project did not pencil out for the company. She wondered if there would be merit for the state to keep TransCanada or another entity in the project instead of paying its own way "when it doesn't pencil out." She noted that at one point the state believed that TransCanada's partnership had its advantages. She believed there had to be some positives associated with maintaining the PA with TransCanada. She surmised that if the PA was maintained and TransCanada decided to walk away from the project in the future because it was not working it may be a helpful signal to the state that there were problems [with the project].

Ms. Poduval believed Representative Gattis was asking whether the state needed TransCanada to be a litmus test in the project. She did not know that TransCanada would add much under the specified circumstance. She continued that each of the producer parties had strong commercial interest in the project and were all sophisticated participants. She reasoned that if the project did not inherently pencil out, the state or any of the producers would walk away at that point. She noted that in some ways TransCanada's role and perspective in the project was different from that of the state and producers. She detailed that the producers and the state were all gas owners in the project and had interest in maximizing their resources. TransCanada's perspective was slightly different as a commercial participant because they were an infrastructure owner and service provider. The factors that drove TransCanada's decision may be very different from the factors driving the producers and the state.

[3:19:52 PM](#)

Co-Chair Neuman suggested that Representative Gattis ask the question of analytica when they addressed the committee later in the week.

Representative Munoz discussed that several years earlier, legislation had been passed requiring the administration to submit a 10-year budgeting plan to the legislature. She

asked if the legislature would receive the analysis, specifically related to the AKLNG project.

Ms. Rutherford deferred to Ms. Pitney related to the 10-year budget analysis. She noted that DNR staff were currently working on the department's portion; therefore, she believed it was underway. Some of the 10-year forward looking perspective was provided by Black and Veatch, but most of the information was provided as part of the financial analysis (that had been presented by Lazard, Greengate LLC, and FirstSouthwest). She thought it may be beneficial to bring the companies back before the committee now that it had been given a chance to understand the material. She thought the advisors would do a better job of talking about different ways the state could deal with the cash calls and financing challenges.

Representative Munoz noted that she would bring the question up when Ms. Pitney addressed the committee at a later time.

[3:21:59 PM](#)

Representative Gara addressed slide 21 showing the extra annual revenue the state was projected to earn without TransCanada. At the state's current credit rating and at current interest rates it was an extra \$360 million per year, which could go down if those items worsened. Currently there was a danger that the state's credit rating would get worse. He noted that the state had a large debt and that "we're all arguing about what a fiscal plan should be." He remarked that one of the presentation slides showed that the large costs would not begin until 2019 when construction on the facilities began. He stated that if a fiscal plan had not been agreed on by 2019 "shame on all of us." Assuming a fiscal plan and balanced budget occurred by 2017 or 2018, he asked if it was fair to assume that the state's credit would be good enough at that point where it would earn the larger amount of annual revenue [projected on slide 21] rather than the smaller amount.

Ms. Poduval directed Representative Gara to the finance team for its expert view. She addressed how the project development would proceed (pre-FEED, FEED, and so on); the project would reach a critical point at FID and by then (2018 or 2019) hopefully the state would have addressed its fiscal challenges. At that point in time the pieces of the

puzzle would need to come together to take FID. The FEED work including the technical and engineering details would have been worked out, the cost estimates for the project would have been narrowed down, the state would have its long-term buyers lined up, and most importantly the state would have already approached the financing community to understand the options available to the state and to establish a financing plan. Taking FID in the project would require all of the components to come together; it would be the same for each of the producers. The 95 percent of the project's costs that would be spent during the construction stage would not hit the state as a surprise year over year; the state would already have the financing in place for the entire construction of the project well before construction began.

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Co-Chair Neuman wondered how the state could sign a FTSA with TransCanada without knowing the cost of the project and without an RIK agreement in place.

Ms. Rutherford answered that there would have to be a condition that assumed the state would use the RIK method. She stated that "you can say, assuming we're going to go RIK and assuming the producers provide their tax as gas in approximately 13 percent gross, then here's our commitment to the project." Shortly thereafter, there would be supporting commercial agreements in place.

Co-Chair Neuman wanted additional information to answer his question. He noted he would get the question to Ms. Rutherford in written form. He remarked that the previous day the committee had requested a basic outline of SB 138 in order to understand the jobs of everyone involved and the current status. He wondered how soon the information would be provided.

Ms. Rutherford replied that the request had come over the weekend and staff from DNR and DOL had not all been available to respond. The structure including the December 31 [2015] date had assumed there would be commercial agreements in place so the state could have made the RIK decision. The problem was that commercial negotiations only move as fast as the slowest party, particularly when there were four or five companies involved. She relayed that the state was not in control of the discussions unless it

rolled over and agreed to everything. She expounded that the state and the companies were all putting their commercial agreements together as quickly as possible. She relayed that there was no way to do a FTSA that assumed RIK until the predecessors to the decision were completed.

[3:29:19 PM](#)

Representative Gara wanted to better understand the chart on slide 21. He spoke to the baseline assumption of \$360 million in additional revenue to the state without TransCanada. He asked for verification that the baseline meant the state's current credit rating with the current interest rate environment.

Ms. Poduval answered that the baseline was assuming a standard financing structure of 70 percent debt/30 percent equity and a 5 percent cost of debt for the state.

Representative Gara remarked that there were different levels of additional state revenue under different scenarios [slide 21]. He asked if it was still Ms. Poduval's opinion that the state would earn more without TransCanada.

Ms. Poduval responded in the affirmative, based on the opinion the financial team had provided. The financial team had assessed that the state should be able to finance at a much cheaper rate than 7 percent to achieve the values shown on slide 21.

Representative Gara referred to slide 15. He initially thought the middle column reflected what the state's cost would be without TransCanada, including \$70 million owed by the state for the company's past work, \$61 million for pre-FEED, and \$310 million. He surmised that with TransCanada's participation the pre-FEED number was \$66 million and the FEED number was \$365 million. He wondered if he was reading the numbers correctly.

Ms. Poduval explained that the middle column outlined in red (slide 15) showed the incremental cash calls the state would need to make if the agreement with TransCanada was terminated; the costs were all associated with the GTP and pipeline. The \$70 million was associated with the termination of the agreement TransCanada, the \$61 million was AGDC's additional contribution to complete the

remaining pre-FEED work, and the \$310 million and \$6.5 billion to \$7.8 billion was for FEED and construction costs. She noted that all of those costs were associated with the GTP and pipeline. The first column pertained to the LNG plant and the last column showed the total cost.

3:32:07 PM

Representative Gara recalled that the presenters had testified the previous day that the state's costs would be lower (even if the project failed) without TransCanada. He discussed that when the Alaska Gasline Inducement Act (AGIA) started there had been a point when TransCanada was paying 90 percent and the state was paying 10 percent, which had become 50/50 at some point. He asked for verification that the cost to buy TransCanada out of the project did not include any money owed from AGIA.

Ms. Poduval responded in the affirmative; the costs included [in the transaction to terminate the agreement with TransCanada] were all associated with AKLNG. She expounded that AGIA had been terminated and was complete. She pointed to footnote 1 on slide 15 acknowledging that the state had received a credit for \$4 million for work TransCanada brought in from AGIA that the state had already paid; the \$70 million termination cost would have been \$4 million higher without the credit.

Representative Gara remarked that in the past he had considered the possibility of losing money on the pipeline, and noted that the presenters had brought up the possibility. He asked for verification that Ms. Poduval had estimated that with TransCanada's involvement, the cost of the project and shipping gas would be \$0.90 extra per mmbtu.

Ms. Poduval replied in the affirmative.

Representative Gara asked if that was a way of saying that with TransCanada in the project the chances of losing money on the pipeline were greater.

Ms. Poduval answered in the affirmative. She detailed that because the state's cost basis would be higher, the likelihood of the state losing money would be higher as well.

Vice-Chair Saddler remarked that the committee was still waiting to hear whether the risks of not getting to FID were greater absent TransCanada's participation. He noted that while there had been much focus on the possible additional financial benefits, he had yet to hear whether the odds of achieving a successful project were higher. He thought there may be too much focus on the bottom line and not enough on the finishing line. He referred to a discussion the previous day related to voting rights and confidentiality. He asked if Ms. Rutherford was ready to discuss voting rights.

Ms. Rutherford replied that the administration had discussed the issue the previous evening. She explained that there were limitations on what she could say about voting rights because it was AKLNG project specific. She relayed that there was existing confusion going into negotiating a commercial agreement on how the state's 25 percent equity ownership would be voted in the project should TransCanada and AGDC both continue to hold their various elements of the project.

[3:36:02 PM](#)

Vice-Chair Saddler discussed that the governor had stated that one of his primary reasons for encouraging the termination of the agreement with TransCanada was that it would strengthen the state's voting rights position. He remarked that Ms. Rutherford had also stated that it was one of the main reasons for the recommendation. He wanted to better understand the voting mechanisms. He asked for a description of the decision making mechanism in which the state would cast its vote. He stated that if the state's voting power would increase with a 1 in 4 vote instead of the current 1 in 5. He wondered how substantial the material change in power would be.

Ms. Poduval replied that the governance structures were still under negotiation (for FEED through to project operation), which would determine how the voting rights would be established. The expectation was that the state's voting rights would be split between TransCanada and AGDC; they did not necessarily represent two separate votes or seats at the table. She pointed to slide 12 and addressed that one potential solution was that TransCanada would vote on issues impacting the GTP and pipeline, whereas, AGDC would vote on issues impacting the LNG plant. She explained

that it raised the question about who would vote or speak for the state when it was an issue impacting the entire project. Some of the issues had highlighted the fact that having the state's vote split between TransCanada and AGDC created significant complexity and compromised the state's ability to have its interests represented.

Co-Chair Neuman relayed that AGDC could address the questions when it testified the following day. He noted that he had asked AGDC to explain its role as the state's representative.

[3:38:58 PM](#)

Vice-Chair Saddler referred to the first point on slide 26, which stated that the proposed FTSA was expected to include a commitment to give back-in rights [to TransCanada]. He wondered why the FTSA that was currently under negotiation included the 5-year back-in right option if the administration's desire to buyout TransCanada was largely predicated on the desire to have a clean off-ramp with no back-in rights.

Ms. Rutherford replied that the back-in rights had already been negotiated as part of the PA; the provision was not something that the state could remove. Additionally, it was not possible to change the primary FTSA elements, which had been negotiated and were imbedded in the PA. The state had taken the information and embedded it into a draft FTSA, but most of the substantive issues had been resolved by the prior administration [Parnell Administration].

Vice-Chair Saddler surmised that it was a done deal and that the administration had not tried to negotiate the provision out. Ms. Rutherford responded "I didn't say that I didn't try to negotiate it out of there." However, she confirmed that it was a done deal.

Vice-Chair Saddler asked if Ms. Rutherford had tried to negotiate the provision out. Ms. Rutherford replied that she was not at liberty to comment.

Vice-Chair Saddler noted that he would ask about voting rights the following day. He pointed to language on slide 23 specifying that [certain] key decisions would be made in the next six months, which was critical for the state to have expanded voting rights. He remarked that the

presentation included a somewhat cryptic description of the key decisions, which included the disposal of by-products. He asked what specific decisions were slated to be decided within the next six months where it was important for the state to have expanded voting rights.

Ms. Poduval replied that much of the terms were still under negotiation; therefore, she spoke fairly generally. She relayed that the by-product handling (carbon dioxide disposal) was one potential decision, which would influence the DNR commissioner's RIK determination. She detailed that because of the high percentage of carbon dioxide in the gas at Prudhoe Bay, it needed to be extracted at the GTP and then something needed to be done with the waste product. The current idea was that the carbon dioxide would get reinjected back into the Prudhoe Bay unit; the associated commercial arrangement had not yet been finalized, which could happen in one of many ways. Either each of the parties could negotiate bilaterally with the Prudhoe Bay unit or the negotiation could occur on behalf of the AKLNG project. Under the second option the GTP unit would also cover the disposal of the carbon dioxide through negotiations it had with the Prudhoe Bay unit. She remarked that it was an example of a place where the state's interests were very different than those of TransCanada. She explained that because TransCanada was representing the state's interest in the GTP, the state did not have a direct say in the positions that TransCanada would take. From TransCanada's perspective it would be a simple pass through cost because the state would ultimately repay TransCanada for the cost. From the state's perspective, it was actual money out of the state's pockets; therefore, the state was much more vested in the outcome of the negotiation.

Ms. Poduval highlighted the governance agreements as another complex area that all of the parties were working to resolve. She remarked that hopefully there would be further discussion about voting rights during the committee meeting the following day. She relayed that as the governance agreements were being implemented, it had become apparent that the complexity introduced into the process because of the state's voting rights being split between TransCanada and AGDC were fairly challenging. She stated that it was slowing down the process of the parties reaching agreement on the key governance terms. She stated that it was a very specific area where making the

TransCanada decision at present and creating clarity on how the state's voting rights would be represented would help the project significantly in the near-term.

3:44:36 PM

Vice-Chair Saddler recalled a statement by Mr. David Van Tuyl of BP that if the project was not hitting road blocks, progress was not being made. He remarked that the state had a lot of high paid legal talent working on the issues. He reasoned that the governance agreements and how to split the votes may not be the most challenging issues going forward. He did not believe the issue was a reason to terminate the entire process and participation.

Ms. Poduval clarified that she would not characterize it as the only reason to terminate the relationship with TransCanada. She hoped she and Ms. Rutherford had been able to explain the different aspects contributing to the decision. Her reference to the voting rights was meant to be one example of an area that would be impacted in the near-term by the termination of the agreement with TransCanada and of how it may help the process.

Co-Chair Thompson stated that he had hoped PILT would be included in the governor's call to special session. He did not know the details of the PILT agreement between all of the parties involved in the project; however, he knew that it would amount to over \$16 billion over the life of the project. He wondered if the state would be responsible for over \$4 billion in PILT payments if TransCanada was no longer in the project. He wondered if the question was more appropriate for Ms. Pitney.

Ms. Rutherford believed the question should go to DOR. She committed to putting together a written response. She could not provide the necessary detail.

Co-Chair Neuman remarked that the question had been asked and further information should be forthcoming for upcoming meetings. He reviewed the agenda for the following day.

HB 3001 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

3:47:37 PM

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