

SENATE FINANCE COMMITTEE
THIRD SPECIAL SESSION
October 27, 2015
9:05 a.m.

[9:05:18 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Peter Micciche, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Stephanie Alexander, Special Assistant to the Commissioner, Department of Revenue; Senator Mia Costello; Senator Cathy Giessel; Senator Gary Stevens; Senator Kevin Meyer; Representative Shelley Hughes; Senator John Coghill; Representative Lora Reinbold; Representative Andy Josephson.

PRESENT VIA TELECONFERENCE

Radislov Shipkoff, Director, Greengate LLC; Steven Kantor, Managing Director, First Southwest; Justin Palfreyman, Director, Lazard.

SUMMARY

SB3001 APPROP: LNG PROJECT and FUND/AGDC/SUPP.

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

#sb3001

SENATE 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."

9:07:33 AM

STEPHANIE ALEXANDER, SPECIAL ASSISTANT TO THE COMMISSIONER, DEPARTMENT OF REVENUE, introduced herself.

RADISLOV SHIPKOFF, DIRECTOR, GREENGATE LLC (via teleconference), thanked the co-chairs and members of the committee. He shared that he would provide some introductory information before continuing with the presentation.

Co-Chair MacKinnon noted some legislators in the audience.

Mr. Shipkoff relayed that Greengate was an independent financial advisor company, specializing in finance for energy project. He stated that Greengate focused on projects in the oil and gas sector; LNG pipelines; downstream industries; and power structure infrastructure. He continued that they had advised on Papua New Guinea LNG, Australia Pacific LNG in Queensland, Australia, and most recently a Russian Arctic gas development before economic sanctions were imposed.

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STEVEN KANTOR, MANAGING DIRECTOR, FIRST SOUTHWEST (via teleconference), explained that his company was the independent registered municipal advisors to Department of Revenue (DOR). He shared his history as a financial advisor, including for Alaska Housing Finance Corporation (AHFC), Fairbanks Hospital, University of Alaska, and Municipality of Anchorage.

JUSTIN PALFREYMAN, DIRECTOR, LAZARD (via teleconference), introduced himself and furthered that he worked in the power energy infrastructure group. He announced that Lazard was the largest independent investment bank in the world advising governments and corporations on a variety of strategic and financial matters. He stated that Lazard's advisory assignments included advising sovereign governments, state governments, city governments, and corporations.

Mr. Shipkoff drew attention to the presentation "TransCanada's AKLNG Participation: Financing Issues" (copy on file). He looked at slide 2, "Introduction":

An exit by TransCanada (TC) from the AKLNG project has financial implications to the State of Alaska:

Immediate impact: The State will be responsible for funding the reimbursement of TC's Midstream development costs, as required under the Precedent Agreement (PA)

Going forward: The State will be responsible for funding its share of the Midstream project costs, which would have been funded by TC

This presentation addresses the following issues/questions related to the impact of TC's exit on the State's financial position, credit rating and borrowing capacity:

What will be the impact on the State's credit rating and borrowing capacity?

At what cost is the State expected to finance its share of Midstream costs, and how does such cost compare with the cost of financing provided by TC under the PA?

How can the State fund its share of Midstream project costs?

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Mr. Shipkoff addressed slide 3, "What will be the impact of TC's exit on the State's credit rating and borrowing capacity?"

What will be the impact of TC's exit on the State's credit rating and borrowing capacity?

Will the State's requirement to fund Midstream costs result in increased State funding commitments?

Will TC's exit erode the State's borrowing capacity?

Will the State's credit rating be adversely affected by TC's exit?

Will the long-term impact of the TC buyout be viewed as credit positive?

Mr. Shipkoff addressed slide 4, "State Commitments Not Increased with TC Exit":

Will the State's direct funding of Midstream costs result in increased State commitments?

Under the arrangement with TC, the State is already committed to pay the costs associated with the Midstream components:

If the Project fails to complete Pre-FEED: State obligated to reimburse TC, with interest

If the Project fails to complete FEED: Under the expected terms of the Firm Transportation Services Agreement (FTSA) with TC, the State would be obligated to reimburse TC, with interest

If the Project fails to complete construction: Under the expected terms of the FTSA with TC, the State would be obligated to reimburse TC, with interest

State assumes Midstream development and construction risks

If the Project achieves operations: Under the expected terms of the FTSA with TC, the State would be obligated to pay TC fixed capacity reservation charge,

including repayment of TC capital through annual depreciation charge, and pass-through of Midstream costs, regardless of throughput volumes

State assumes Midstream cost-overrun and throughput risks

Mr. Shipkoff considered the three project stages and accompanying hypothetical scenarios, and pointed out that the state was taking the risk for the development, risks which equity investors would typically assume. He emphasized that the state would be assuming the financial risks within development and construction. He remarked that TransCanada would not be acting in a role dissimilar to a lender in that scenario.

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Mr. Shipkoff discussed the scenario under which the state assumed the midstream development and construction risks. He noted that, regardless of what the gas volume and price became, the payment commitment that the state incurred were not dissimilar to that of a loan. In addition, the state would be obligated to reimburse TC for operating costs. He summarized that if one considered all three scenarios, the state ultimately carried all the risk

Mr. Shipkoff continued to discuss slide 4, addressing how a direct payment scenario would impact the state's borrowing capacity. He stated that the impact of the scenario was reflected in slide 5.

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Senator Bishop wondered if the terms under the last bullet on slide 4 were "reasonable and customary" of any lender. Mr. Shipkoff stated that the terms were probably consistent with one could expect to see of a lender. He reiterated that the FTSA obligation was analogous to a lending relationship.

Co-Chair MacKinnon referred to slide 3, and asked about the state's credit rating. She surmised that the state's credit rating would not be affected by the transfer, even though it was taking on the majority of the financial risk. She wondered if TransCanada's credit rating would be affected by the transfer. Mr. Shipkoff replied that Mr. Kantor would

address the state's credit rating later in the presentation. He shared that, under the existing relationship with TransCanada, the state's credit must support the state's payment obligation to TransCanada in reimbursement and tariff payment. He restated that TransCanada relied on the state's credit anticipating repayment of their capital. He remarked that the relationship between TransCanada and the state looked similar to a loan arrangement.

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Co-Chair MacKinnon wondered if there would be an improvement on TransCanada balance sheets, because they were not part of the project and carrying the financing for up to 20 years. Mr. Shipkoff replied that it was difficult to assess the specific impact on TransCanada's credit rating in isolation. He stressed that there must be research into all of the aspects of determining the entity's credit rating. He furthered that the state was not affected directly by the terms on which TransCanada might be able to borrow to fund its payment of capital for the midstream project costs.

Co-Chair MacKinnon felt that TransCanada's credit rating would improve if TransCanada was carrying the state's debt, and then the state took back that debt. Mr. Shipkoff discussed the development and construction period of the project. He thought the state's credit rating may deteriorate during the construction period. He stated that TransCanada was not obligated to bear any of the risk for the development.

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Vice-Chair Micciche felt that the presentation was portraying a net-neutral credit and borrowing situation. He wondered if a dramatic reduction in interest rate would be an improvement to the state's credit rating. Mr. Shipkoff agreed with the premise of the question. He thought it was likely that the state would see an improvement in its credit rating, but there were a wide range of scenarios that influenced credit rating determinations.

Vice-Chair Micciche appreciated the conservatism of Mr. Shipkoff's statements.

Co-Chair MacKinnon asked if Mr. Shipkoff had real-world examples to share in which projects had changed and did not adversely affect the credit rating of the business in question. Mr. Shipkoff deferred to Mr. Kantor.

Mr. Kantor addressed slide 5, "State Borrowing Capacity Effectively the Same with or without TC":

Will TC's exit erode the State's borrowing capacity?

TC's exit will not create incremental State debt obligations; the State is already obligated to pay the Midstream costs.

Under the PA and the anticipated terms of the FTSA, the State's payment obligations to TC require payments to TC to be "supported with the full faith and credit of the State" or a dedicated funding source acceptable to TC

TC would be relying on the State's credit for reimbursement of its funding of Midstream costs

FirstSouthwest has noted that the credit ratings agencies will, in all likelihood, consider the State's long-term fixed payment obligations to TC under the FTSA as analogous to a State debt obligation for purposes of analyzing State debt capacity

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Mr. Kantor discussed slide 6, "Example: Credit Rating Agency Treatment of 'Take-or-Pay' PPAs":

"Take-or-pay" power purchase agreements (PPAs) are similar to FTSA's as they typically obligate the buyer to make capacity charge payments regardless of output. Such agreements are scrutinized by credit rating agencies.

In prior financings, credit rating agencies have taken into account FTSA-like contracts of much lower value when assessing the credit of local governments

The rating agencies would almost certainly scrutinize the FTSA payment commitments when assessing the State's credit. Such scrutiny would be heightened due to the FTSA "full faith and credit" or "dedicated fund reserve" requirement

Mr. Kantor discussed slide 7, "State Credit Rating not Adversely Affected by TC Exit":

Will the State's credit rating be adversely affected by TC's exit?

FirstSouthwest advises that a decision to terminate the TC's participation will not, in and of itself, result in a downgrade of the State's credit rating:

No incremental commitments by the State

As the State's overall costs related to the Project are projected to be reduced without TC (BandV estimates a reduction of up to \$400 million per year), the termination should be viewed by the credit ratings agencies as a net positive for the State

With or without TC, the State should anticipate a reduction in the State's credit rating during the construction period (when no gas sale revenues are being generated) absent a significant increase in revenue generated from existing sources

Credit rating should recover once gas sale revenues become established

TC's exit, by itself, should not result in a credit downgrade during the construction period that is greater than any downgrade if TC remained in AKLNG. The State's credit could instead be improved by the lower costs to the State as a result of TC's exit

Mr. Kantor addressed slide 8, "Financial Risks to the State of Maintaining TC Funding":

Failure to reach Project FID:

The State would be obligated to pay TC's prior Midstream development costs and TC's internal costs, plus interest

A potentially substantial appropriation would need to be authorized quickly

The State's reimbursement obligation could arise at a time of adverse credit impact on the State:

Lender community would be aware that the Project would not reach FID

The gasline Project revenues would no longer be expected to materialize
Consequently, the credit of the State would likely deteriorate

Therefore, the State could be forced, in a short timeframe, to repay TC for prior Midstream development costs in adverse credit conditions

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Senator Dunleavy remarked that the state was in a financial crisis. He stressed that the state could receive a lower credit rating, even with the buyout of TransCanada. Mr. Kantor replied that many factors affected credit rating, and the state could see a lower credit rating. He stressed that an important factor in determining a credit rating was the ability for the entity to balance its budget while providing services to its citizens. He had a narrow point, in that he only focused on the TransCanada agreement.

Vice-Chair Micciche noted that the absence of TransCanada would be inconsequential to Alaska's credit rating. He felt that the credit rating would be reduced as a result of the amount of debt, regardless of the source of the debt payment. Mr. Kantor agreed, and stated that the issue would be addressed later in the presentation.

[9:52:10 AM](#)

Co-Chair MacKinnon wondered if the interests were currently favorable. Mr. Kantor replied in the affirmative, resulting in a positive outcome.

Co-Chair MacKinnon thought the federal government had indicated that interest rates would see an "uptick" in the near future. Mr. Kantor replied that prognosticating the movement of interest rates was a hazardous opportunity. Although, he agreed that there was a consensus that interest rates would be positive.

Co-Chair MacKinnon noted that there were many "advantageous" assumptions. She wondered if the state should continue to "not get its fiscal house in order", and utilizing the savings accounts. Mr. Kantor responded that there would be a slide later in the presentation to address that concern.

Co-Chair MacKinnon wondered if the committee was being shown an optimistic or worst-case scenario with regard to the effect on the state's credit rating.

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Senator Hoffman asked about the loan term. He remarked that the loan would be paid back over 20 to 25 years. He felt that, at 25 years, there would be a savings of \$10 billion. He recalled that a chart on the previous day showed a rate of 4.5 percent, with an annual savings of \$200 million—resulting in a savings of \$5 billion over 25 years. He wondered if that chart reflected an accurate estimate. Mr. Kantor stated that the current day's presentation numbers were taken from the Black and Veatch report. He stressed that the estimate number would function with many factors, including the overall interest rate incurred at the time of financing. He stressed that the loan terms would not cost the state more money under the TransCanada agreement.

Senator Hoffman surmised that the maximum estimate of \$400 million, and noted that financing of up to 25 years would result in a savings of up to \$10 billion in capital costs. Mr. Kantor agreed.

Co-Chair MacKinnon queried the interest necessary to achieve the savings. Mr. Kantor stated that under the agreement with TransCanada the interest cost to the state would "float" with the current market interest rate.

Co-Chair MacKinnon surmised that the assumption was that the interest rate would increase.

Mr. Shipkoff discussed slide 9:

At what cost is the State expected to finance its share of Midstream costs?

How does such cost compare with the cost of the financing provided by TC?

[9:59:14 AM](#)

Mr. Shipkoff discussed slide 10, "Cost to the State of TC Financing":

Under the TC financing arrangement, the State will pay to TC the cost of capital as follows:

If the PA is terminated:

TC's costs reimbursed with interest at rate of 7.1 percent

higher rate applies if payment is not made within the required period under the PA

If the Project proceeds to operations:

the State would pay a return on TC's rate base calculated on the basis of deemed weighted average cost of debt and cost of equity

cost of debt and return on equity adjusted for changes in the yield on 30-year Treasury bonds over time

debt to equity ratio: different during the construction and operating periods

-70:30 through the second anniversary of the in-service date and in respect of expansions and maintenance capital additions

-75:25 after the second anniversary of the in-service date on capital other

than capital additions for expansions and maintenance

[10:03:23 AM](#)

Mr. Shipkoff discussed slide 11, "Sample TC Deemed Weighted Average Cost of Capital under the PA." He stressed that TCs return on cost of capital changed with the treasury rate. He noted that since the creation of the graph, treasury rates had declined. He noted that it was difficult to predict ongoing treasury rates. He pointed out the one to one relationship to the states borrowing cost (affected by treasury rates). He noted that changes in interest rate may result in an increase, it would equally affect the cost of capital financing. He emphasized that there was a significant risk that if the project did not proceed, the state would be obligated to reimburse TransCanada. He discussed prospects of borrowing funds in an adverse credit environment brought about by project failure. Whereas if the state were able to fund its share of the project, possible project failure would not adversely affect borrowing conditions.

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Co-Chair Kelly asserted that if the state was unable to decrease spending, it would suffer a downgrade in credit rating. He wondered if those scenarios all occurred, would it be possible to pay a higher interest rate than the current 7 percent to TransCanada. Mr. Shipkoff affirmed that it was hypothetically possible for the state to be subject to an interest rate as much or greater than the current 7.1 percent.

Co-Chair MacKinnon wondered if Mr. Shipkoff was involved in recommending TransCanada's involvement in the project. Mr. Shipkoff answered in the negative.

Co-Chair MacKinnon remarked that there were recommendations at the first phase of the project to include TransCanada in the project. Mr. Kantor stated that part of the provision in the agreement with TransCanada had "off ramps" under which the state could re-evaluate its relationship with TransCanada.

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Co-Chair MacKinnon wondered if there was anything that had changed financially that would cause the state to consider ending the agreement with TransCanada. She specifically queried the difference between the current suggestion and Southwest's recommendation. Mr. Kantor asserted that nothing had changed. He explained that the financing arrangement under the TransCanada agreement would be more expensive to the state than it would be without TransCanada. He shared that the state had just begun to expend money on the project, and a very small percent of the funds had been expended by both TransCanada and the state.

Co-Chair MacKinnon asserted that the legislature may have desired a partnership with TransCanada, so TransCanada could carry the debt. Mr. Kantor agreed. He remarked that TransCanada would fund the cash calls in the partnership, but the benefit would occur at a later date.

Mr. Shipkoff furthered that there had been a perception of strategic benefits to TransCanada's participation at the onset of the project. He thought the provisions of off-ramps were put in place in order to test the strategic and financial benefit elements.

Co-Chair MacKinnon shared that the committee was aware of the MOA and the contents of SB 138.

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Vice-Chair Micciche remarked that TransCanada's involvement in SB 138 brought forward project-relevant information that was invested by TransCanada during the Alaska Gasline Inducement Act (AGIA) process. He announced that the state shed \$500 million of liability under the agreement. He wondered if the state had reached the maximum benefit of the agreement, for the mere cost of 7.1 percent interest during the pre-FEED process.

Co-Chair MacKinnon reaffirmed that it was currently the time to reevaluate the off ramps. She stressed that the financing scheme had not changed, comparing capital costs to the finance market.

Senator Dunleavy wondered if the capital costs through TransCanada would remain the same. Mr. Shipkoff referred to the adjustment mechanisms in the cost of capital agreement,

and stated that to the extent that there were changes in the treasury rates.

[10:25:02 AM](#)

Mr. Kantor presented slide 12, "TC Cost of Capital vs. State Debt Interest Rate":

The interest rate on State debt would depend on the credit rating. The table below compares:

TC weighted average cost of capital under the PA, calculated as of Sept 11, 2015

Interest rates on taxable State G.O. debt, estimated by FirstSouthwest as of Sept 11, 2015

Under all scenarios of State credit rating downgrade down to A-/A3, the State cost of debt remains below the TC cost of capital

Note that, following a rating downgrade during the construction period, the State credit rating and cost of capital will likely recover once the Project is operational; TC cost of capital is fixed at FID for the term of the FTSA

Vice-Chair Micciche thought that the highest interest rates that the state had occurred from April 1982 to October 1983. He asserted that the rates were general obligation (GO) bonds and were rated AA minus. Mr. Kantor clarified that he was referring to a time that the state had a lower credit rating, rather than when the state had a higher interest rate.

Co-Chair MacKinnon noted that in 1974, the state had a very different pension obligation. She understood that states would soon be required to bank the debt obligations to pensions. She wondered how that change would affect the floor of what could be expected in a downgrade. Mr. Kantor agreed. He affirmed that states would be required to demonstrate potential pension liabilities. He asserted that it was only the method of recognition that would change, and it would be uniformly applied across the United States.

[10:30:56 AM](#)

Mr. Kantor read slide 13, "How will the State fund its share of Midstream project costs" and moved to slide 14, "Total State Funding Requirements":

Shown below are the estimated funding requirements for the State's share of the project going forward

Includes both the Midstream components and the LNG plant

In other words, these are the State funding requirements without TC

Mr. Kantor discussed slide 15, "State Funding Options":

The State will have the following options to pay the TC Termination Amount and finance its share of the Project during the remainder of Pre-FEED, FEED and the construction period:

The Legislature could appropriate from existing State funds, e.g., the Constitutional Budget Reserve Fund (CBRF), Earnings Reserve Fund

The Legislature could authorize the issuance of State debt

The Legislature could authorize pursuit of project financing

The Legislature could authorize the pursuit of funding from other sources: LNG buyers and other potential equity investors

Mr. Kantor presented slide 16, "Potential Funding Sources: State Funds":

The Legislature could appropriate from existing State funds, e.g., the CBRF, Earnings Reserve Fund

Analysis by the DOR Treasury Division estimates:

CBRF could be depleted in 2018 - 2019 (exact timing depends on oil price)

Utilizing the CBRF to fund the TC reimbursement and the Midstream Pre-FEED and

FEED costs would accelerate CBRF depletion by approximately 3-5 months

Therefore, the CBRF could be used to fund Pre-FEED and at least a portion of FEED costs, but not construction costs

CBRF utilizations could be repaid from the proceeds of State debt, project finance debt or other forms of State long-term funding

Mr. Kantor discussed slide 17, "Potential Funding Sources: State Debt":

The Legislature could authorize the issuance of State debt:

Bondholders would look to the State's credit for repayment (annual appropriations would be required)

Could be used to finance FEED and construction costs

Could be used as long-term financing (repayment periods of 20-30 years)

Timing implications: Authorization to issue GO debt would require voter referendum approval

[10:35:31 AM](#)

Vice-Chair Micciche wondered if the comparison on slide 12 of the construction and operating rates were related appropriately. Mr. Kantor replied that there was an attempt to keep all interest rates comparable. He looked at the second column on slide 11, which showed September through October 2015. Those rates were 6.15 and 5.80, which were comparable to the grey rates at the same date.

Vice-Chair Micciche asked about the footnote on slide 11, which discussed the FID, which was the capital intensive stage of the process. He wondered if the FID was truly fixed or a weighted average with the treasury rate tracker. Mr. Kantor replied that once the final construction opportunities arrived the cost of capital for TransCanada

was fixed, because they would be issuing fixed rate date, and therefore the state would know the final finance costs.

Vice-Chair Micciche surmised that the state would have the same opportunity with or without TransCanada, because they would be funding the operational period with fixed financing. Mr. Kantor agreed that, at any time, the state would have that opportunity.

Mr. Shipkoff clarified that the cost of capital that the state was obligated to pay to TransCanada under the existing terms variation was no longer applicable after FID. The contractually defined cost of capital under the existing terms would be fixed after that point. The state would have similar opportunities to fix its own direct borrowing cost of capital at that time.

Senator Dunleavy commented on slide 14, and though the figures needed to be adjusted upwards. Mr. Kantor agreed that they were dynamic figures, and asserted that the figures were gleaned from a Black and Veatch.

Senator Dunleavy felt that an increase was more likely than a decrease.

Co-Chair MacKinnon referred to a slide from the previous day that reflected a 20 percent capital cost overrun for a project. The total cost of pipe, gas treatment plant, and LNG at \$54 billion including the state's 20 percent.

[10:40:27 AM](#)

Senator Hoffman stated that the previous day, the administration had provided a range of \$12 billion to \$16 billion as the cost of construction. He wondered if Mr. Kantor considered those costs relevant to this project, and why they were not included in the presentation. Mr. Kantor looked at the footnote of slide 14, which specifically excluded the prior pre-FEED accounts, appropriations, and projected AGDC and agency costs.

Senator Hoffman expressed that he was trying to grasp the total obligation by the state and the overall cost.

Co-Chair MacKinnon referred to slide 19, and asked whether the administration believed that they needed to come back to the legislature to authorize the implied investment. She

wondered if there was a percent of interest that was typical for an LNG buyer, and was it in the state's interest to have a buyer. Mr. Shipkoff addressed legislative authorization, and explained the terms of SB 138.

[10:45:20 AM](#)

Mr. Palfreyman referred to slide 18, "Potential Funding Sources: Project Finance":

The Legislature could authorize the pursuit of project financing:

Lenders would look primarily to the Project-level cash flows and assets as security for repayment, rather than State funds

Common form of debt for LNG projects

Requires the Project commercial structure to be in place:

All key project agreements must be executed

Commercial structure must be "bankable"

Requires that FID is reached; not available to fund FEED costs

May require constitutional amendment to allow the pledging of LNG sales proceeds as lender collateral as the Lenders will demand that funds will be dedicated to repayment, which is currently not permitted by the State's Constitution

As the Project's commercial structure has not yet been agreed, it is premature to evaluate the extent to which project finance could be a viable source of funding

Mr. Palfreyman discussed slide 19, "Potential Funding Sources: LNG Buyers and Other Equity Investors":

The Legislature could authorize pursuit of investment from LNG buyers or other equity investors:

Offtakers have often acquired equity in LNG projects

Approach by the State would need to be made in coordination with marketing plan

New equity investors could share Project development risk

Could provide sources of funding in the event a Producer withdraws

At this stage of the Project's development, it is premature to evaluate the extent to which LNG buyers or other equity investors could be viable sources of funding

[10:49:06 AM](#)

Senator Bishop inquired about the first bullet on slide 18, He wondered if there was still a payment for the lending abilities. Mr. Palfreyman stated that the interest rate on project financing varied, according to a variety of factors. He furthered that it also depended upon lenders views of the project itself. He discussed the range of project finance interest rates.

Vice-Chair Micciche commented that it was not unusual for customers to become investors or capacity owners in LNG projects. Mr. Palfreyman agreed with the statement. He stated that there was a variable degree to which they participate in the overall equity.

Co-Chair MacKinnon remarked that there was historically a lower percentage rate in the overall project investment. Mr. Palfreyman disagreed in the generalization. He stressed that it was situation specific.

Mr. Palfreyman referred to slide 20, "Example Funding Scenario (For Illustrative Purposes Only)":

Proper sequencing of the utilization of available sources of funds would ensure adequate timing to implement the funding plan approved by the Legislature:

The CBRF could be utilized initially, with CBRF utilizations repaid from the proceeds of State debt or other forms of State long-term funding

CBRF utilization in the near-term would provide additional time needed for the Legislature to consider proposing a GO debt offering, which would require a voter referendum approval

[10:55:21 AM](#)

Co-Chair MacKinnon referred to a presentation from the prior year, in which a final report was promised. She wondered what may be delaying that final report. Mr. Palfreyman explained that pursuant to SB 138, the final report was due when the first contract was delivered from DNR to the legislature.

Mr. Shipkoff turned to slide 21, "Conclusion," and offered closing remarks:

TC's exit will require the State to fund the reimbursement of TC's Midstream development costs immediately

TC's exit will not result in incremental financial commitments by the State

TC's exit will have no incremental impact on the State's long-term credit rating and borrowing capacity

TC's exit will not increase the State's cost of financing its share of Midstream costs

The State has several options to fund its share of Midstream costs

[11:01:41 AM](#)

Vice-Chair Micciche requested a sentence be included in slide 21 to read, "TransCanada's exit and the resulting funding of associated debt at a lower rate will likely lower the state's investment in the AKLNG project. Mr. Shipkoff considered that the point had been made during the slides, yet perhaps not as effectively as the declared sentence. He agreed with the substance and premise of Vice-Chair Micciche's statement, and furthered that the

financing analysis was only one consideration - there were broader strategic considerations.

11:04:26 AM

Vice-Chair Micciche wondered if there was an assigned level of confidence to the major investors when they evaluate significant financial endeavors. Mr. Shipkoff assigned levels of confidence when there was proper information and tools to perform on an analysis that enabled him to quantify the response in a probabilistic sense. He shared that he had advised lenders, who may be contemplating investing or lending significant funds into commodity price exposed projects. His company would quantify the risk of commodity price variations. He stated that analyses would be run to indicate that a level of confidence number be assigned. He furthered that the analysis was performed on a wide range of available data to allow for a quantifiable assessment. He felt that the committee's questions would be less susceptible to be accurately quantified. He remarked that there was not enough current data for a quantifiable number assigned as a reflection of a level of confidence. He stressed that this was the early stage of the project, and therefore required a strategic decision in the context of many unknowns within the project such as the commercial structure and the risk allocation to participants.

11:07:37 AM

Co-Chair MacKinnon remarked that there were some questions about the assumptions of protecting Alaska's credit rating, in the concept that the state must ensure that its fiscal house was in order with a sustainable budget. She stressed that this was the appropriation to evaluate the value from TransCanada and consider whether it was to the state's advantage for them to exit the project. She noted that there would be a potential debt of \$400 million of annual revenue, under the current assumptions. She appreciated the committees concerns, and announced that the committee supported the administration in advancing a good project for all Alaskans. She shared that there would be an examination of project financing the risks associated thereof, as specific to the day's presentation. She wondered if the constitution allowed the state to dedicate a portion of a revenue stream to pay for the long term debts. She shared the following meeting's agenda.

Senator Dunleavy asked if there would be individuals present at future meetings that would be able to elucidate the organizational chart (copy on file).

Co-Chair MacKinnon hoped that individuals would be prepared to testify related to the organizational chart.

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ADJOURNMENT

[11:12:41 AM](#)

The meeting was adjourned at 11:12 a.m.