

**SB**

**3001**

<TARGET><BILL>SB3001</BILL><SUBJECT>SB3001</SUBJECT><COMM  
>SFIN29</COMM></TARGET>

# Governor's Appropriation Bill Regarding Proposal to Buyout Trans Canada in the AKLNG Project

## Table of Contents

### 1. Bill

#### 2. Sunday, October 25, 2015:

Pat Pitney, Director, Office of Management and Budget

- TransCanada and Pre-FEED Supplemental Appropriations Summary
- FY2016 Supplemental Request for State Agencies
- Enalytica: TransCanada's Participation in AKLNG: Key Issues

#### 3. Monday, October 26, 2015:

Deepa Poduval, Principal Consultant, Black and Veatch, Administration Consultant

MartyRutherford, Deputy Commissioner, Department of Natural Resources

- TransCanada's AKLNG Participation
- TransCanada Participation Decision Impact on the State of Alaska
- TransCanada AKLNG Participation Decision Primer
- Alaska LNG Midstream Services Precedent Agreement
- Preliminary Agreement to be Negotiated Should Enabling Legislation Pass

#### 4. Tuesday, October 27, 2015:

Steven Kantor, Managing Director, FirstSouthwest

Justin Palfreyman, Director, Lazard

Radislov Shipkoff, Director, Greengate LCC

- TransCanada's AKLNG Participation: Financing Issues

#### 5. Wednesday, October 28, 2015:

Joe Dubler, Vice President Commercial Operations Alaska Gasline Development Corporation

Frank Richards, Vice President, Engineering and Program Management, Alaska Gasline Development Corporation

- AGDC Senate Finance Committee Presentation
- AGDC Organizational Chart

# Governor's Appropriation Bill Regarding Proposal to Buyout Trans Canada in the AKLNG Project

6. Friday, October 30, 2015:

Steve Butt, Project Manager, AKLNG Project

- Alaska LNG - Fueling Alaska's Future

Craig Richards, Attorney General, Dept. of Law  
Senate Bill 138 (2014) Legal Blueprint for AKLNG

- Senate Bill 138 & AKLNG Project Overview
- Senate Bill 138 Work to Date Sectional Review

# ALASKA STATE LEGISLATURE

## SENATE FINANCE COMMITTEE

Senator Pete Kelly, Co-Chair  
State Capitol, Room 315  
Juneau, AK 99801-1182  
(907) 465- 3709 - Phone  
Senator.Pete.Kelly@akleg.gov



Senator Anna MacKinnon, Co-Chair  
State Capitol, Room 315  
Juneau, AK 99801-1182  
Phone - (907) 465- 3777  
Senator.Anna.MacKinnon@akleg.gov

Official Business

*All Senate Finance Committee hearings will be teleconferenced*

**Revised**

Sunday, October 25, 2015 Butrovich Room 205 – 9:00 AM  
SB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.  
Pat Pitney, Director, Office of Management and Budget

Monday, October 26, 2015 Butrovich Room 205 – 9:00 AM  
SB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.  
Deepa Poduval, Principal Consultant Black and Veatch, Administration Consultant  
Marty Rutherford, Deputy Commissioner, Dept. of Natural Resources

Tuesday, October 27, 2015 Butrovich Room 205 – 9:00 AM  
SB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.  
Steven Kantor, Managing Director, FirstSouthwest  
Justin Palfreyman, Director, Lazard  
Radislov Shipkoff Director, Greengate LLC

Tuesday, October 27, 2015 Butrovich Room 205 – 3:00 PM  
SB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.  
Dept. of Law, Dept. of Natural Resources, and Dept. of Revenue  
Appropriation Details

Wednesday, October 28, 2015 Butrovich Room 205 – 9:00 AM  
SB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.  
Joe Dubler, Vice President Commercial Operations Alaska Gasline Development Corporation  
Frank Richards, Vice President, Engineering and Program Management, Alaska Gasline Development Corporation

Wednesday, October 28, 2015 Butrovich Room 205 – 3:00 PM  
SB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.  
Craig Richards, Attorney General, Dept. of Law  
Senate Bill 138 (2014) Legal Blueprint for AKLNG

Senate Finance Committee Schedule

April 2, 2015

Page 2

Thursday, October 29, 2015

Butrovich Room 205 – 9:00 AM

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

Vincent Lee, Director – Major Projects Development, TransCanada

Friday, October 30, 2015

Butrovich Room 205 – 9:00 AM

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

Steve Butt, Project Manager, AKLNG Project

Saturday, October 31, 2015

Butrovich Room 205 – 10:00 AM

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

Janak Mayer, Partner, Enalytica

Nikos Tsafos, Partner, Enalytica

**1. BILL**  
**SB 3001**

**SENATE BILL NO. 3001**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - THIRD SPECIAL SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 10/24/15

Referred: Finance

**A BILL****FOR AN ACT ENTITLED**

1 "An Act making supplemental appropriations; making appropriations to capitalize  
2 funds; making appropriations to the general fund from the budget reserve fund (art. IX,  
3 sec. 17, Constitution of the State of Alaska) in accordance with sec. 12(c), ch. 1, SSSLA  
4 2015; and providing for an effective date."

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 \* **Section 1.** FUND CAPITALIZATION. (a) The sum of \$144,045,000 is appropriated  
7 from the general fund to the Alaska liquefied natural gas project fund (AS 31.25.110) to  
8 acquire an interest in the Alaska liquefied natural gas project, to pay the costs of project  
9 payment demands arising out of the Alaska liquefied natural gas project, and to fund the  
10 state's equity participation in the Alaska liquefied natural gas project, including project work  
11 plans to complete preliminary front-end engineering and design work.

12 (b) The sum of \$13,607,000 is appropriated from the general fund to the Alaska  
13 liquefied natural gas project fund (AS 31.25.110) for the purposes listed in (c) of this section.

14 (c) The appropriation made in (b) of this section is appropriated from the Alaska

1 liquefied natural gas project fund (AS 31.25.110) to the following departments for the state's  
 2 participation in the Alaska liquefied natural gas project for fiscal year 2016:

3	Department of Natural Resources	\$2,126,000
4	Department of Law	10,100,000
5	Department of Revenue	1,381,000

6 \* **Sec. 2.** ALASKA GASLINE DEVELOPMENT CORPORATION. The sum of  
 7 \$5,000,000 of statutory program receipts received as reimbursement for field work during the  
 8 fiscal year ending June 30, 2016, is appropriated to the Alaska Gasline Development  
 9 Corporation for the fiscal year ending June 30, 2016.

10 \* **Sec. 3.** LAPSE OF APPROPRIATIONS. The appropriations made in sec. 1 of this Act are  
 11 for the capitalization of funds and do not lapse.

12 \* **Sec. 4.** BUDGET RESERVE FUND. If, after the appropriations made in sec. 12(b), ch. 1,  
 13 SSSLA 2015, the unrestricted state revenue available for appropriation in fiscal year 2016 is  
 14 insufficient to cover the general fund appropriations made in this Act, the amount sufficient to  
 15 cover the general fund appropriations made in this Act, not to exceed \$500,000,000, is  
 16 appropriated to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of  
 17 the State of Alaska) in accordance with sec. 12(c), ch. 1, SSSLA 2015.

18 \* **Sec. 5.** RETROACTIVITY. The appropriations made in sec. 1 of this Act are retroactive  
 19 to November 15, 2015.

20 \* **Sec. 6.** This Act takes effect immediately under AS 01.10.070(c).

**2. Sunday**  
**October 25, 2015**



# **TransCanada and Pre-FEED Supplemental Appropriations Summary**

**October 2015**

# TransCanada and Pre-FEED Supplemental Appropriations Summary

- How much funding for AKLNG has the state provided to date?
- What is included in the supplemental appropriation request?
- Why is the supplemental request \$157.6M versus \$108M?
- What changes have occurred in the Pre-FEED phase resulting in cost increases?
- How much will it cost to complete the future gasline phases?

# SOA AKLNG Appropriations to Date

**Funding to Date \$90.5 M**

**SB138 General Fund to LNG Fund (FY14-FY15) \$69,835.0**

- Capitalized the LNG Fund
- AGDC, AKLNG down stream cash calls, contractual service with agencies

**General Fund Appropriations (FY15) \$11,762.0**

- AEA in-state affordable energy study
- DNR North Slope Gas Commercialization
- DOR Tax Division

**Appropriations (FY16) \$8,987.0**

- DNR North Slope Gas Commercialization (in-state gas line fund)

**Authorization from LNG Fund (FY16)**

- Within original \$69,835.0 capitalization
- AGDC, DNR, DOTPF \$3,023.0

# State Gas Team--FY2016 Supplemental Summary

## Supplemental Request \$157.6 million plus \$5 million AGDC Statutorily Designated Program Receipts (SDPR):

<b>Agency Operating Budgets</b>	<b>\$13,607.0</b>
DNR: \$2,126.0	
DOR: \$1,381.0	
DOL: \$10,100.0	
<b>AGDC: Capital Budget</b>	<b>\$144,045.0</b>
Reimburse TransCanada: \$68,445.0	
Fund State's remaining Pre-FEED share: \$75,600.0	
<b>AGDC: Receipt Authority</b>	<b>\$5,000.0</b>
AKLNG reimbursement for work performed	

# Alaska Gasline Development Corporation

## State Gas Team

### Anticipated changes to the scope of pre-FEED :

- Pre-FEED scope and schedule increase the budget \$182 million to \$694 million
- State share of new total is \$173 million -- \$66 million liquefaction plant, \$107 million mid-stream (GTP and pipe)
- Moving work ahead into pre-FEED is important to have the best information available to complete internal review and make FEED decision
- A project of this magnitude matures through the stage-gate development process. Work activities are often shifted between stages in order to facilitate better design and decision making
- Scope changes are designed to improve project economics, permitting outcomes and the quality of information available for FEED evaluation:
  - Component level optimization to lower costs and increase efficiency (\$57 million)
  - Accelerate regulatory and pre-bid work on FEED contracting (\$66 million)
  - Increase scope of geotechnical and geohazard work at GTP and LNG sites; complete weather delayed off-shore field work (\$29 million)
  - Bring 48" pipe deliverables up to 42" level of development (\$30 million)

# Pre-FEED Scope and Budget Changes

	<b>Expectation Before 2016 Work Plan &amp; Budget</b>	<b>W/New Pre-FEED Scope &amp; Budget Change</b>
TC Buyout	\$ 68.4	\$ 68.4
Pick-Up Remaining Cash Calls	\$ 29.6	\$ 29.6
Allowance for Mid-Stream Scope Changes	\$ 8.8	\$ 31.0
Allowance for AGDC Down Stream Scope Changes	\$ -	\$ 15.0
	<b>\$ 106.8</b>	<b>\$ 144.0</b>

# Department of Natural Resources

## State Gas Team

**DNR North Slope Gas Commercialization Office FY16 work scope, per SB138 and other legislation, includes these components:**

- Fiscal stability commercial agreement negotiations with Producers
- Royalty In Kind (RIK)/Royalty In Value (RIV) analysis and decision
- In-state gas coordination and marketing of in-state gas, assuming RIK and Trans Alaska Gas (TAG)
- Marketing of LNG for export, assuming RIK and TAG
- Negotiate upstream agreements – gas supply and balancing
- Negotiate governance structure
- Negotiate midstream terms including system use; expansion capacity and use
- Lease modifications

**Personal Services (\$646.0):** Increase funding for existing Marketing Lead position to attract global LNG marketing expertise; assist the State in building successful gas marketing organization to remain competitive. Add a new Marketing Analyst to assist with negotiations and pre-marketing work (December-June).

**Contractual (\$1,480.0):** RSA to DNR (\$580.0) for Department resource support, primarily from the Division of Oil and Gas for upstream expertise and other commercial/lease support. Meet contractual needs (\$900.0) anticipated for FERC resource report reviews and drafting, facilities review for commercial aspects, commercial analysis and support, and TC Developmental Cost audit.

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# Department of Revenue

## State Gas Team

**DOR FY16 work scope, per SB138 and other legislation, includes these components:**

- Identify and report range of state financing alternatives for Project
  - Evaluate municipality, native corporation, resident investment options
  - Identify impact and benefits of project on Alaskan communities
  - Recommend changes to property tax statutes for Project infrastructure
  - Negotiate property tax (Impact payments and Flow Related Property Tax)
  - Coordinate Municipal Advisory Gas Project Review (MAGPR) Board and prepare reports to legislature
  - Consult on fiscal stability negotiations
  - Consult on commercial structure and governance
  - Consult on upstream agreement negotiations
  - State lead on Project Integrated Finance team and Project Tax team
  - Co-State lead on Project Sponsor team and Venture Alignment Memorandum of Understanding (VAMOU) team
  - Coordinate and implement FEED financing plan
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# Department of Revenue

## State Gas Team

**Personal Services (\$794.0):** Funding for work scope on fiscals, financing options, governance, production tax, federal tax implications; property tax, and revenue aspects of marketing; coordinate MAGPR Board activities; TC Development Cost audit services.

**Travel and Supplies (\$87.0):** Other related expenses and audit travel expenses performing work services for AKLNG.

**Contractual Budget (\$500.0):** Fund State of Alaska share of “bankability” review of Project financing options and commercial structure.

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# Department of Law

## State Gas Team

### **DOL FY16 work scope:**

- Represent the State's interest moving the process to a project
- Provide legal support to agencies and AGDC for all commercial agreements and other decisions

### **Contractual (\$10,100.0):**

- Contract services with law firms for drafting, negotiating and reviewing AKLNG contracts with the Producers
- Contract services to provide regulatory and legal support for state participation in AKLNG project

### **Law firms under contract to DOL are:**

- Greenberg Traurig
- Milbank, Tweed, Hadley & McCloy

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# Alaska Gasline Development Corporation

## State Gas Team

**AGDC FY16 work scope, per SB138 and other legislation, includes these components:**

- Manage State's equity participation in Alaska LNG project including LNG & Marine facilities in Nikiski, and if TC exits, the pipeline and Gas Treatment Plant
- Develop means for delivering North Slope natural gas in-state

**AGDC Capital Budget (\$144,045.0):**

- \$68,445.0 – Funds to reimburse TransCanada and “buy-out” their mid-stream interest
- \$75,600.0 – State's full 25% share of remaining pre-FEED

**AGDC Receipt Authority (\$5,000.0):** Statutory Designated Program Receipts (SDPR) will allow AGDC to be reimbursed for Alaska LNG related field work conducted on behalf of the project

# Remaining State Investment in AKLNG

	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Calendar Year	2015					2016					2017					2018					2019					2020																																																				
Fiscal Year	FY16					FY17					FY18					FY19					FY20					FY21+																																																				
Reimburse & Buy-out TC	\$68.5M																																																																													
AGDC: pickup from TC, scope changes (pipe, GTP)						\$60.5M (was \$38.0M)																																																																								
AGDC: Fund pre-FEED scope changes (LNG)						\$15.0M																																																																								
FY16 Supplemental/State agencies (DNR, DOR, Law)						\$13.6M																																																																								
Total Special Session Request						<b>\$157.6M Pre-FEED</b>																																																																								
<b>FEED Estimates - SOA Participation</b>																																																																														
State Agencies Operating											\$100M																																																																			
AGDC Corp Operating & Contractual											\$100M																																																																			
SOA Share of AKLNG FEED & LLC Buy-in											\$675M FEED & LLC Buy-in																																																																			
<b>Project Construction Estimate - SOA Participation</b>																																																																														
SOA Share of Project Construction																															\$12-16B Construction																																															

- GF Appropriation of \$157.6 M to acquire TransCanada's interest and complete pre-FEED
- Under success scenario, FEED would be initiated in FY2017 – SOA costs estimated at \$875M
- SOA's 25% share of project construction estimated at \$12-16 billion. These costs can largely be financed and secured with project revenue.

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## **In Conclusion—Moving From Process to Project**

The FY2016 Supplemental Budget Request reflects our collective focus on getting Alaska's gas to Alaskans and LNG to global markets to generate revenue and diversifying Alaska's economy.

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# In Conclusion—Moving From Process to Project

Questions?



# State of Alaska

*Bill Walker, Governor*

*Office of Management and Budget  
PO Box 110020  
Juneau AK 99811-0020  
(907) 465-4660, fax 465-3008*

## **FY2016 Supplemental Request for State Agencies - \$13.6 Million**

### **Background – Roles and Responsibilities**

The AKLNG state gas team consists of representatives from the Department of Natural Resources (DNR), Department of Revenue (DOR), Department of Law (DOL), and Office of the Governor (GOV), as well as subject matter experts from other state agencies and external consultants. The AKLNG state gas team is primarily responsible for:

- negotiating critical commercial agreements for the Alaska LNG Project with the Producer parties (ExxonMobil, BP, and ConocoPhillips);
- developing a plan to market and dispose of the State's share of project gas for in-state use and LNG exports;
- evaluating, and if it's in the best interest of the State, modify existing lease structures to accommodate the State taking tax-as-gas and royalty in-kind;
- negotiating Property Tax for the Payment in Lieu of Taxes (PILT) and Impact Payments during construction;
- assuring the project allows for adequate expansion for new discovery and alternative gas supplies; and
- assuring the pipeline is adequately designed to provide supply to meet in-state gas demand (demand is determined by the Alaska Gasline Development Corporation).

In addition to the state agencies, the Alaska Gasline Development Corporation (AGDC) is a party to the Alaska LNG Project and deals with specific project and infrastructure issues.

### **FY2016 AKLNG State Gas Team Supplemental Request Summary**

The coming months are critical for the Alaska LNG Project. The AKLNG state gas team continues to work diligently in crafting agreements to move the project forward and begin to plan for the next phase of the project, specifically in marketing the State's share of gas.

Under SB 138, the DNR Commissioner was given the authority to participate in negotiation of contracts for marketing of the state's gas and in consultation with the DOR Commissioner take custody of gas delivered to the state under AS 43.55.014(b) and manage project services and disposition and sale of that gas. The need for a marketing organization within DNR is an important step in preparing for successful sale of gas under the Alaska LNG Project or an alternative project. Gas sales contracts typically need to be negotiated before a LNG project can proceed into construction. With assistance provided by expert consultants Black & Veatch on staffing needs and market rates for key personnel, the DNR North Slope Gas Commercialization (NSG) is requesting funds to begin developing a gas marketing organization required to attract the necessary expertise to compete with global marketing organizations. Further detail on the marketing structure is provided later in this document.

The DNR NSG did not receive the full \$13,186.7 requested for FY2016. The project workload has increased significantly over the past several months in preparation for a special session and the currently appropriated FY2016 budget for the NSG is insufficient to cover projected expenses and the need to begin ramp up of a

marketing effort. We expect the workload to remain steady through the remainder of FY2016 and therefore are submitting a supplemental budget during the fall special session.

Should the AKLNG state gas team not receive supplemental funding, important project work will come to a halt. Instead of moving the project forward, critical DOL and DNR contracts would not be able to continue and many subject matter experts from the DNR and DOR would be laid off. Further, the State will be unable to compete with international gas marketers. It is important the DNR begin to develop the capability during the second half of FY2016 to be fully positioned to sign sales agreements which will underpin a Final Investment Decision in 2018 or 2019 to proceed to construction.

### Department of Natural Resource's NSG LNG Supplemental Request

The FY2016 projected supplemental request for DNR is estimated at **\$2,126,000**.

#### New DNR NSG Marketing Structure

Please note the Marketing Lead is not a new position, it is a current vacant position but an increase in salary will be required to attract a candidate with the level of global LNG marketing experience required to help the State build a successful gas marketing organization to remain competitive. Projections are for December 1, 2015 – June 30, 2016.

Position	Description	FY16 Projected (salary + benefits)
Marketing Lead	Existing Position – additional funding for level of expertise required	\$480,000
Marketing Analyst	New Position Request – manage marketing portfolio & risk under direction of Lead	\$166,000
<b>TOTAL</b>		<b>\$646,000</b>

#### Additional DNR FY16 NSG Contractual Services

DNR was given procurement exemptions under SB 138 section 22. DNR's exemption is specific to contracts for professional and technical services to support the development of agreements and contracts under AS 38.05.020(b)(10) and (11) to help facilitate coordination of contract work for a large integrated project such as this. It is anticipated that an additional **\$1,479,800** will be required in contractual services.

Budget Item	FY16 Allocated	FY16 Projection	FY16 Supplemental Request
DNR Contractual Services	\$7,115.0	\$8,015.0	\$900.0
Other DNR Agency AKLNG Expenses	\$0.0	\$579.8	\$579.8
<b>TOTAL</b>	<b>\$7,115.0</b>	<b>\$8,594.8</b>	<b>\$1,479.8</b>

Below is a list of existing contracts. Some may need to be extended and additional contracts are currently being negotiated or have been identified for work related to FERC resource reporting reviews and drafting, facilities review for commercial aspects, commercial analysis and support, and audits associated with termination of TransCanada.

#### **FY16 Existing Contracts:**

Contractor	Contract Admin	Contract Period	FY16 Projected
Audie Setters	DNR	Sept 2014 – October 2015	\$170,000
Black & Veatch	DNR	Sept. 2014 – June 2016	\$2,200,000
Greengate LLC	DNR	July – September 2015	\$300,000
Nan Thompson	DNR	July – September 2015	\$200,000
Pingo	DNR	January 2015 – July 2016	\$240,000
Simon Lisiecki	DNR	May 2015 – June 2016	\$100,000

Contractor	Contract Admin	Contract Period	FY16 Projected
Steve Swaffield	DNR	Aug 2014 – Dec 2015	\$120,000
Steve Wright	DNR	Aug 2014 – June 2016	\$336,000
Subtotal			<b>\$3,666,000</b>

**Other FY16 DNR AKLNG Project Related Personal Services – RSA to DNR**

An additional \$580,000 will cover the significant workload associated with the AKLNG Project placed on other Divisions, primarily the Division of Oil and Gas as outlined in the table below:

Position	Description	FY16 Projected (salary + benefits)
Deputy Commissioner	Project support – 50 percent of time	\$129,217
Petroleum Reservoir Engineer – DOG	Upstream Team support – 10 percent of time	\$25,174
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	\$25,194
Petroleum Reservoir Engineer – DOG	Upstream Team support – 10 percent of time	\$21,575
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	\$24,750
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	\$25,194
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	\$25,194
Commercial Analyst – DOG	Upstream Commercial support – 80 percent of time	\$158,890
Commercial Analyst – DOG	Upstream Commercial support – 90 percent of time	\$144,656
<b>TOTAL</b>		<b>\$579,844</b>

**Department of Revenue’s LNG Supplemental Request**

The supplemental budget request for Revenue includes both operating and capital budget requests. The total projected supplemental request for this project from Revenue is estimated at \$1,381,000 for the remainder of FY2016.

**FY16 DOR AKLNG Project Related Personal Services**

The personal services funding will support Revenue’s work on fiscals, project financing, governance, and the revenue aspects of marketing and taxes.

Position	Description	FY16 Projected (salary + benefits)
Deputy Commissioner	Focuses on fiscals, finance, governance and tax deliverables – 90 percent of time	\$214,934
Audit Master	Focuses on upstream deliverables - 90 percent of time	\$192,505
Audit Master	Focuses on property tax, some upstream deliverables - 75 percent of time	\$179,111
Commercial Analyst	Focuses on fiscals, finance, and property tax deliverables - 50 percent of time	\$86,906
Chief Economist	Focuses on marketing and finance deliverables - 10 percent of time	\$18,695
Petroleum Economist	Focuses on revenue aspects of marketing deliverables - 10 percent of time	\$13,216
Petroleum Economist	Focuses on property tax deliverables - 25 percent of time	\$36,062
State Investment Officer	Focuses on finance deliverables - 5 percent of time	\$18,632
State Investment Officer	Focuses on finance deliverables - 5 percent of time	\$18,632
State Investment Officer	Focuses on finance deliverables - 5 percent of time	\$14,744
<b>TOTAL</b>		<b>\$793,437</b>

**FY16 DOR Travel and Contractual Services**

Revenue is also requesting \$87,000 for travel expenses and other related expenses related to performing work services for AKLNG. Revenue is also requesting \$500,000 for contractual costs to fund AKLNG Project “Bankability” review of project financing.

**Department of Law’s LNG Supplemental Request**

**FY16 Law Contractual Services**

The supplemental budget request for Law includes a \$10,100,000 operating budget requests for contractual services with other law firms to assist in drafting, negotiating and reviewing AKLNG contracts with the producers, to provide legal and regulatory support for state participation in the project. Currently under contract are Greenberg Traurig and Milbank, Tweed, Hadley & McCloy.


Budget Item	FY16 Allocated	FY16 Projection	Difference
Milbank	2,300.0	10,000.0	7,700.0
Greenberg Traurig	2,000.0	4,400.0	2,400.0
Jones Day	100.0	100.0	0.0
DOL Internal costs	200.0	200.0	0.0
<b>TOTAL</b>	<b>\$4,600.0</b>	<b>\$14,700.0</b>	<b>-\$10,100.0</b>

\*Law’s allocation includes \$3 million from DNR, and \$700.0 from the FY16 regular budget, and \$900.0 remaining from a FY2014 capital appropriation to AGDC.

**DNR Costs Associated with TransCanada Buyout – RSA from AGDC**

State is faced with a December 31, 2015 deadline to make a decision on whether to buy back TransCanada’s share and take a direct equity participation in the AKLNG midstream. To do so would require termination of the PA. If the Legislature agrees that AGDC take control of the Midstream component of the Alaska LNG Project, the TransCanada Alaska Midstream Limited Partnership (TAMLP) partnership interests will be acquired for \$1 and TransCanada will be owed for its accrued costs in the Project, which are estimated to be ~\$68,445,000 at the end of 2015.

The amount owed to TransCanada is the responsibility of DNR under the current Precedent Agreement between DNR and TransCanada. Once the agreement is terminated, AGDC will require additional operational funding to carry the midstream costs through the end of FY2016.



# TRANSCANADA'S PARTICIPATION IN AK LNG: KEY ISSUES

OCTOBER 2015

## Contents

- 1 Executive summary
- 3 The current role of TransCanada in AK LNG
- 4 Background: 2014 legislative debate on TransCanada participation
- 7 Financial aspects of TransCanada's participation
- 15 Strategic aspects of TransCanada's participation

## About the authors

Janak Mayer is Chairman and Chief Technologist and Nikos Tsafos is President and Chief Analyst at analytica.

## EXECUTIVE SUMMARY

TransCanada (TC) notionally holds the state's equity stake in the pipeline and gas treatment plant (GTP) components of Alaska LNG (AK LNG), but from a risk perspective, its participation in the project more closely resembles a loan: TC will pay for expenses that would otherwise be borne by the state, and in return, the state will repay TC a tariff over time (codified through a Firm Transportation Services Agreement, or FTSA). The financial case for keeping or getting rid of TC is too close by itself to be persuasive, especially given all the uncertainties involved with a project at such an early development phase. In particular:

- It seems unlikely that banks and credit rating agencies will treat the state's FTSA with TC in a fundamentally different way than if the state were to borrow equivalent sums directly. Thus, it is not clear that TC will make it easier for the state to finance this project (see p. 11 in this report for more).
- While the state may be able to borrow the funds to support its AK LNG commitments at rate equal to or lower than that charged by TC, it is not clear that it can do so at substantially lower cost, given the current outlook for the state's finances, and the size of the capital requirement (pp. 8-9 for more).
- Neither is it clear that the tariff offered by TC is substantially more expensive than the rate at which the project could secure non-recourse funds from private borrowers; the TC tariff is likely to be more expensive, however, than funds offered by public lenders such as export credit agencies (pp. 9-11 for more).
- If one discounts future cash flows at a rate that correctly accounts for project risk, the difference between keeping TC in and going alone is minimal, especially if the state were to exercise its Equity Option (pp. 11-13 for more).
- The risk of receiving negative netback at the wellhead in a world of low gas prices is slightly higher under TC, but could be effectively mitigated if the state wished to continue the partnership (pp. 13-15 for more).

Given that the purely financial case for keeping or getting rid of TC is not, by itself, persuasive, other, non-financial questions carry particular weight:

- To what extent has TC delivered on the expectations of the state? The assumption, during the SB 138 discussions, was that the state and TC would be highly aligned in all midstream questions since they shared an interest in having as much gas as possible flow through the pipeline. To what extent have such expectations been borne by the facts? What is TC's position on questions such as whether to build a 42 or a 48 inch pipeline? Does TC have the same views as the state on the withdrawal agreements being negotiated? (pp. 15-17 for more).
- How would TC's departure impact the project? TC was selected because it brought considerable experience and expertise in the midstream component. To fully understand the implications of TC leaving, one needs to understand how the workflow will be impacted. How many TC employees are participating in project work and how will that work be affected by a termination event? (p. 17 for more).
- What kind of project structure does the State of Alaska wish to see for AK LNG? On one hand, the project is structured to align ownership of gas with ownership of infrastructure, and in that world, TC's role is less clear. On the other, the state is negotiating agreements that could see one or more producers leave the project, in which case, it would make sense to re-introduce partners such as TC that have an interest in constructing and owning infrastructure (p. 17 for more).

Finally, there is a broader question about the nature of the relationship between the state and TC. The agreement that governs the relationship has certain elements that keep most of the risks of equity ownership with the state, but hand TC broad decision-making powers and enable it to earn an equity rate of return on its participation. In part, this agreement reflected the negotiating strengths of the two sides at the time it was made, under the circumstances of the AGIA license. In the absence of such a constraint, however, now may be the right time to reconsider the balance of risk, reward and control in the partnership with TC.

### THE CURRENT ROLE OF TRANSCANADA IN AK LNG

TransCanada's participation in AK LNG was codified in a **Memorandum of Understanding (MOU)** between the State of Alaska (SOA) and TransCanada (TC) in December 2013. The MOU was negotiated alongside a **Heads of Agreement (HOA)** between the State of Alaska (SOA), the three major North Slope producers, and TransCanada, setting out an overall strategic vision for AK LNG.

**Heads of Agreement.** Under the HOA, the state indicated its intention (subject to negotiations) to take its tax and royalty entitlements for gas production in kind, as gas rather than as cash, which would give the state a 20-25% share of the gas for the AK LNG project. Further, it would hold a corresponding 20-25% of the equity in the project. As an equity partner, it would be responsible for 20-25% of the costs of developing the \$45-\$65 billion project. Under the basic framework of the HOA, gas and infrastructure ownership would thus be aligned.

**Memorandum of Understanding.** The MOU then proposed assigning the state's 20-25% infrastructure ownership in the gas treatment plant (GTP) and pipeline to TransCanada (TC), while retaining the state's full share in the liquefaction component of the project. Under this arrangement, TC would fully fund the state's development costs for the GTP and pipeline, and be reimbursed with interest for doing so. Should the project proceed, that reimbursement would occur through a tariff on the transportation of the state's share of the gas, which covers the costs of building the infrastructure and transporting the gas plus a return. If the project did not proceed, or if TC at some point left the project, TC would be reimbursed in full, with interest, by the state. While it would notionally hold infrastructure equity, TC's involvement is thus more like a loan; the core project risks would remain with the state, while TC would be a financier and provider of technical expertise and capability.

The MOU essentially provided a term sheet, outlining the basis on which subsequent agreements establishing this relationship with TC would be drawn up. Under the MOU, the state would also have an **Equity Option (EO)**, exercisable at the end of 2015, to **reclaim up to 40% of its original share** in the pipeline and GTP (10% of the total for each) from TC by repaying the corresponding share of TC's development expenses to date with interest.

		PRODUCERS			SOA OPTIONS UNDER HOA AND MOU		
		XOM	BP	COP	HOA	MOU	MOU+EO
GAS SUPPLY		32%	21%	22%	25%	25%	25%
INFRASTRUCTURE	GTP	32%	21%	22%	25%	TC:25%	TC:15%, SOA: 10%
	PIPELINE	32%	21%	22%	25%	TC:25%	TC:15%, SOA: 10%
	LIQUEFACTION	32%	21%	22%	25%	25%	25%

In approving SB138, the legislature authorized the state to negotiate and enter into agreements with TransCanada and the producers of no more than two years duration. These agreements included a **Precedent Agreement (PA)** and **Equity Option Agreement (EOA)** that accompanied the AGIA Dissolution Agreement with TC, based on the terms negotiated in the MOU, and superseding that agreement. The PA and EOA currently govern the terms of the SOA's relationship with TC, but have not yet been made available to the legislature due to confidentiality restrictions.

#### **BACKGROUND: 2014 LEGISLATIVE DEBATE ON TRANSCANADA PARTICIPATION**

**Original rationale for TransCanada (TC) participation.** In the legislative review of the HOA, the MOU and SB 138 that occurred in the 2014 legislative session, the Parnell administration, which had negotiated that MOU, argued strongly that TC brought several advantages to AK LNG, including in particular that:

- TC had a **long history of working on an Alaskan gas pipeline**, most recently as the holder of the Alaska Gasline Inducement Act (AGIA) license. TC brought a wealth of experience, data, institutional knowledge and prior work that AK LNG could leverage. Moreover, TC was **one of the world's premier pipeline companies**, one of only a few having experience with northern pipelines, and its involvement would strengthen the project team in designing, constructing and operating the 800-mile pipeline from the North Slope to tidewater.
- TC was a company that made money by shipping gas. Thus, on the question of future pipeline expandability, **TC's core interests were aligned with the interests of the state**: the more gas that eventually flowed through the pipeline, the better it would be for TC. The state could rely on TC's interests and expertise to ensure that the pipeline would be structured and designed to be as expandable as possible, both technically and commercially. Indeed, the administration argued that they had benefited from TC's expertise at the negotiating table in securing expansion principles in the HOA, and in the various technical discussions on in-state gas options and off-take points.
- TC could make it **easier for the state to finance its share in AK LNG**. As a part owner in AK LNG, the state would be responsible for covering its share of the development costs, which would run into several billion dollars. By bringing TC into the project, the state would have to put upfront a smaller amount of capital; instead, the state would reimburse TC over time for its expenses in AK LNG, in the form of a tariff on SOA gas flowing through the pipeline and GTP.
- Excluding TC from AK LNG could have exposed the state to **liabilities related to the AGIA license**, which entitled TC to damages if the license was suspended, and also hindered the full transfer of AGIA work product to AK LNG until the AGIA license was satisfactorily wound up. In that context, continuing the relationship with TC avoided any potential disruptions and project slippage that could result from an adversarial ending of the AGIA license.

- The MOU provided '**off-ramps**' that meant the question of **TC's ultimate project participation could be revisited** when more project details had been established, and more analysis had been performed.

In presenting this argument, the Parnell administration acknowledged that TC's involvement came with certain costs. In particular, it was understood that the **weighted average cost of capital (WACC) required by TC** to effectively finance the state's share of the GTP and pipeline **might be higher than that required by other potential sources of finance**. Fundamentally, however, it was suggested that any such costs were limited in the context of the overall project, and would be outweighed by the benefits of TC's participation, in terms of capabilities and expertise, expansion-orientation, and continuity from AGIA to AK LNG.

**Key concerns expressed during 2014 legislative session.** At the same time, several parts of the relationship with TC came under significant scrutiny during the SB 138 conversation in the 2014 legislative session:

- There was concern at the observation that **TC took on limited risk** and that, as a result, in some regards the partnership appeared skewed in TC's favor, with TC earning an equity rate of return on the project without taking on the true risks of equity ownership. If the project failed, TC would be reimbursed for all its expenses to date; if the project's costs escalated, it would earn a higher tariff to compensate for higher costs; if there was a change in long-term interest rates before a Final Investment Decision (FID) was made, its rate of return on debt and equity would adjust accordingly (a provision which is natural for debt but harder to justify for equity). And if TC could not secure financing at terms acceptable to it, it could simply pull out and be reimbursed for its expenses.
- The MOU terms provided the state with **limited levers through which to influence TC's involvement in the project**. Under the MOU, TC would be the general partner of the Limited Partnership that would hold the state's interest in the GTP and the pipeline; in that capacity, TC would

*"make all decisions on behalf of the Limited Partnership, provided that the Equity Option Agreement will provide that certain fundamental decisions (e.g. change to distribution policy, winding up of Limited Partnership, sale of significant interest of Limited Partnership in AK LNG) could not be made without the approval of the Optionee (before the option is exercised) or the Limited Partner (after the option is exercised)." (MOU, page 1)*

In other words, the state retained certain veto rights but otherwise depended on TC to make decisions that served the state's interests, despite the fact that it was the state, rather than TC that bore the ultimate costs and risks.

- TC participated not just in the pipeline, where it had clear expertise, but also in the GTP, where the relevance of its expertise was less apparent.
- Finally, on the question of 'off-ramps' there was significant discomfort at an MOU clause stating that if the relationship were terminated, the state would have to

**offer TC an opportunity to join any new project that was “substantially similar” to AK LNG for 5 years** after the termination of the agreement. Legislative scrutiny and resulting negotiations and clarifications during the course of the session served to ensure that that clause would be included in an eventual FTSA, but not the PA that would govern the TC relationship until an FTSA could be signed in late 2015; as a result, **late 2015 would provide the one opportunity** for a clean break should the state wish to **terminate the relationship at that point**.

**Centrality of late-2015 ‘off-ramp’.** It was this final question of a solid, late-2015 off-ramp that ultimately, for many legislators, provided the necessary reassurance regarding the TC relationship to enable the passage of SB 138. This provision meant that through the course of 2014 and 2015, the state could acquire a more **thorough and detailed understanding of its own ability to finance the project**, and how the costs and benefits of these options compared to those of TC’s participation.

Armed with that knowledge, in late 2015 the state could then decide whether to (a) continue the relationship with TC unchanged; (b) exercise its option to acquire 40% of TC’s share of the project (10% of each of the GTP and the pipeline); or (c) take the ‘off-ramp’ and terminate the relationship with TC, reimbursing it for its expenses to date. The state would be able to **make this decision after having fully dissolved the AGIA license**, and no longer having the concern over AGIA damages, or the transfer of TC work product to AK LNG being part of the picture.

**Options available: extend deadline or terminate.** Late 2015 is now here. Ideally, in making further determinations on TC’s involvement, under the timeline originally envisioned, the legislature would have had full details of all of the contracts to be signed with other partners, and details of the proposed financial structuring that went with these, including risks of different options, and their impacts on the state’s bonding capacity and bond rating. Because of the delays created by difficult negotiations in other areas, however, many of these details will be difficult to present at the same time as the TC decision, since the December 2015 deadline for a decision on TC’s ultimate participation still applies despite slippage in other areas.

Clearly, without other agreements in place, the state cannot agree to an FTSA with TC; until it finalizes gas supply agreements and makes a Royalty-In-Kind (RIK) determination, for instance, the state has no gas to ship through a pipeline. The choice that faces the state now is thus **whether to seek to extend the December 2015 deadline for finalizing an FTSA and exercising the Equity Option, or whether the state should terminate its relationship with TC** by reimbursing it its costs incurred to date, with interest.

**Financial and strategic costs and benefits.** The question of TC’s involvement has always been one of evaluating the **potential financial costs** of TC’s involvement in the project (in terms of its weighted average cost of capital, compared to the potential borrowing costs of the state) in **comparison to the financial and non-financial benefits TC’s involvement might bring**. For that

reason, the remainder of this report will be devoted to an analysis first of the financial, then of the strategic costs and benefits to TC's participation in AK LNG.

### FINANCIAL ASPECTS OF TRANSCANADA'S PARTICIPATION

The cost of the implicit 'financing' provided by TransCanada is set by the MOU on a basis common to most regulated infrastructure like pipelines - that of a capital base consisting of the capital cost of the infrastructure, depreciated over time, with a tariff composed of an agreed return on that capital, plus depreciation recovery, operating costs and taxes. Under the MOU, TC's return on their capital deployed in funding the design and construction of their share of the pipeline and GTP is calculated through an agreed capital structure, and a set cost of debt and equity.

Under the MOU, the capitalization structure agreed to is one of 70% debt and 30% equity during development and construction, revised to 75% debt and 25% equity one year after the in-service-date of AK LNG, and remaining in that proportion for the duration of the 25 year contract term. **The base rate set for the return on equity is 12%, while the cost of debt is set at 5%.** Both numbers are subject to a 'rate tracker differential', which tracks the difference between the yield on 30-year US Treasuries between the time of the original signing of the MOU in December 2013, and the time at which a final investment decision (FID) for AK LNG is made. The ultimate capital costs would then be fixed, on the basis of this tracker, at FID.

Ignoring for the moment the effect of the rate tracker, given this capital structure and these returns on debt and equity, the **weighted average cost of capital (WACC) during design and construction would be 7.1% during design and construction, falling to 6.75%** after the first year of operations.

Since the 30 year Treasury yield has fallen by 95 basis points (i.e. 0.95%) since the MOU was signed in December 2013, if one were to imagine it were possible to take FID in mid-October 2015, the resulting costs of capital would be reduced accordingly, to around **6.15% during construction, and 5.8% during operation.** Of course the 30 year Treasury yield will continue to move between now and FID, and in general the likelihood of substantial upward movement must be seen as substantially greater than that of further declines over that time period.

Finally, if TC ceases to be a participant before the final debt and equity rates are set at FID, TC's reimbursement will be with interest (Allowance for Funds Used During Construction, or AFUDC under the terms of the MOU) fixed at the rate of 7.1%.

**TransCanada cost of capital vs other US pipelines.** A key question during the the 2014 legislative session was the reasonableness of the tariff negotiated with TC in comparison with rates charged by other pipelines in the United States. Analysis prepared by enalytica at that time demonstrated that compared to FERC-regulated pipelines, the TC MOU entailed a capital structure much more heavily weighted toward debt (the lower-cost form of capital), and with a weighted average cost of capital (WACC) near the very bottom for all FERC-reporting pipelines.

Ultimately, however, this comparison may not be the most relevant, or the most important comparison to draw, because of the allocation of risk under the MOU. In many aspects, although under the MOU and subsequent agreements, TC notionally holds the state's equity share in the AK LNG GTP and pipeline components, in reality the state continues to bear most of the true risks of equity ownership, with TC made whole with interest in almost all scenarios. In the amount of project risk that it takes on, ignoring for the moment any other benefits it may provide, **TC is more like a bank or a bond-holder than a true equity participant**, and in many ways it is more logical to compare the financing option that TC provides to that which the state might obtain either through debt financing on the state's balance sheet, or the non-recourse financing that might be available to a state project company.

**TransCanada cost of capital vs state balance sheet debt.** The state's likely cost of debt in a world in which AK LNG is sanctioned is very difficult to forecast with any degree of accuracy, even if one ignores broader changes that will occur between now and FID to the long-term risk-free interest rate (effectively synonymous with the US Treasury yield), which affect all of the state's financing options more or less equally (including TC, through the rate tracker differential). While the state currently maintains a triple-A credit rating and is able to access fixed-income capital markets at exceptionally low rates, this is a function of the relatively low debt burden the state currently maintains, and its exceptionally high level of savings.

Key factors that will impact the state's ability to raise a significant portion of the roughly \$15 billion needed to fund its share of AK LNG will include:

- the outlooks for the crude oil price and North Slope oil production in the 2020s;
- the trajectory of the state population and state spending in the intervening years;
- the duration of the current period of low oil prices;
- the state's success or otherwise in cutting spending and developing non-oil sources of revenue during the oil price downturn, and its corresponding rate of consumption of savings;
- the performance in the intervening time of the Permanent Fund, and the degree to which, explicitly or implicitly, it is seen to backstop relevant liabilities;
- the extent of the state's future dependence on AK LNG project revenues.

The state has dedicated, specialist advisors regarding its access to debt capital markets, and their advice should be relied on in gauging the state's likely cost of capital across a range of possible scenarios. At the time of writing, only some preliminary numbers from FirstSouthwest (prepared June 3, 2015 and marked 'for discussion purposes only') have been made available to the legislature in considering this question. Even these, however, are useful in considering the extent to which state financing may present advantages over the TC financing option.

The FirstSouthwest analysis provided assumes, reasonably, that if the state can limit debt service costs as a proportion of general fund revenue to 5%, it can maintain its current AAA credit rating, but that as this percentage rises, its rating falls, reaching a level of A2/A when debt service reaches 20% of general fund revenue. It posits a **4.49% rate on taxable bond issuance in 2017 at a AAA rating**, rising to **5.34% at the lowest A2/A rating** contemplated.

The analysis provided suggests that a **~\$15bn bond issuance** in 2017 (roughly the full amount needed to cover the state's anticipated construction costs for AK LNG, though it would not all need to be raised in 2017) **would take the state to the limit of fundraising that could be achieved at a A2/A rating**, implying a cost of debt around the 5.34% level, by FirstSouthwest's numbers. It should be noted that this analysis also relies on the DOR spring 2015 Revenue Sources Book projections for unrestricted general fund revenue, which assume that ANS crude returns to \$110/bbl by 2020, and rises from that point onward. While a world in which this does not occur would make debt raising more difficult and expensive still, such a world would also be one in which AK LNG would be less likely to reach FID.

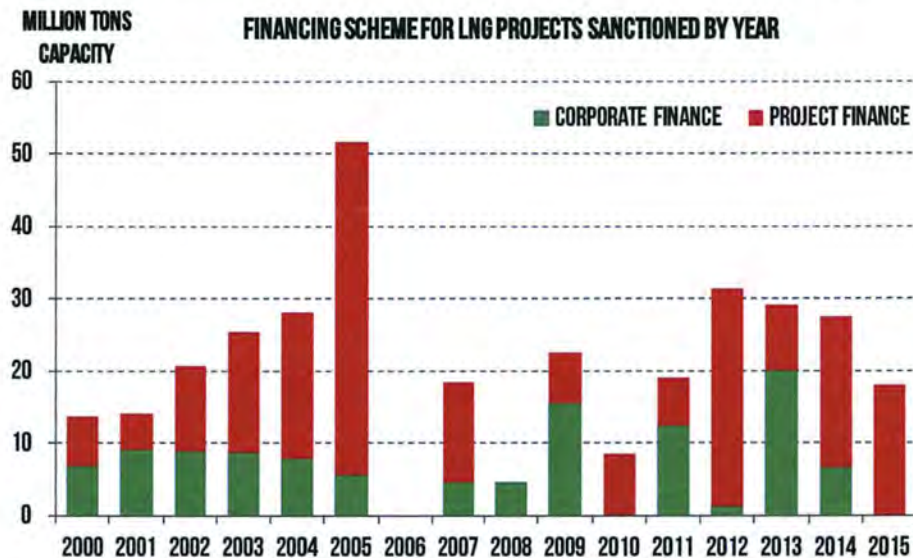
It seems likely that, in most plausible scenarios, if the state chose to raise the funds for its share of AK LNG entirely through debt, and did so through on-balance-sheet, recourse debt (whether general obligation or appropriation bonds), it could do so, although doing so would clearly involve a significant credit-rating downgrade. As the subsequent section will show, this is likely the case regardless of whether TC participates or not. Further, it appears likely that the cost of such debt would, in most reasonable scenarios, be no higher than the cost of financing offered by TC. Indeed, since TC's offer depends largely on leveraging the state's 'full faith and credit', it is hard to see how TC's cost of financing could ever be cheaper than the state's; were the state's credit rating to deteriorate to a point that implied a higher cost of capital, TC could always opt to withdraw, leaving the state with a need to finance directly.

How much lower this cost could be than that of TC participation depends on too many variables to predict with any degree of certainty, but in most likely cases, it seems unlikely to be sufficiently large that the case for proceeding without TC can be convincingly argued on cost-of-capital grounds alone, if there are other major non-financial advantages to TC's participation.

One exception to this would be if the state were successful in obtaining a private letter ruling from the IRS authorizing the state to issue tax-exempt bonds to raise funds for AK LNG. Yields on tax-exempt bonds are far lower than those on taxable ones, so if tax-exempt issuance in support of AK LNG is possible, this would present a major financing advantage. Tax-exempt issuance primarily exists to support public facilities and infrastructure, however, and strict rules govern eligibility for projects with private participants or off-takers. As a result, absent a PRL, the permissibility of tax-exempt issuances remains unclear.

**TransCanada cost of capital vs project company non-recourse finance.** For many LNG projects, significant amounts of debt financing are raised not on the

balance sheets of their sponsor companies, but by project companies themselves, with limited or no recourse to the sponsors. Such debt is rated primarily not on the financial strength of the sponsor companies, but on the financial strength of LNG buyers, and the firmness of their long-term financial obligations to purchase LNG.



Sources: *enalytica* based on company announcements, industry press and reports, and *Project Finance International* annual league tables

The above time series chart, which shows total LNG project capacity sanctioned each year, split between non or limited-recourse financing (also known as project financing), versus sponsor-recourse corporate financing, makes it clear just how strongly established project financing is in the world of LNG projects.

Substantial amounts of project debt have been raised in recent years, with individual projects rating in excess of \$10bn in project debt. The **Ichthys LNG project in Australia raised fully \$20bn of its total \$34bn cost through limited-recourse debt**. Such borrowing, however, brings with it strict lender scrutiny, including rigorous conditions precedent and loan covenants, financial transparency of all project participants to lenders, and additional requirements beyond sovereign regulatory ones in the management of environmental and social risks.

Since project finance transactions are often private between projects and a syndicate of participating banks and official export or credit agencies (ECAs), interest rates on project finance loans are often not publicly available. For a few recent LNG projects in the US Gulf of Mexico, however, data is available on interest rates for non-recourse bond issuance. Sabine Pass Liquefaction, LLC, the project company for **Cheniere Energy's Sabine Pass LNG project, raised close to \$9bn in recent years in limited-recourse bond placements**, using notes falling due between 2021 and 2025, at **interest rates between 5.625% and 6.25%**.

No two projects are alike, but the Sabine Pass figures may provide a useful lower bound on the potential cost for non-recourse project debt for AK LNG. While again, this lower bound is cheaper than the 5.8% to 6.75% range implied by movements in the rate tracker for the TC contract (based on the capital structure used in operation), the gap is not large enough, given the many variables involved, to suggest that this avenue is likely to present a major cost-of-capital savings, if any, for the project in comparison to the option presented by TC.

The same is not true of funds obtained from public sector lending bodies like export credit agencies (ECAs), which are major lenders in the market for LNG project finance, and frequently lend at advantageous rates. ECA project financing could be a compelling piece of a overall financing strategy for AK LNG.

**Impact of TransCanada participation on state debt capacity.** One of the arguments put forward by the Parnell administration in 2014 in advocating TC's participation in AK LNG was the limited debt capacity of the state. Given the significant impact of the large-scale borrowing required by AK LNG on the state's credit rating, and given the likelihood of other bonding needs by the state, TC participation was presented as a means to reduce the amount of debt the state would need to take on, and better preserve the state's credit rating and debt capacity available to meet other needs.

This has always been the least persuasive of the arguments made in favor of TC participation. While there are doubtless many subtleties that can be debated regarding government accounting rules, and specific treatments that might apply, the general intention of standards bodies like the Government Accounting Standards Board (GASB) seems clear; where a contract pledges the full faith and credit of the state, and entails a major and highly material, firm, long-term financial obligation of the sort entailed by an FTSA, such a contract should be capitalized as a liability on the state's balance sheet at the present value of the future contract payments; in other words for all intents and purposes, such a contract should be treated as equivalent to debt, including in its impact on debt service and debt capacity.

There are many reasons to believe that ratings agencies would take a similar view of an FTSA with TC, and relatively few reasons to believe that the state can incur a firm financial obligation in the form of an FTSA, and not see a major impact on its credit rating and debt capacity.

**Net Present Value analysis of TransCanada participation.** As with any form of financing, TC's involvement in AK LNG has different impacts across different time periods. As Black & Veatch's modeling shows, it reduces the state's up-front cash-calls for development and construction by around half, from \$14bn to \$7bn, but, assuming the state structures capital for the project with 70% debt and 30% equity, it reduces the corresponding cashflows the state receives over the life of the project by around \$400mm each year in nominal terms. Any analysis that focuses only on one side or another of this intertemporal balance is unhelpful.

Fortunately, financial economists have for a long time used a simple measure to equilibrate the differential impacts of investment decisions over time, that accounts for the fact that a dollar in the future is worth less than a dollar today. This measure is Net Present Value (NPV) - the value of a future stream of cashflows, discounted to take into account the time value of money, so that we can reliably compare widely differing cashflows from different investment opportunities on a completely equal footing.

In order to calculate the NPV of differing investment alternatives, however, we must first establish a discount rate that we can agree correctly represents the time value of money. How do we determine what the correct discount rate is for the State of Alaska?

Some might suggest that the correct rate to use is the state's own bond rate - its cost of debt. Others might suggest that we should instead use the rate given by the state's current return on its biggest pool of assets - the Permanent Fund return of 8%. Both of these, however, can be shown to be clearly and unambiguously the incorrect approaches to take to this problem.

Almost all modern finance textbooks agree on one point above all: **the correct discount rate to apply in evaluating the present value of any investment opportunity**, by any investor, whether the state, a company or an individual, is the weighted average cost of capital that represents the **return that market investors would require to hold a security representing a piece of that investment as part of a well-diversified investment portfolio**.

This is a universally accepted concept in financial economics, because it represents the best means available of empirically measuring and taking into account the different risks posed by different investment opportunities in determining whether or not they are attractive investments. Though the state's long-term bond rate for large scale capital raising may be 5%, we wouldn't want the state to invest in a highly leveraged, high-risk hedge fund that could lose all of the state's money tomorrow, for a 5% return. Indeed, we wouldn't even want the state to make such an investment for the 8% return it receives from the relatively conservatively managed Permanent Fund; were the state to take such a significant risk, like any investor it would need to ensure it was suitably compensated for the risks it took.

How, then, do we assess the risks of an LNG project in determining the appropriate weighted average cost of capital to use in discounting the cashflows that the state expects to receive from AK LNG? The best way to do this is to look at companies whose investments are LNG projects, upstream oil and gas projects, pipeline projects, or some combination of these, and assess the returns required to be willing to hold their equity as part of a well-diversified stock portfolio. In other words, **rather than looking at the returns of the Permanent Fund** to determine the discount rate the state should use in assessing its investment in an LNG project, we need to look at **the returns that the Permanent Fund would require in order to be willing to hold stock in an LNG company, an oil and gas company, or a pipeline company, as part of its portfolio**.

Fortunately, a preliminary version of this analysis has already been undertaken by the state's financial advisor Lazard, and is provided for information in the appendices of the report they submitted in early 2015. These appendices provide the data required to estimate the required returns on such equity. By performing a few additional straightforward calculations, **we can calculate an appropriate overall weighted average cost of capital (WACC) at which we should discount the cashflows of an LNG project.** While it is possible to arrive at different interpretations when considering which companies should be included, or how the tax-free status of the state in regard to the impact of debt should be considered, in any possible range of analyses, one arrives at a number of **at least 9%, and in most cases 10% or above.**

One additional complication, however, must be considered in evaluating the appropriate discount rate to use. Not all of the cashflows to the state from AK LNG are returns on the state's investment in the form of revenues from LNG sold. Some of the revenues will come from property taxes paid by the other project participants. Since these are not exposed to commodity risks (though if property taxes are charged on a \$/mcf basis, they will be exposed to other project risks), and are tax revenues rather than investment proceeds, some argument exists for discounting these cashflows at a lower rate. However, even if these represented fully a quarter of the revenues, and we discounted these at an aggressively low rate of 5%, while discounting the remainder of the revenues at a rate of 10%, we would end up with a weighted average of 8.75%. Discounting the state's expected revenues from AK LNG at a rate lower than that for any decision making purpose is very difficult to justify.

The *TransCanada Participation Decision* analysis provided by Black & Veatch examines the NPV difference to the State of Alaska of a project structure with TC and without, assuming that any project participation not funded by TC is supported by the state through 70% debt and 30% equity, at the same 5% cost of debt that applies to debt (but not equity) under the deal with TC. Slide 25 presents this analysis assuming the state does not exercise its Equity Option, while slide 56 presents it in the case of exercise of the EO.

In both cases, at a discount rate of 10%, there is no material NPV difference in the results between TC participation or pure state financing. Even using a discount rate as low as 7%, there is an NPV cost of only \$600mm to TC participation in the case that the state does not exercise its equity option, falling to only \$200mm in the EO case. These numbers compare to an NPV for the project overall (assuming no TC participation) of \$9bn. Clearly, while there may be a financial cost to the state from TC's participation, that cost is limited in the overall project context, especially if one discounts at an appropriate rate. Furthermore, the bulk of any such cost can be mitigated simply through exercise of the Equity Option.

**'Negative Netback' risk from TransCanada participation.** By taking gas in kind rather than as value at the wellhead, the state exposes itself to certain risks that it would not, were it possible to structure a project that involved neither a state equity

investment nor royalty in kind / tax as gas. Principal among these is the possibility that the fixed costs the state must incur to transport its gas might, in periods of low LNG prices, exceed the sales price it receives for its LNG - in other words, that after subtracting all of the costs of transportation, in periods of adverse pricing, the state could effectively be paying money to sell its LNG.

If the state were to fully fund its infrastructure through equity, it would not run this risk, except in cases so extreme where the cost of LNG were so low as to not cover the operating costs of the AK LNG facilities. In an all-equity case, the risks to the state would be those of not making an acceptable rate of return on its investment, rather than of actual losses on LNG sold.

Financial leverage, however, complicates this picture. That leverage may come through debts to banks or bond-holders, or in the form of an FTSA commitment to TC. Both involve a senior, fixed claim on the cashflows from the state's share of AK LNG, which must be met before the state receives its cash. In stressed price environments where the costs of these fixed claims are higher than the proceeds of selling LNG, the state runs the risk of 'negative netback'. Thoroughly understanding and effectively managing or mitigating this risk is clearly an essential precondition to the state making the RIK election on which the current AK LNG structure is based.

Black & Veatch examine this risk on slides 27 and 28 of their analysis, showing that the state's "midstream cost obligations are expected to be \$8.20/MMBtu with TC compared to \$7.30/MMBtu without TC". This is an important analysis to understand in evaluating the financial costs and benefits of TC participation, however some key facts should be born in mind in considering it.

Most important to understand is the fact that the analysis looks at LNG shipping and marketing revenues to the state, not all of the state's revenues from AK LNG. In particular, property and state income taxes from other project participants to the state are not considered in the analysis; this represents strictly the expected revenues and costs of the state 'project company'. This is a sound distinction; it will be the state project company that needs to pay these costs, and times where company revenues are insufficient to cover them will pose significant problems.

However the payment and receipt of property tax is a key distinction between TC participation and non-participation. As a private sector company, TC is required to pay property taxes on its ownership of the pipeline and GTP, where the state would not. These taxes ultimately come back to the state, broadly defined, but in general are shared with municipalities rather than all revenue being unrestricted general fund revenue for the state.

The Black & Veatch negative netback analysis assumes a scenario where the state funds all project capital calls not met by TC 100% through debt. The analysis assumes that the cost of debt for the state is the same 5% that is the return on debt to TC under the MOU.

The cost difference calculated by Black & Veatch between TC participation and TC exit is thus driven by two key things; 12% the return on equity that must also be

paid to TC (on the 25% of TC's capital base that would be funded through equity for rate-making purposes), and the taxes that TC must pay that the state would not, the vast majority of which are property taxes. Because the analysis only looks at the project company, the fact that these taxes are paid to the state (broadly defined) is excluded from the picture. Of the \$0.90/MMBtu cost difference calculated by Black & Veatch, \$0.50 is due to TC's return on equity and federal income tax liability, while the remaining \$0.40 consists of payments made to the state (including municipalities) in the form of property tax and, to a lesser extent, state corporate income tax.

Thus, a large part of this negative netback risk remains within state control, depending on the state's chosen structuring of property tax sharing with municipalities. Since any increase in property taxes as a result of TC participation is purely a function of a chosen financial structure, it should be possible to offset this in distribution arrangements, and even to hold some of the proceeds in reserve for use during times of extreme negative price exposure. This would eliminate the portion of the difference between the two scenarios that is driven by property taxes.

The remaining \$0.50/MMBtu cost difference due to TC's return on equity could then be substantially further reduced through the state's exercise of its Equity Option to 'buy back' up to 40% of the state's 25% stake in the GTP and the pipeline.

### **STRATEGIC ASPECTS OF TRANSCANADA'S PARTICIPATION**

Financially, the transaction with TransCanada is thus a close call that depends on many parameters that are unknowable at this time. While in purely financial terms, the state's position in AK LNG is unlikely to be impaired as a result of terminating its relationship with TC, the financial benefits that might come from termination are at this point uncertain and highly contingent.

The merits of the case for terminating or retaining TC must thus rest on a fundamentally different set of questions; questions that reassess the initial assumptions around the strategic benefits of the TC partnership. Almost two years into this partnership, have these benefits materialized?

**Expansion orientation.** When the Parnell administration proposed the TC partnership, it was argued that TC would be a strong, firmly expansion-oriented partner that would use its experience and expertise to ensure the future expandability of the pipeline, and that would be capable of providing the capital and capabilities for future expansions with minimal additional requirements on the state. After two years of seeing this partnership operating in practice, we should be in a much better position to understand whether or not this is truly the case, especially in light of recent moves by the Walker administration to have the AK LNG project perform detailed engineering for a 48 inch rather than a 42 inch pipe. Key questions that must be answered here are:

- In the debate over the best sizing of the pipeline, how has TC's expertise contributed to the debate?

- Has TC's participation in fact helped to counterbalance the narrower interest of the producers in securing a project that is more expansion oriented, to the degree originally hoped?

**Control, interest alignment and transparency.** The question of expansion-orientation is crucial both because it was a centerpiece of the Parnell administration's argument for TC's participation, and also because it speaks to a broader issue; the question of alignment of interests between TC and the state. This alignment is crucial, because under the terms of the MOU, the state has assigned effective control over its share in the Pipeline and GTP to TC; even were it to exercise its Equity Option under the MOU, it would remain a Limited Partner, while TC is the General Partner, entitled under the contract to make decisions autonomously, requiring state approval only on "certain fundamental decisions (e.g. change to distribution policy, winding up of Limited Partnership, sale of significant interest of Limited Partnership in AK LNG)". If, in its autonomous decision-making, TC's interests and decisions have not aligned well with the interests of the state, or if state visibility into those components of the project have been fundamentally compromised by the degree of control assigned to TC under the contract, that by itself could be a compelling reason to reconsider the relationship. Key questions to be answered here are:

- Has the MOU structure with TC as General Partner worked for the state in ensuring adequate control and access to information?

**Impact on project staffing and expertise.** TC's pipeline expertise and its long history of working on an Alaskan gas pipeline have been widely viewed as key assets TC brings to this partnership. TC staff occupy numerous key pipeline positions within the AK LNG pipeline organization chart. What would be the impact in project staffing, operations and relevant expertise of the state terminating this relationship? Key questions to be answered here are:

- What key positions in the AK LNG project organization are currently filled by TC staff?
- What plans are in place to ensure continued access to equivalent expertise in the event of termination?

**AK LNG strategic vision.** Even more than these questions, perhaps the most important question to ask is also the biggest and broadest - **what kind of project does the state wish AK LNG to become?** Thus far, AK LNG has been conceived and designed as an integrated project where ownership of gas matches ownership of infrastructure. All the agreements governing the relationship between the parties are structured based on this principle, in order to create a structure in which the different parties view the investment in terms as similar as possible to each other - the core of true partner alignment. Viewed from this basis, TC's participation has always seemed somewhat out of place: it is the only participant that has neither gas nor any stake in the liquefaction facility, and it alters the way the state, as a partner, views its participation and its decision making in the project as a whole. If partner

alignment through equal ownership of gas and infrastructure remains a key consideration, TC's participation is an obstacle to that aim.

More recently, however, the Walker administration has been vocal in advancing principles that could reshape the project's structure: for instance, in seeking to negotiate withdrawal agreements that might compel parties to sell their gas to the project at the wellhead or to toll gas through the infrastructure. Similarly, the move to consider a 48 rather than a 42 inch pipeline places the question of expansions involving gas holders not currently part of AK LNG front and center. In all of these cases, there could be major benefits to the presence in the project of a company like TC - one that can provide the expertise and funding for expansions, and move the gas of participants that do not own infrastructure to market without requiring major investments by the state. Key questions to ask here are:

- Are partner alignment through common shares of gas and infrastructure ownership still the key principles behind the structuring of AK LNG?
- How do these principles relate to efforts to sign withdrawal agreements with project partners?
- Who would own the infrastructure to monetize the gas of a partner that withdrew? Would the financial burden and risk fall on the state?
- If TC were not involved in the project, who would be responsible for the engineering and commercial work behind future pipeline expansions to accommodate gas not owned by the producers?
- If the burden of future expansions were placed on the state, what plans does the state have in place to ensure it has these capabilities?

**3. Monday**  
**October 26, 2015**

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# TransCanada's AKLNG Participation



Marty Rutherford  
Deputy Commissioner, DNR  
Deepa Poduval  
Director, Black & Veatch



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October 24, 2015

# Executive Summary

## 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.

## Decision at hand

- The State is now faced with a December 31, 2015 deadline to make a decision on whether to take back TransCanada's share and have direct equity participation in the AKLNG midstream. To do so would require termination of the PA.
- Under the PA's terms, by December 31, 2015, the State is obligated to either enter into a Firm Transportation Services Agreement (FTSA) with TransCanada or TC will be able to terminate the PA. Alternatively, if agreeable to TransCanada, the State can negotiate to extend the date for entering into an FTSA beyond December 2015.

## Recommendation

- The State administration recommends termination of the TransCanada relationship by December 2015 and replacing it with the State's direct participation in the AKLNG midstream.
- The State administration expects this path to allow the State to better manage the obligation the State has for AKLNG midstream costs whether or not the project proceeds, increase the overall economics of the project to the State, and allow the State to have more direct voting rights on key AKLNG issues in return for its investment.



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**BACKGROUND OF STATE'S  
PRECEDENT AGREEMENT  
WITH TRANSCANADA**

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## Context for State's 2014 decision to enter into a Precedent Agreement (PA) with TransCanada (TC)

- **AGIA framework:**

- TransCanada was the State's licensee under AGIA
- AGIA work product could not be transferred to AKLNG until after resolution of AGIA abandonment issues (including cost of the work product)
- AGIA also contained a treble damages provision
- It was in this context that the prior Administration negotiated an MOU with TC in 2013, and the AGIA Termination Agreement in 2014, to exit AGIA, transition to AKLNG, and sign the PA with TC

- **Entering into the PA with TC**

- Gave the State a clean off ramp from the TC relationship, now, which it did not have when it entered into the PA for all the reasons discussed above
- Gave the State time during pre-FEED to begin to develop its in-house capabilities in order to fully consider the option of participating directly in midstream at appropriate off-ramps
- TC's work on AGIA and APP allowed smooth transition into pre-FEED
- Entering into the PA with TC for pre-FEED also gave the State time to assess its ability to finance its share of investment in AKLNG without TC
- However, there was an **expectation that project enabling agreements would be defined** before Dec 2015 and enable SOA to evaluate TC role going forward

## Key terms of the Precedent Agreement between State of Alaska & TransCanada



TC Owns the State's ~25% 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 Dec 2015 to Pay for Using GTP+Pipe



SOA Ultimately pays TC for all its Costs  
(including a cost of capital of ~7%)

Both SOA and TC have Milestones & Off Ramps:  
SOA Responsible for TC Costs, Regardless of Off Ramps



**The Precedent Agreement has agreed upon off-ramps that allows the State to terminate before December 31, 2015**

<b>PROJECT STAGE:</b>	<b>PRE-FEED</b>	<b>FEED</b>	<b>FID</b>	<b>CONSTRUCTION</b>
<b>TIMELINE:</b>	2014-2016	2016-2018		2019-2026
<b>PERCENT SPEND:</b>	~1%	~5-6%		~93-94%

**OFF RAMPS:**

<p><b>Termination Dec. 31, 2015</b>  <b>Pay TC Dev. Costs of ~\$70M<sup>2</sup></b>  <b>(Incl. TC Internal Costs<sup>3</sup>)</b>                  SOA also responsible for remaining GTP and Pipeline Pre-Feed costs from Jan-June 2016 of ~\$61M<sup>4</sup></p>	<p><b>Termination Dec. 31, 2018</b>  <b>Pay TC Dev. Costs of ~\$490M</b>  <b>(Incl. TC Internal Costs<sup>3</sup>)</b></p>
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<sup>1</sup> Assumes 25% State equity participation

<sup>2</sup> \$70M estimate incorporates a \$4M credit for an SOA payment to TC for AGIA reimbursement

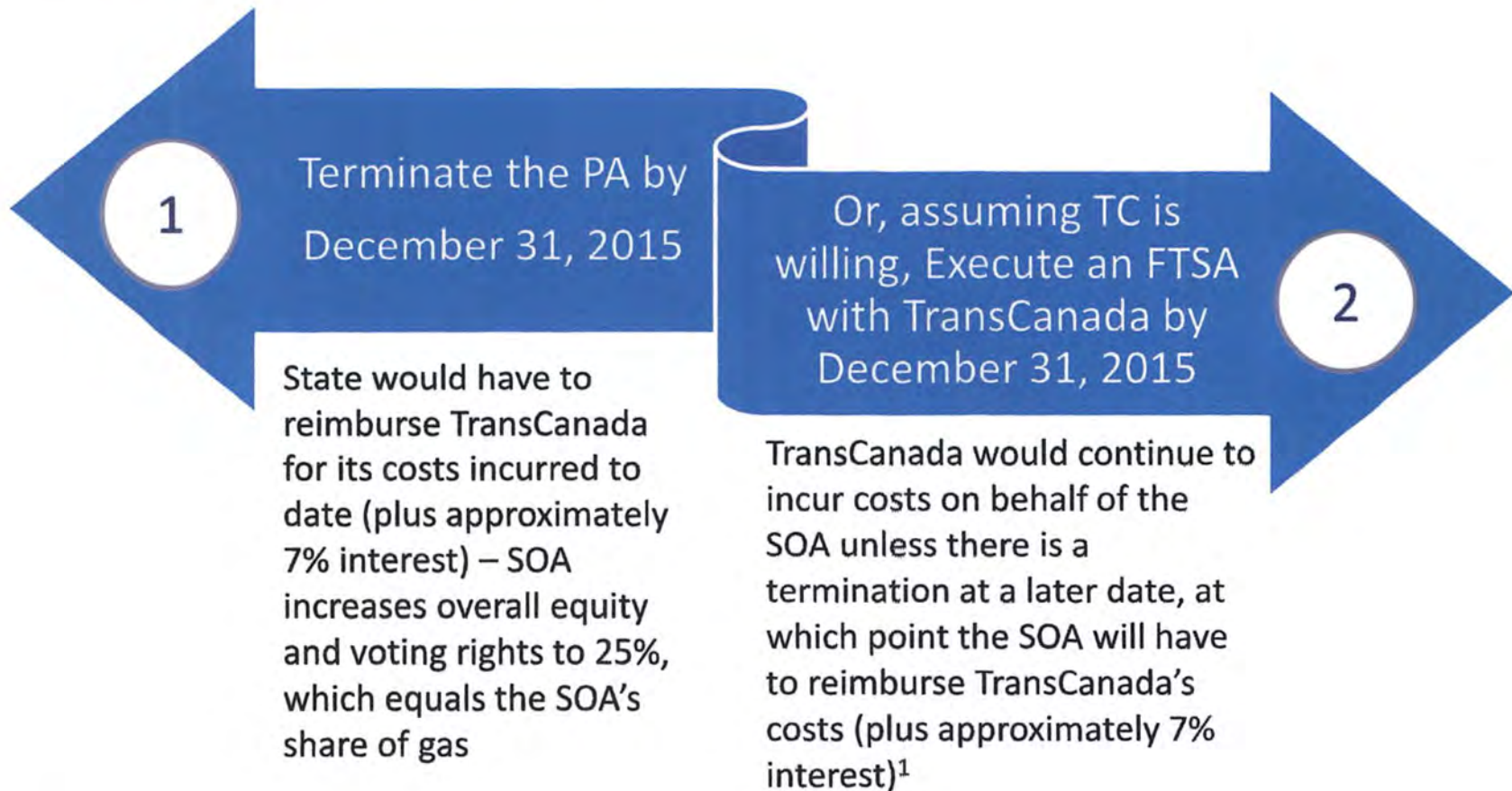
<sup>3</sup> TC Internal costs include AFUDC and Internal Management Fees

<sup>4</sup> Provided by AGDC based on current approved WP&B for AKLNG and includes an additional 30% contingency

**WHAT IS THE DECISION AT  
HAND?**

**The SOA is faced with the strategically important decision of whether to terminate the Precedent Agreement with TransCanada**

**The State has two main options:**



<sup>1</sup>The State also has a third option, assuming TC is willing: exercise its option to acquire 40% of the equity of the TransCanada entity that will own the 25% of the AKLNG midstream. This option is not discussed in this primer but in general it has many of the same pros and cons associated with option 2 above.

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## The administration recommends Termination of the Precedent Agreement

### Alignment

Currently, the SOA is estimated to receive 25% of the gas from Project; however, with TransCanada's equity participation in the midstream portion of the Project, the SOA only retains approximately 12.5% equity in the project

### Voting Rights

Terminating the agreement and increasing the State's voting rights would allow the State to have a more direct say in the decision making process of the project

### Economic Benefit

The SOA could realize up to \$400 million of additional annual net cash flows from the Project, based on DOR's expectations of State being able to finance cheaper than TC by financing the midstream portion of the Project directly



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**WHY ARE EQUITY  
ALIGNMENT & VOTING  
RIGHTS IMPORTANT?**

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# State does not have direct voting rights for GTP or pipeline

UPSTREAM

MIDSTREAM/DOWNSTREAM

		EM	BP	CP	SOA	Total
Gas	PBU/PTU	32%	21%	22%	25%	100%
	=	=	=	=	=	=
AKLNG Equity & Capacity	GTP	32%	21%	22%	25% <small>CURRENTLY HELD BY TC</small>	100%
	Pipeline	32%	21%	22%	25%	100%
	LNG	32%	21%	22%	25%	100%

PRODUCER SHARE OF GAS IS EQUAL TO PRODUCER EQUITY SHARE IN AKLNG

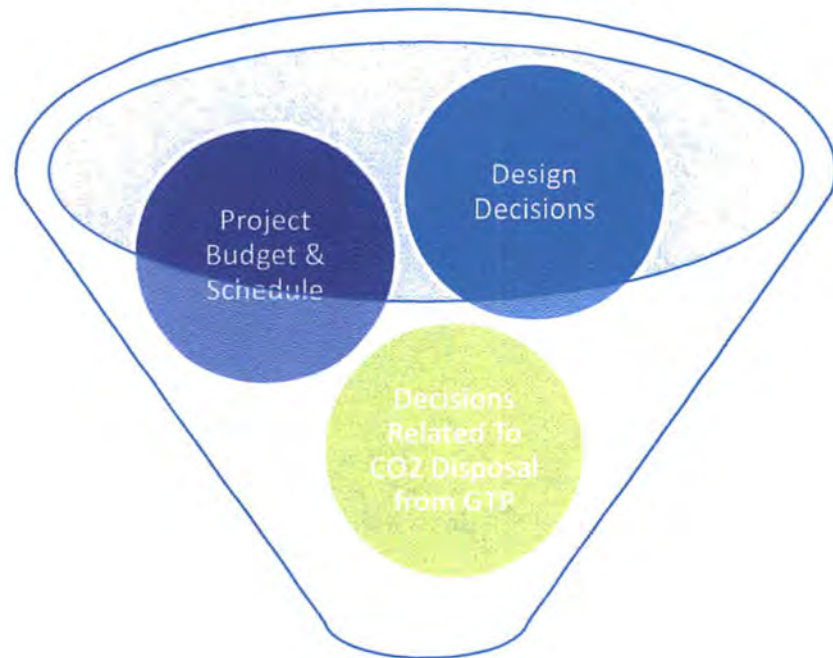
SOA SHARE OF GAS IS **NOT** EQUAL TO SOA EQUITY SHARE IN AKLNG

Note: All ownership shares shown are approximate and State equity participation is based on production mix from PBU and PTU and the State's royalty share from each field; State equity participation is currently expected to equal 24-25%

## Alignment through direct participation will facilitate State influence equivalent to its investment

- TC's decisions driven by shareholder value; not always the same as SOA interests
- Governance and voting rights issues for State's share of project are more complex with TC:
  - TC votes on GTP and pipeline issues and AGDC votes on LNG issues?
  - Share voting rights on issues that impact the whole project?
  - Who speaks for the State?

### KEY AREAS WHERE ALIGNMENT IS CRITICAL TO STATE INCLUDE:



## STATE'S INTERESTS

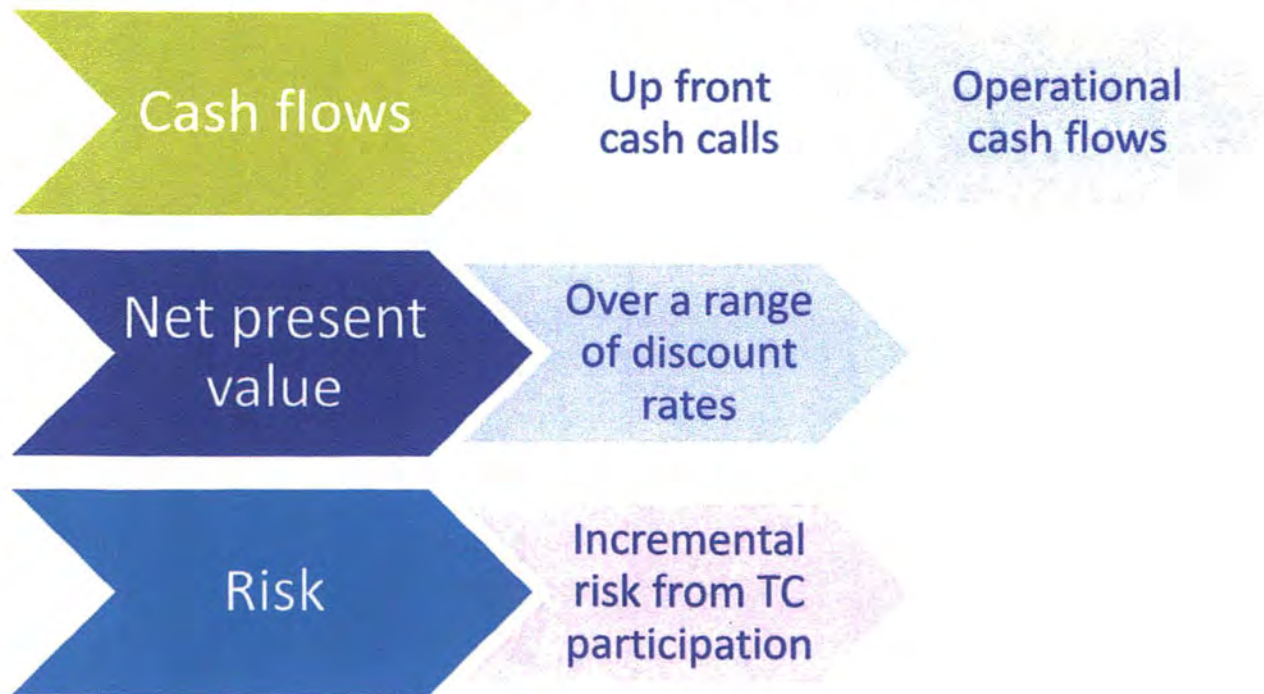
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**WHAT IS THE ECONOMIC  
IMPACT OF THE TC  
DECISION FOR THE STATE?**

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# Criteria for evaluating economic impact of TC Participation on SOA

## CRITERIA FOR SOA IMPACTS



**What are the State's up front cash calls required in the project for the State if the agreement is terminated?**

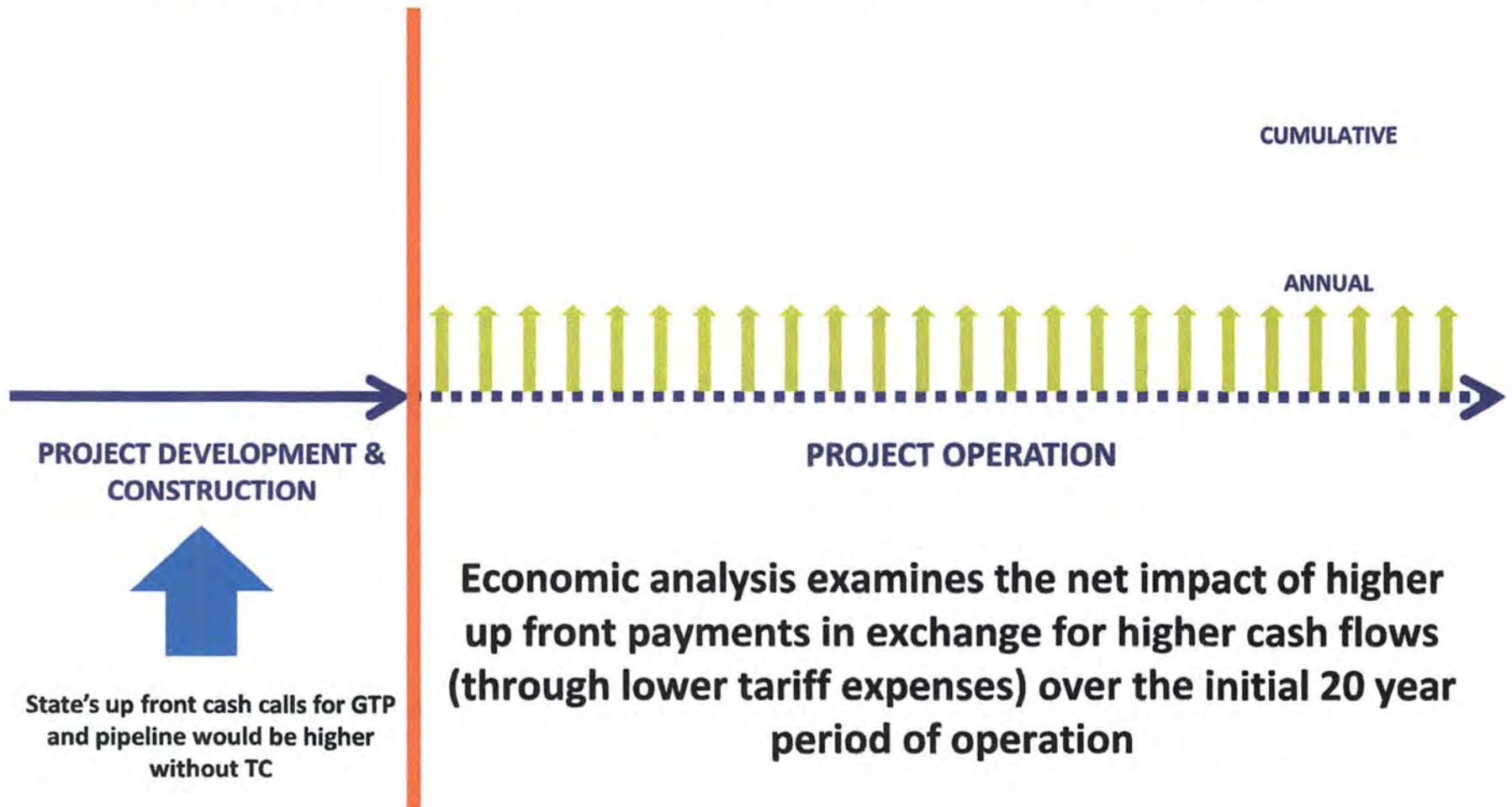
\$ Millions	SOA Current Up Front Cash Calls w/ TC	SOA Up Front Cash Calls w/o TC	Total
TC Termination Amount	-	~\$70 <sup>1</sup>	~\$70
AGDC Pre-FEED <sup>2</sup>	~\$66	~\$61	~\$127
FEED	~\$365	~\$310	~\$675
Construction <sup>3</sup>	~\$6,500 - \$7,900	~\$6,500 - \$7,800	~\$13,000 - \$15,700

<sup>1</sup>TC Termination Amount includes TC Internal Costs (AFUDC + Management Fees) and a credit of ~\$4M for SOA payment to TC for AGIA reimbursement

<sup>2</sup> Provided by AGDC based on current estimated WP&B for AKLNG. Includes prior AGDC pre-FEED appropriations.

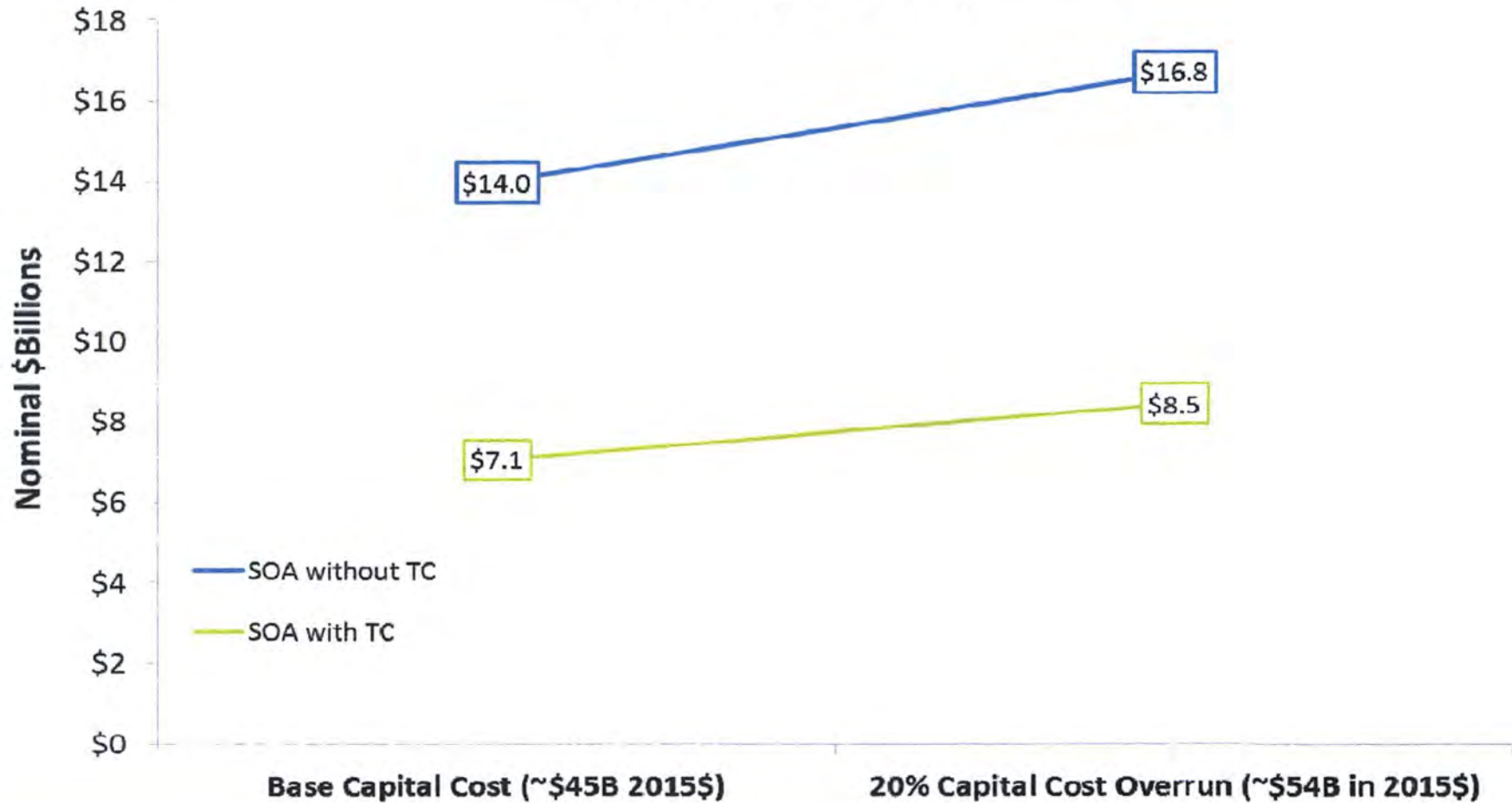
<sup>3</sup> Range of costs is based on current estimates to 20% cost overrun  
 Note: Estimates do not include AGDC internal costs or agency fees

Economic impact to the State is driven by a trade-off between higher upfront investment and higher operational cash flows or lower up-front investment with lower operational cash flows



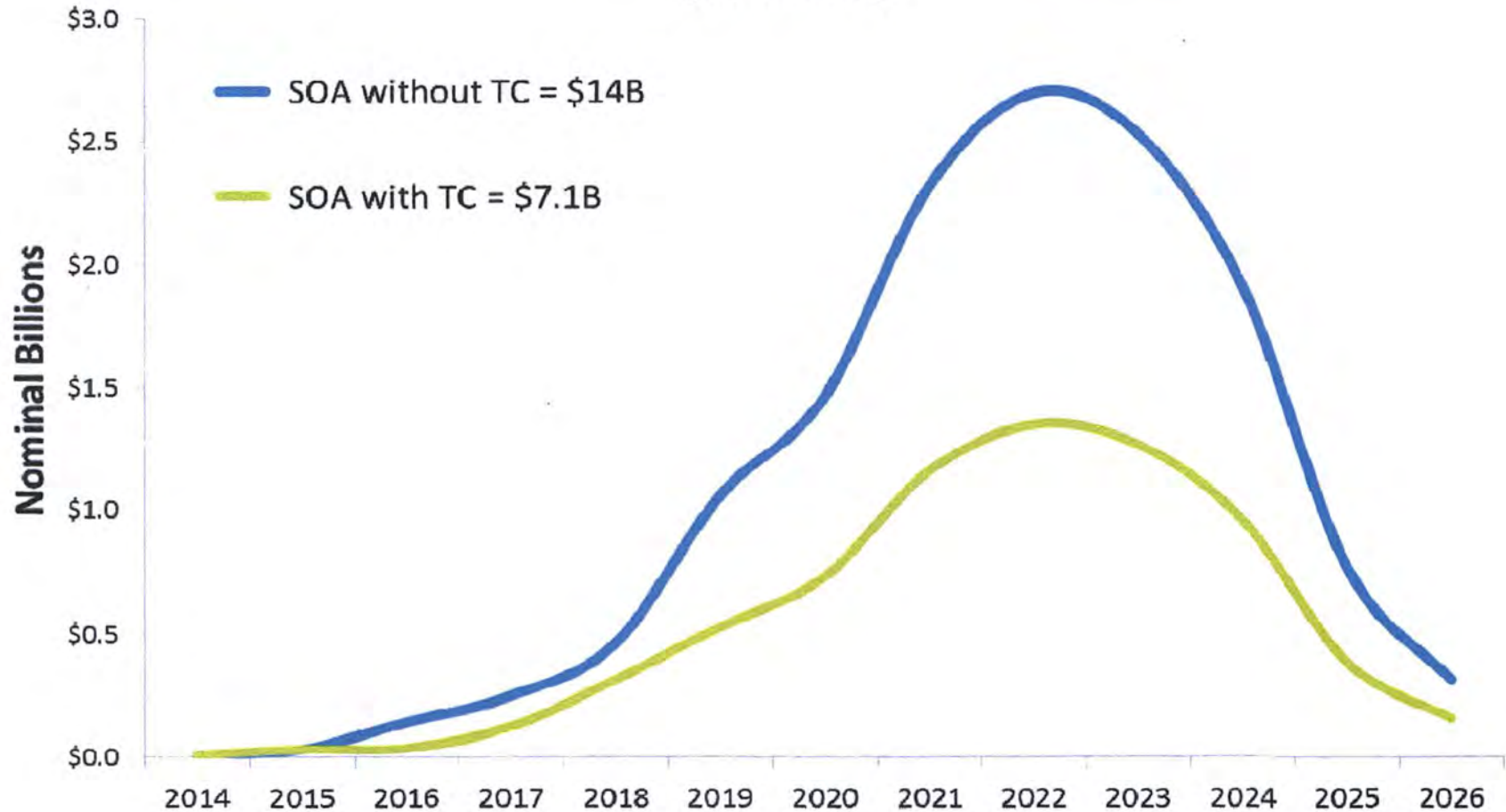
**SOA's total upfront cash call exposure is \$6.9-8.3B higher without TC participation**

**SOA's Total Upfront Cash Call Exposure (Unlevered)**

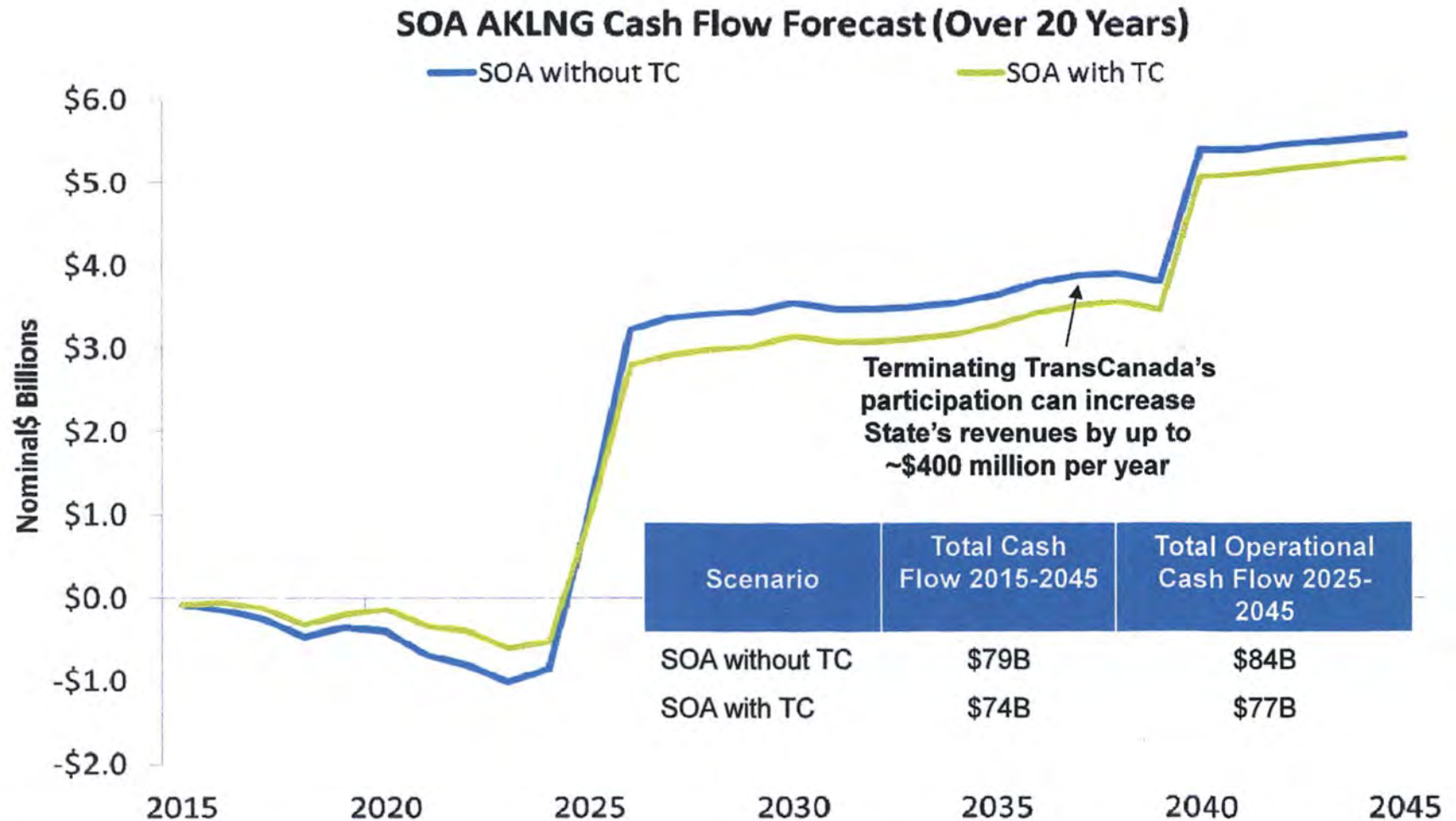


**SOA's annual up front cash calls in the AKLNG project are expected to nearly double without TC**

**SOA's Annual Upfront Cash Call Exposure (Unlevered)**



Once operational, SOA is expected to receive annual cash flows of up to ~\$400 million higher without TC<sup>1</sup>



<sup>1</sup> Based on DOR's assumption that the State can finance it share cheaper than TC

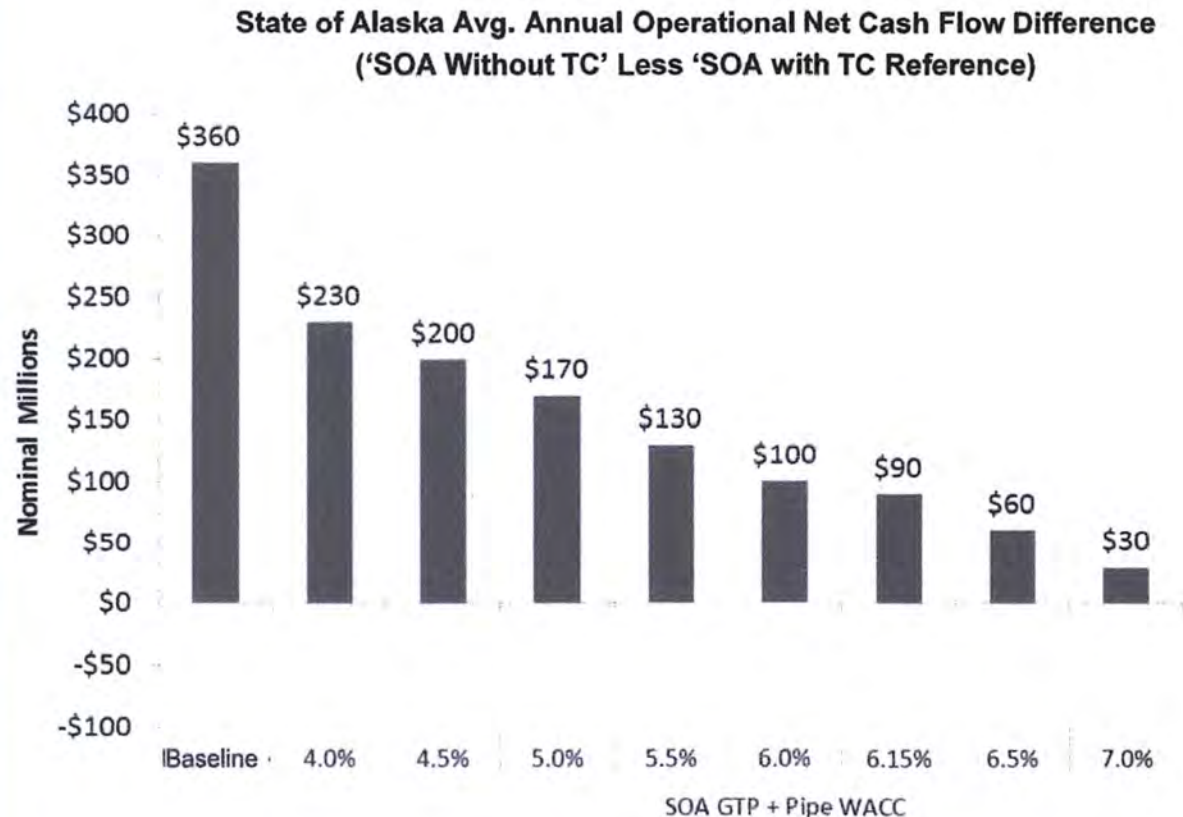
# NPV increase to the State without TC can be between \$0-1.2B over 20 years

## SOA NPV Increase Without TC (\$2015 Billions)



## The economic benefit of replacing TC could vary based on the SOA's credit rating

- The State could potentially achieve up to **~\$400 million incremental annual cash flows**, based on the State's expected lower cost of capital
- The State's cost of capital would increase with any credit downgrades
- Even if the State's credit rating deteriorates and results in a higher cost of capital for the State, it is still expected that the State will achieve additional annual cash flows without TC





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# **TIMING OF DECISION**

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## Why terminate the agreement with TransCanada now?

### Manage Financial Risk

- State owes TC its costs plus interests, regardless of project completion
- If project fails: Keeping TC in longer and terminating later means that State would need to make a bigger and more expensive payment later
- If project succeeds: State is expected to be able to finance cheaper than TC, potentially saving hundreds of millions a year

### Avoid Back-in Rights

- Unlike the PA, the proposed FTSA is expected to include a commitment to give “back-in” rights for TransCanada, which states that within five years of exercising its termination option, if the State participates in a pipeline project substantially similar to the AKLNG project, the State would need to offer TransCanada an option to participate
- Terminating TC’s participation now would give the State a clean off-ramp without needing to offer any back-in rights

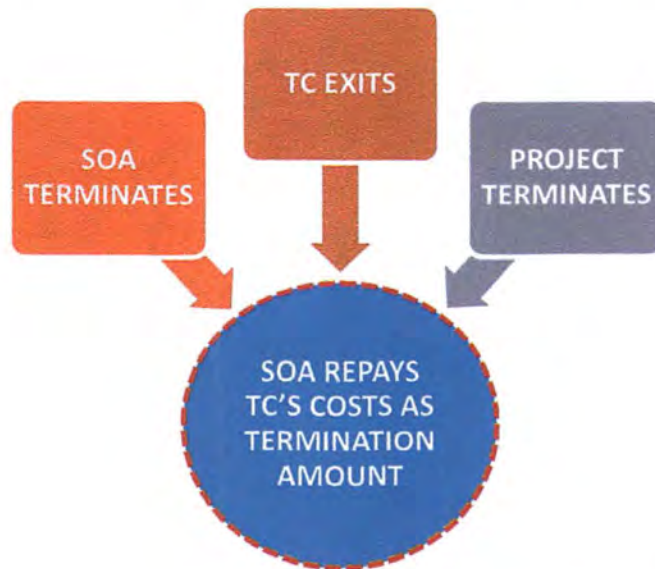
### Influence Project Decisions

- As the Project progresses towards the end of the Pre-FEED phase, certain key decisions are slated to be made in the next six months
- Due to fundamental difference between the SOA’s primary design criteria and the producers’, terminating the PA and increasing the SOA’s voting rights may allow the SOA to have a more direct say in the decision making process immediately

# Per prior agreements, SOA is always obligated to repay TC's costs<sup>1</sup>



**IF PROJECT DOES NOT MOVES FORWARD WITH TC**



**> Project development risk is borne by SOA**

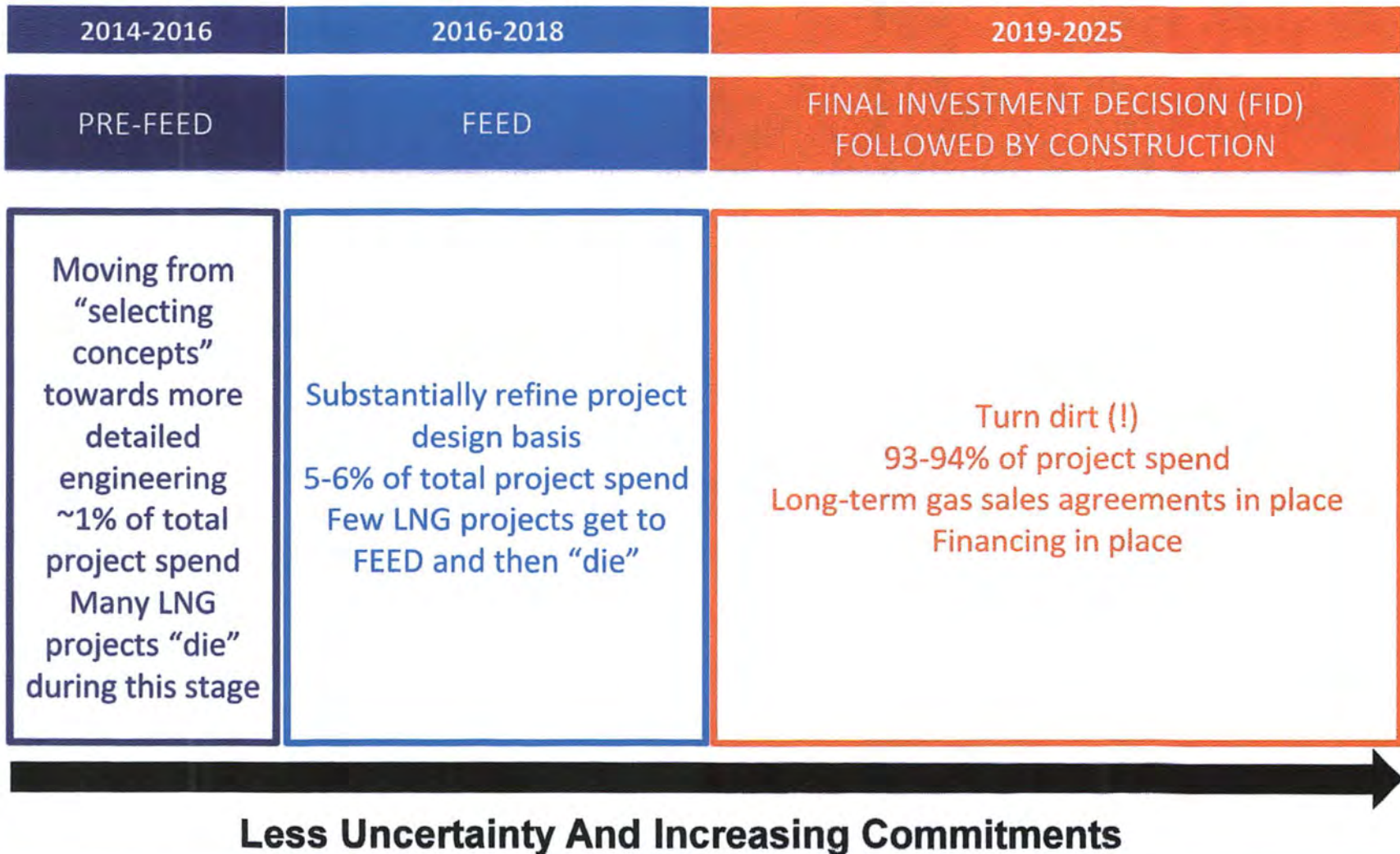
**IF PROJECT MOVES FORWARD WITH TC**



**> SOA pays TC tariff regardless of price or volume risks**

<sup>1</sup> TC costs to be repaid include its share of AKLNG work plan and budget, AFUDC, and internal management fees

## Stakes get higher as Project proceeds through stage gates



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## Avoid Back-In Rights for TransCanada

- The proposed FTSA is expected to include a commitment to give “back-in” rights for TransCanada.
- The back-in right states that within five years of exercising its termination option, if the State participates in a pipeline project to commercialize North Slope gas that is substantially similar to the AKLNG project, the State would need to offer TransCanada an option to participate in the GTP and pipelines of that project under similar terms.
- Terminating TC’s participation now would give the State a clean off-ramp without needing to offer any back-in rights.

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## Influence Key Near-Term AKLNG Decisions

- There is a fundamental difference between the SOA's and the producers' (and potentially TransCanada's) primary decision criteria
  - Lowest cost vs. Most value for Alaskans
- Certain key decisions are slated to be made in the next six months
- By terminating the agreement with TransCanada, the SOA would gain voting rights equal to its gas share and have a more direct influence over key technical decisions related to the midstream such as:
  - By-product handling
  - Project budget
  - Schedule for the midstream portion
- In addition, terminating the PA with TransCanada is expected to facilitate simpler and more efficient resolution of voting rights in AKLNG governance agreements currently being negotiated

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**WHAT ARE OPTIONS FOR THE STATE  
TO FINANCE ITS SHARE OF  
MIDSTREAM AKLNG COSTS  
WITHOUT TRANSCANADA?**

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## What are the options for the State to finance its share of AKLNG Midstream without TransCanada?

- 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<sup>1</sup>:
  - The Legislature could appropriate from existing State funds, e.g., the Constitutional Budget Reserve Fund (CBRF), Earnings Reserve Fund, etc.
  - 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

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<sup>1</sup> These are the same funding options for the LNG Plant if TC remained in the Project

## Will termination of the agreement affect the State's credit rating?

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 (B&V 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)
- 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

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**HOW CAN THE STATE REPLACE  
TRANSCANADA'S TECHNICAL ROLE  
IN THE PROJECT?**

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## What is TC's technical role in the AKLNG Project?

- TC is experienced in northern pipelines and leads the pipeline technical work for AKLNG
  
- TC in its current role performs or has performed several functions including the following:
  - Holds State of Alaska's midstream equity in AKLNG as signatory to the JVA
  - Contributes pipeline SMEs that were seconded to the JVA PMT
  - Coordinated FERC NEPA Process

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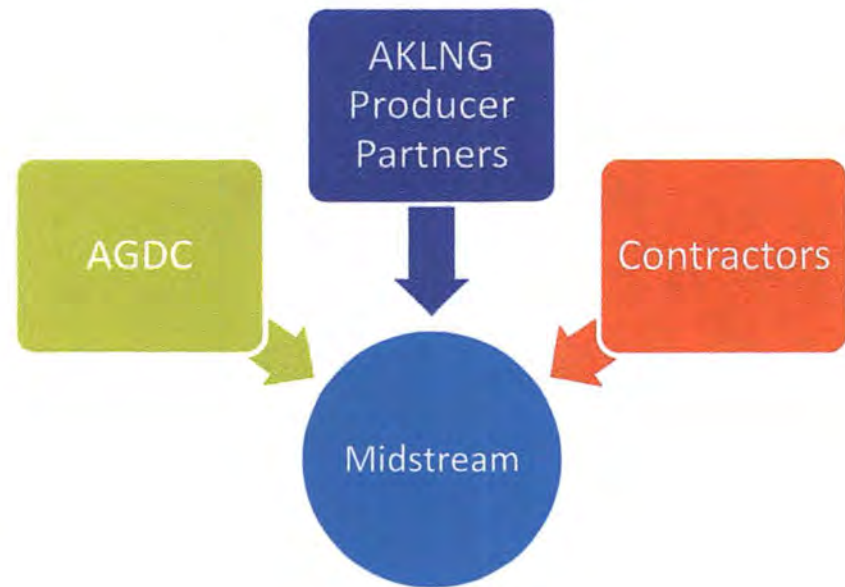
## How will TransCanada's technical expertise be replaced?

- TransCanada is not anticipated to build the pipeline, that will be managed through the AKLNG Project Management Team (PMT) which leads and guides the AKLNG project
- PMT consists of Co-Venturer (CoV) employees seconded to project based on experience and skill sets
- PMT hires engineering and specialist contractors to advance design efforts
- Significant amount of work is done by contractors with oversight by PMT

## How will TransCanada's technical expertise be replaced?

- AKLNG Project partners bring significant experience
- In addition, AGDC brings Alaska pipeline experience
  - Successfully completed Pre-FEED and FEED on ASAP
  - Key subject matter experts based in Alaska
  - AGDC has already taken over TC's role in coordinating NEPA process

The AKLNG Project partners have worldwide experience and resources to be able to step into the pipeline technical lead role played by TC




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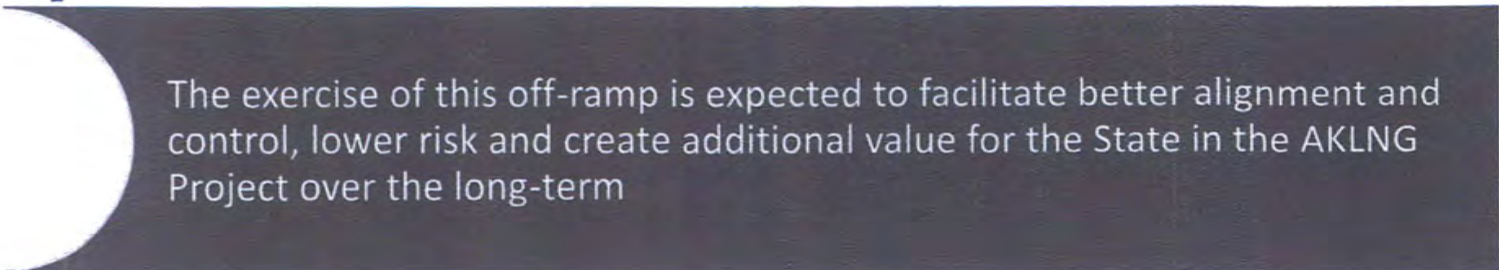
## Conclusions & Recommendations



The current arrangement with TransCanada was designed to provide the State (and TransCanada) with several off-ramps as the AKLNG Project moved through its different development stages, including an important clean off-ramp for the State in December 2015



The State administration recommends termination of the TransCanada relationship by December 2015 and replacing it with the State's direct participation in the AKLNG midstream



The exercise of this off-ramp is expected to facilitate better alignment and control, lower risk and create additional value for the State in the AKLNG Project over the long-term

**BUILDING  
TOWARD  
DIFFERENCE**

30 September 2015

**TRANSCANADA PARTICIPATION DECISION**

**IMPACT ON STATE OF ALASKA**

**PREPARED FOR THE STATE OF ALASKA**



**BLACK & VEATCH**  
Building a world of difference.

## PRESENTATION OVERVIEW

- **Background & Description of TC Decision**
- **Overview of TC's current role and State's alternatives related to TC participation**
- **Some key factors for State to consider in TC participation decision**

# SB138 FACILITATED ALIGNMENT OF GAS AND CAPACITY OWNERSHIP

UPSTREAM

		EM	BP	CP	SOA	Total
Gas	PBU/PTU	32%	21%	22%	25%	100%
	=	=	=	=	=	=
AKLNG Equity & Capacity	GTP	32%	21%	22%	25%	100%
	Pipeline	32%	21%	22%	25%	100%
	LNG	32%	21%	22%	25%	100%

CURRENTLY HELD BY TC

PRODUCER SHARE OF GAS IS EQUAL TO PRODUCER EQUITY SHARE IN AKLNG

SOA SHARE OF GAS IS NOT EQUAL TO SOA EQUITY SHARE IN AKLNG

- All ownership shares shown are approximate
- State equity participation is based on production mix from PBU and PTU and the State's royalty share from each field; State equity participation is currently expected to equal 24-25%

# TC DECISION NEEDED BY DEC 2015: SHOULD SOA ALIGN ITS GAS WITH ITS EQUITY?

	Gas	GTP	Pipeline	LNG Plant
SOA Aligned Equity (SOA Without TC)	SOA: ~ 25%	SOA : ~25%	SOA: ~25%	SOA: ~25%
FTSA With TC (SOA With TC) <sup>1</sup>	SOA: ~ 25%	TC: ~25%	TC: ~25%	SOA: ~25%

<sup>1</sup>The State also has the option to purchase 40% of TC's equity in AKLNG, effectively owning 10% of the midstream (i.e. 40% of 25%). This presentation focuses on the two sideboard options of keeping or terminating TC. The intermediate equity purchase option is presented as an Appendix.



# IT WOULD BE PREMATURE & RISKY FOR SOA TO COMMIT TO A LONG TERM FIRM TRANSPORTATION SERVICES AGREEMENT WITH TC BY DECEMBER 2015

VARIOUS AKLNG PROJECT ENABLING AGREEMENTS HAVE NOT BEEN COMPLETED



RIK DECISION (DEPENDENT ON PROJECT ENABLING AGREEMENTS) HAS NOT BEEN MADE

WITHOUT GUARANTEE OF GAS IN KIND, STATE CANNOT COMMIT TO ANY LONG-TERM TRANSPORTATION AGREEMENT

**Decision is whether to terminate TC relationship in Dec 2015 or delay decision and consider keeping TC in**

## DIRECT STATE PARTICIPATION IS ADMINISTRATION'S VIEW OF BEST PATH FORWARD

- **The State's direct investment in the AKLNG Project's midstream reflects more favorable value and risk-reward balance for the State compared to TC participation**

Sovereign role - Desire to have greater control and more direct SOA role in AKLNG

Improved project alignment

Direct voting rights and representation, including on key issues such as budgets, schedule and pipeline size

Ability to directly facilitate midstream expansion

Commercial role - Reap greater long term cash flows and participation for SOA during project operation by shouldering higher fiscal risk up front

Higher operational cash flows of ~\$400 million a year

Better overall investment value to State

Lower risk of State experiencing negative netbacks without TC – on-going costs paid by State will not need to include TC's return on equity - only financing cost and operating expenses

## PRESENTATION OVERVIEW

- **Background & Description of TC Decision**
- **Overview of TC's current role and State's alternatives related to TC participation**
- **Some key factors for State to consider in TC participation decision**

# HISTORICAL CONTEXT FOR STATE'S 2014 DECISION TO ENTER INTO PRECEDENT AGREEMENT (PA) WITH TC

- **AGIA framework:**

- TC was the State's licensee under AGIA

- AGIA work product could not be transferred to AKLNG until after resolution of AGIA abandonment issues (including cost of the work product)

- AGIA also contained a treble damages provision

- It was in this context that the prior Administration negotiated an MOU with TC in 2013, and the AGIA Termination Agreement in 2014, to exit AGIA, transition to AKLNG, and sign the PA with TC

- **Entering into the PA with TC gave the State time during pre-FEED to begin to develop its in-house capabilities in order to fully consider the option of participating directly in midstream at appropriate off-ramps**

- TC's work on AGIA and APP allowed smooth transition into pre-FEED

- **Entering into the PA with TC for pre-FEED gave the State time to assess its ability to finance its share of investment in AKLNG without TC**
- **There was an expectation that project enabling agreements would be defined before Dec 2015 and enable SOA to evaluate TC role going forward**

# THE AGIA TERMINATION AGREEMENT

- **Key provisions of the AGIA Termination Agreement include:**
  - TC and State terminated the AGIA License
  - TC waived any claim of treble damages under AGIA
  - TC agreed to provide State with right to use all AGIA work product of value to the AKLNG project, at no additional up front cost to the State
  - State agreed to complete the AGIA reimbursement process
- **Importantly, under the Agreement the State has a clean off-ramp with TC in 2015**
  - No AGIA treble damages liability
  - No ability of TC to delay project by withholding right to use AGIA work product
  - SOA must pay for TC's AKLNG pre-FEED development costs, with interest (but such costs are ultimately unavoidable)
  - No "back in" right for TC (unlike the FTSA)

# STATE'S CURRENT ARRANGEMENT WITH TRANSCANADA



TC Owns the State's ~25% Entitlement to GTP+Pipe  
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 Dec 2015 to Pay for Using GTP+Pipe



SOA Ultimately pays TC for all its Costs  
(including a cost of capital of ~7%)

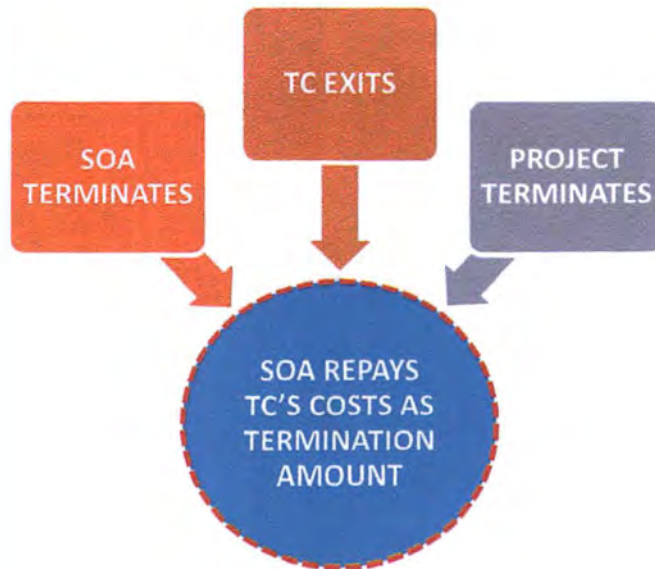
Both SOA and TC have Milestones & Off Ramps:  
SOA Responsible for TC Costs, Regardless of Off Ramps



# PER PRIOR AGREEMENTS, SOA IS ALWAYS OBLIGATED TO REPAY TC'S COSTS<sup>1</sup>



**IF PROJECT DOES NOT MOVES FORWARD WITH TC**



> Project development risk is borne by SOA

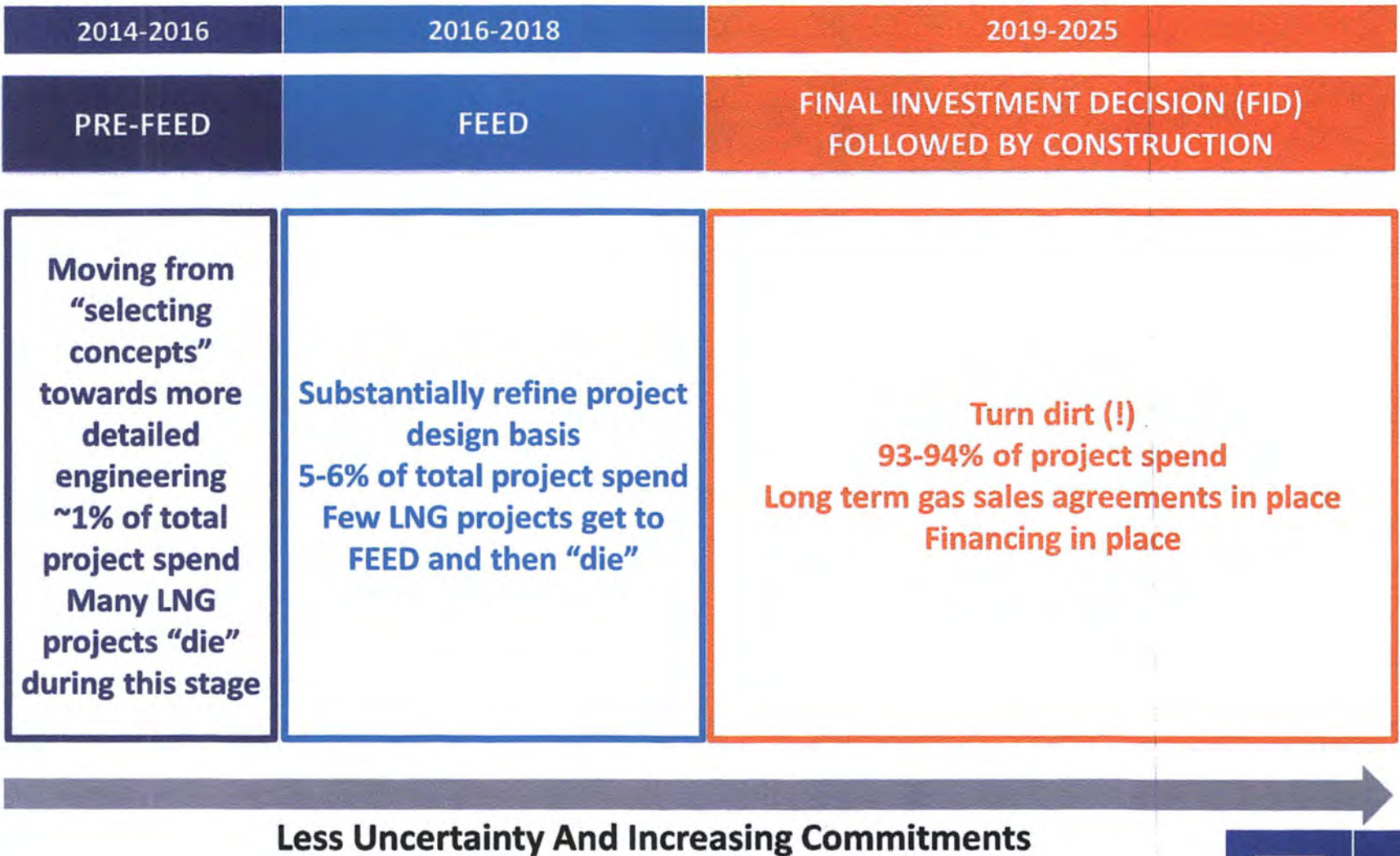
**IF PROJECT MOVES FORWARD WITH TC**



> SOA pays TC tariff regardless of price or volume risks

<sup>1</sup>TC costs to be repaid include its share of AKLNG work plan and budget, AFUDC, and internal management fees

# STAKES GET HIGHER AS PROJECT PROCEEDS THROUGH STAGE GATES



## TIMING OF TC PARTICIPATION DECISION – PROJECT DEVELOPMENT



- **Project development risk is borne by SOA**
- **Unlike the agreements to date, the proposed FTSA contains a “back in” right for TC: no “clean” off ramp if SOA executes it by Dec 2015**
- **If SOA does not execute the proposed FTSA by Dec 2015, TC would have the right but not the obligation to terminate the PA and seek reimbursement of its costs**

# TIMING OF TC PARTICIPATION DECISION – PROJECT FID/CONSTRUCTION

Final Investment Decision

CONSTRUCTION

OPERATIONS.....

At Final Investment Decision (FID), before construction (the biggest spend period) commences, the investment needed in the project can be financed and State should be able to directly finance its share of AKLNG costs in a less expensive way than through TC i.e., SOA would get lower tariffs and higher cash flows

***=> If the State desires to participate directly in AKLNG midstream, there may not be a strategic reason to wait***

# \$\$ IMPLICATIONS OF TC PARTICIPATION DECISION AND POTENTIAL OFF RAMPS<sup>1</sup>

<b>PROJECT STAGE:</b>	PRE-FEED	FEED	FID	CONSTRUCTION
<b>TIMELINE:</b>	2014-2016	2016-2018		2019-2026
<b>Percent of Spend:</b>	~1%	~5-6%		~93-94%

## STATE INVESTMENT

<b>SOA without TC:</b>	~\$130M	~\$625M	~\$13.1B
<b>SOA with TC:</b>	~\$65M	~\$315M	~\$6.5B

## OFF RAMPS:

<p><b>Termination Dec. 31, 2015</b>                  Pay TC Dev. Costs of ~\$70M<sup>2</sup>                  (Incl. TC Internal Costs<sup>3</sup>)                  SOA also responsible for remaining GTP and Pipeline Pre-Feed costs from Jan-June 2016 of ~\$38M<sup>4</sup></p>	<p><b>Termination Dec. 31, 2018</b>                  Pay TC Dev. Costs of ~\$490M                  (Incl. TC Internal Costs<sup>3</sup>)</p>
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<sup>1</sup>Assumes 25% State equity participation

<sup>2</sup>\$70M estimate incorporates a \$4M credit for an SOA payment to TC for AGIA reimbursement

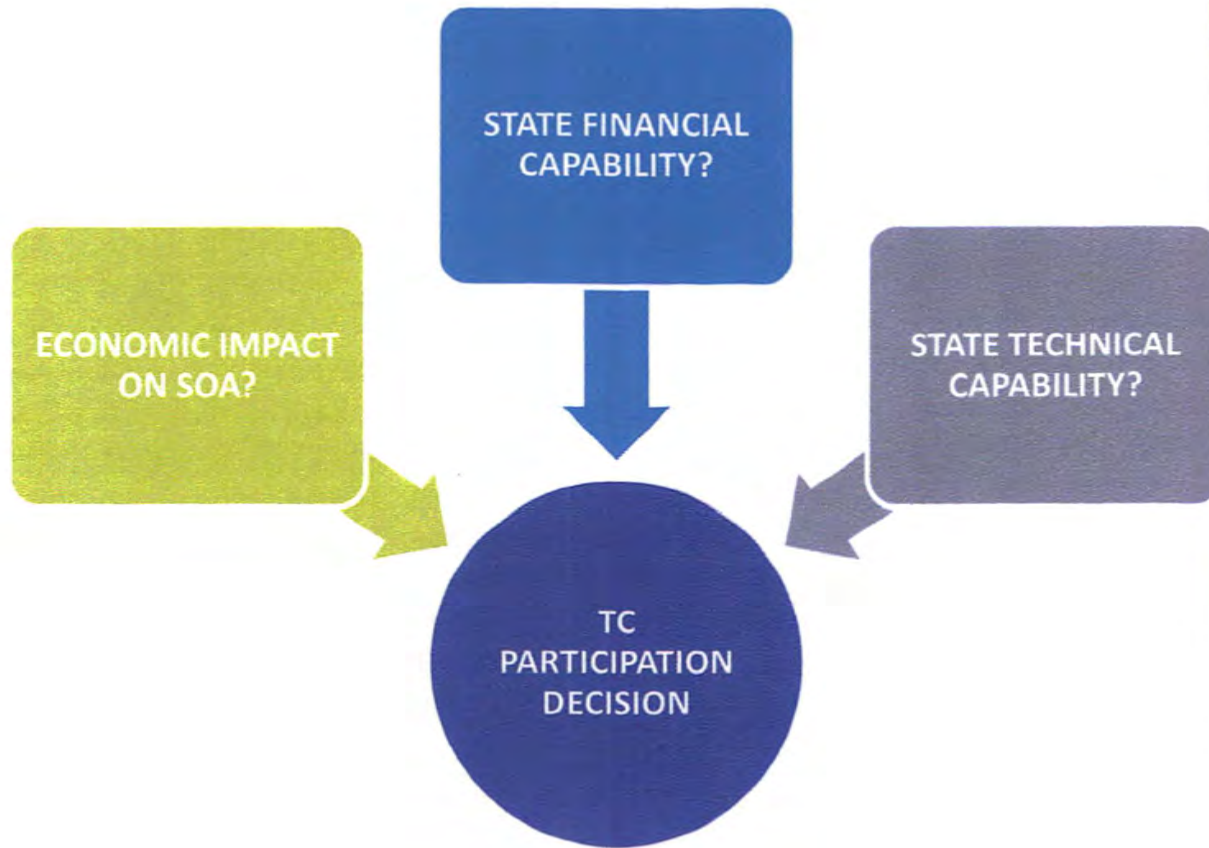
<sup>3</sup>TC Internal costs include AFUDC and Internal Management Fees

<sup>4</sup> Provided by AGDC based on current approved WP&B for AKLNG and includes an additional 30% contingency

## PRESENTATION OVERVIEW

- **Background & Description of TC Decision**
- **Overview of TC's current role and State's alternatives related to TC participation**
- **Some key factors to consider for State's TC participation decision**

# SOME KEY FACTORS TO CONSIDER FOR STATE'S TC PARTICIPATION DECISION



## SOME KEY FACTORS TO CONSIDER FOR STATE'S TC PARTICIPATION DECISION

➤ **What is the economic impact to SOA with and without TC participation?**

Near-term cash calls required from State

Long-term cash flows to the State

Risk exposure for State

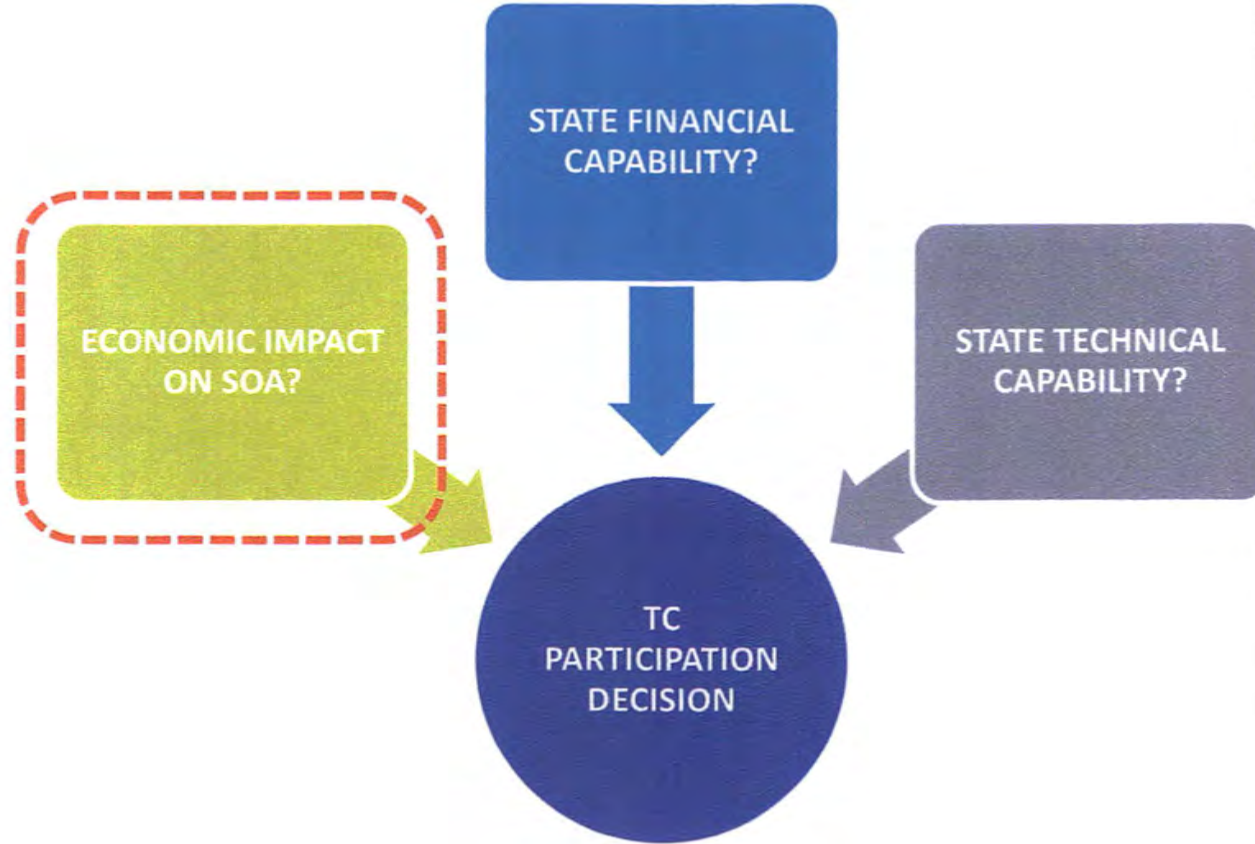
➤ **Does the State have the financial ability to invest directly in the AKLNG midstream segment (i.e., without TC participation)?**

SOA financing of TC termination, remaining pre-FEED, FEED and construction costs

➤ **Does the State have the technical ability to participate directly in the AKLNG midstream segment?**

TC is currently the technical lead for pipeline segment; can this role be continued by the State or another project partner?

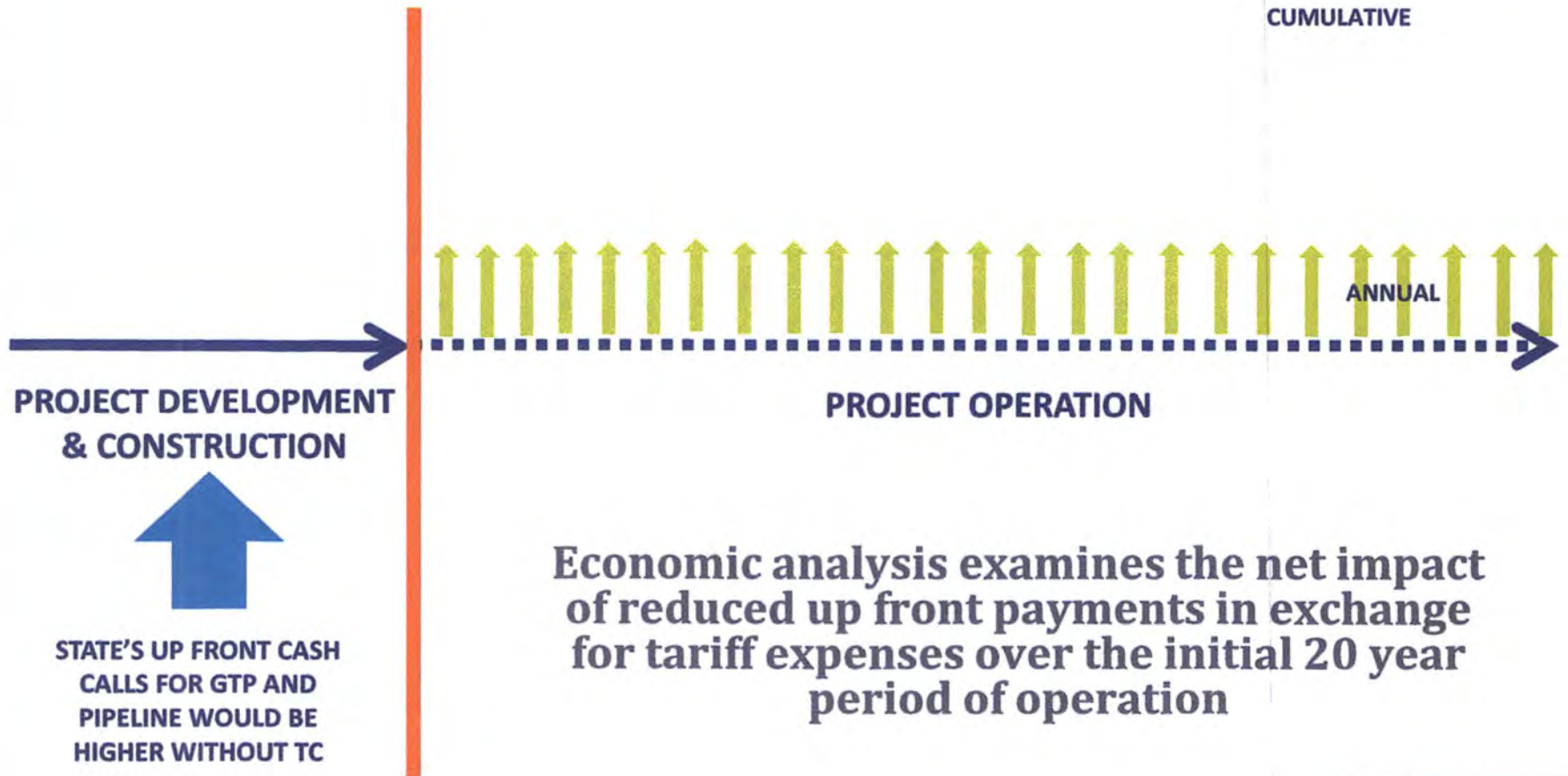
# SOME KEY FACTORS TO CONSIDER FOR STATE'S TC PARTICIPATION DECISION



# TRANSCANADA IN OR OUT – ECONOMIC IMPACT



ONCE THE PROJECT IS OPERATIONAL, STATE WOULD ACHIEVE HIGHER ONGOING CASH FLOWS WITHOUT TC

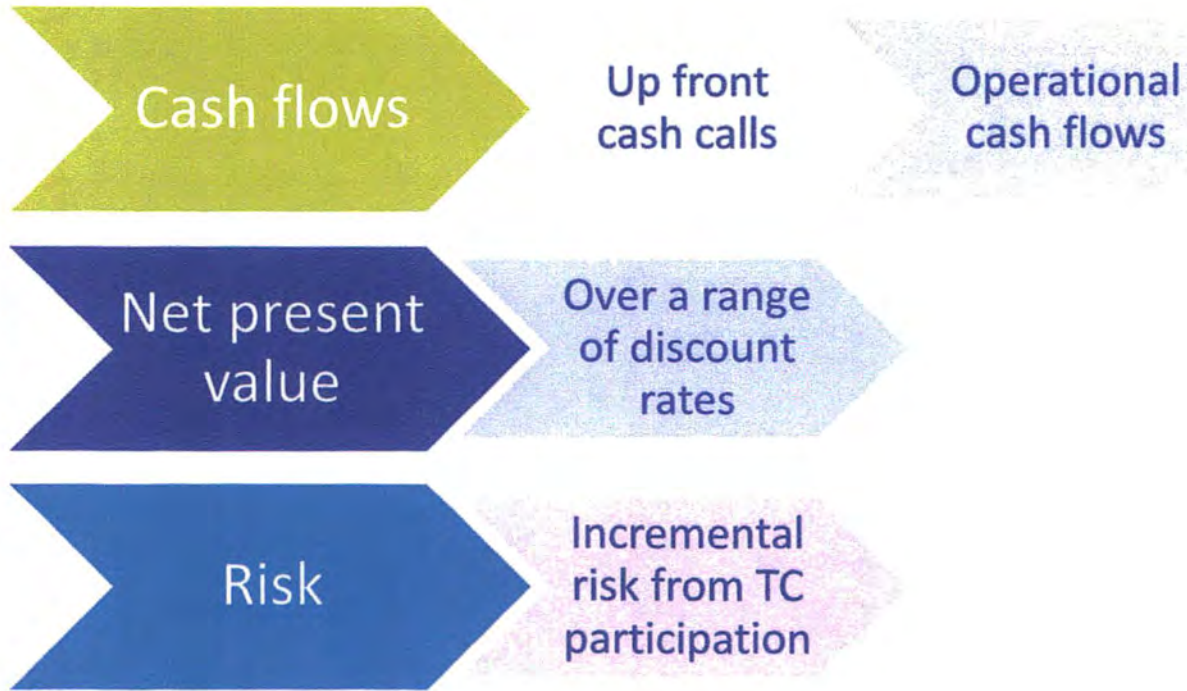


# CRITERIA FOR EVALUATING ECONOMIC IMPACT OF TC PARTICIPATION ON SOA

ECONOMIC IMPACT?



## CRITERIA FOR SOA IMPACTS

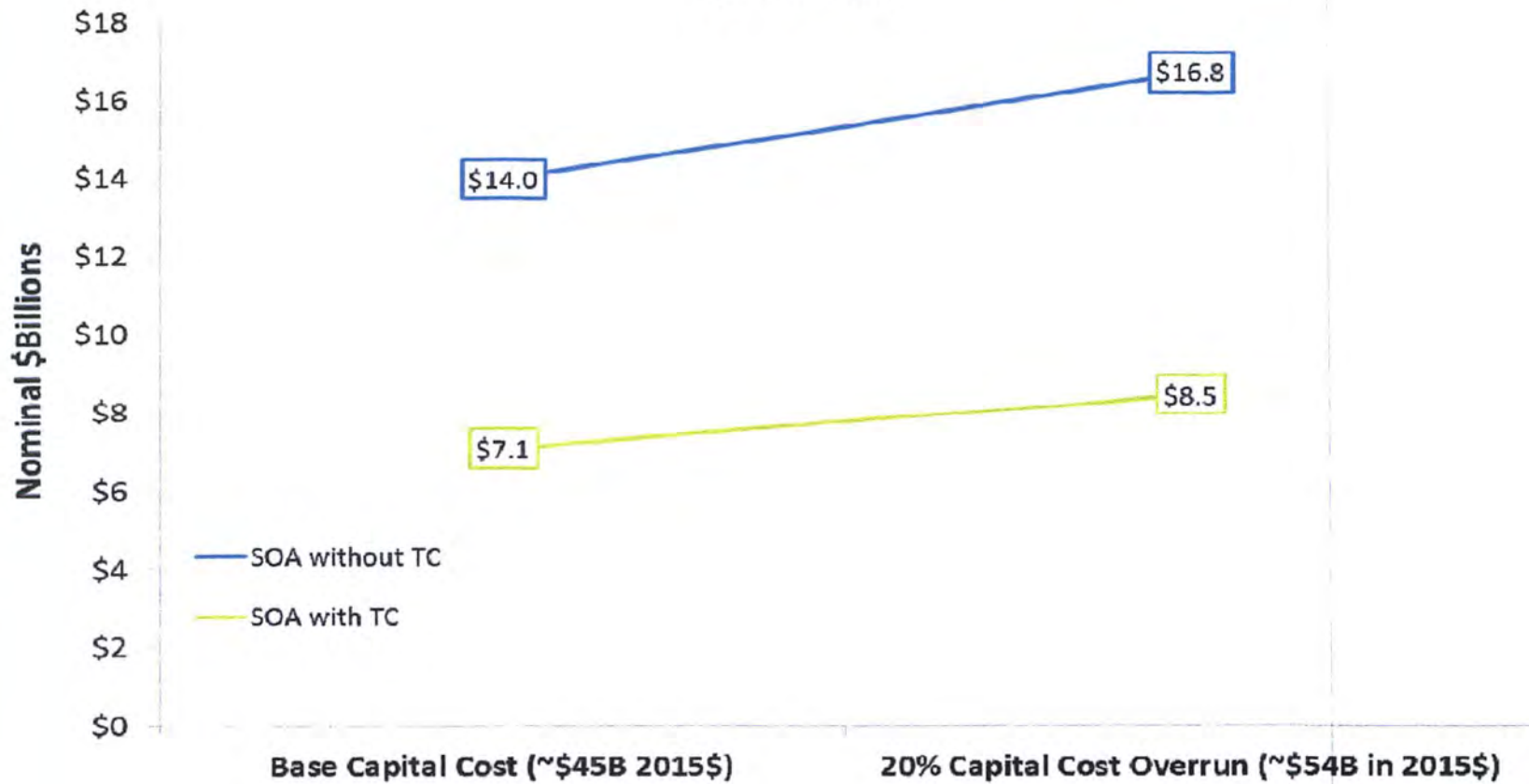


# SOA'S TOTAL UPFRONT CASH CALL EXPOSURE IS \$6.9-8.3B HIGHER WITHOUT TC PARTICIPATION

ECONOMIC IMPACT?



SOA's Total Upfront Cash Call Exposure (Unlevered)

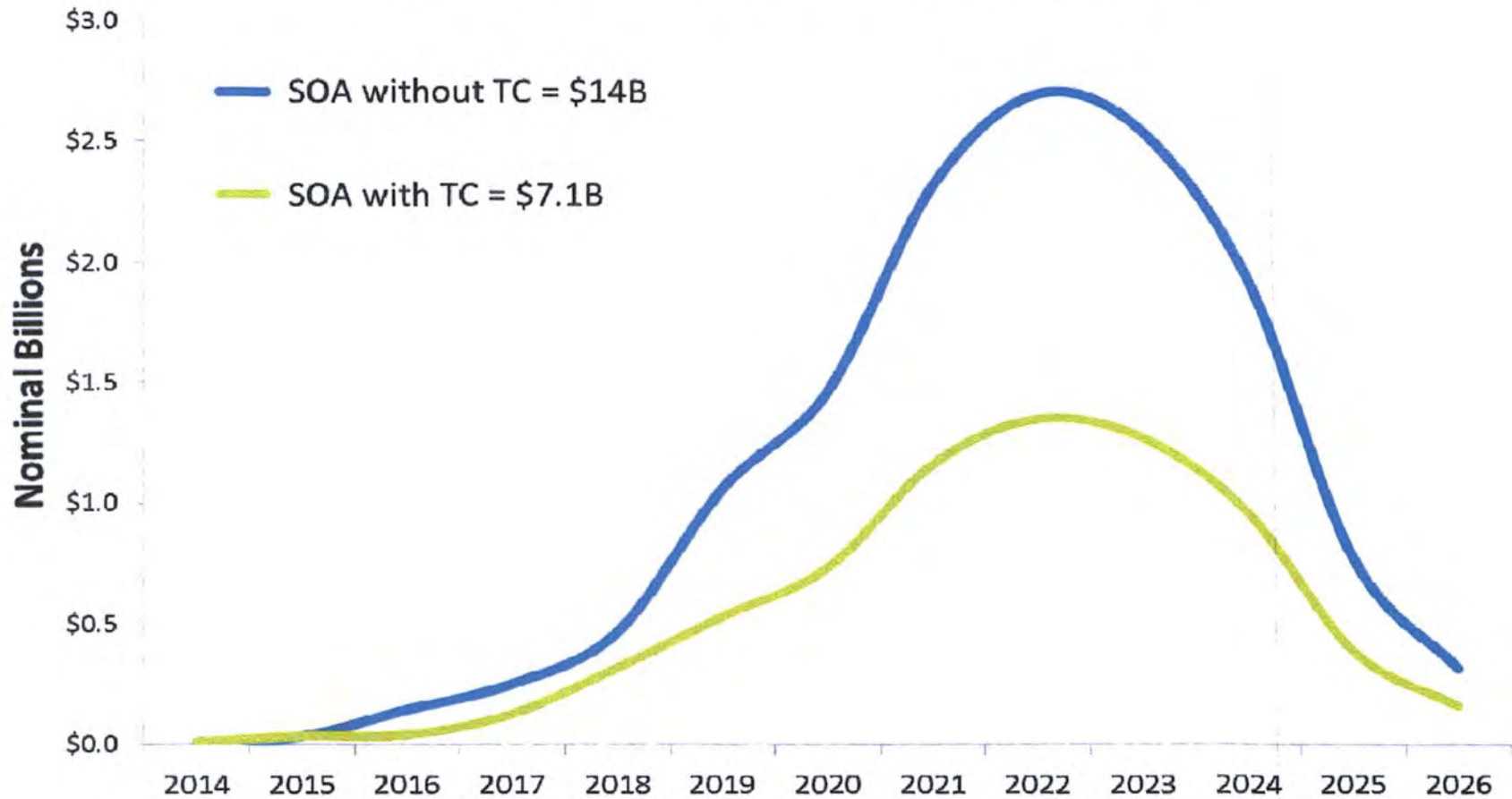


# SOA'S ANNUAL UP FRONT CASH CALLS IN THE AKLING PROJECT ARE EXPECTED TO NEARLY DOUBLE WITHOUT TC

ECONOMIC IMPACT?



SOA's Annual Upfront Cash Call Exposure (Unlevered)

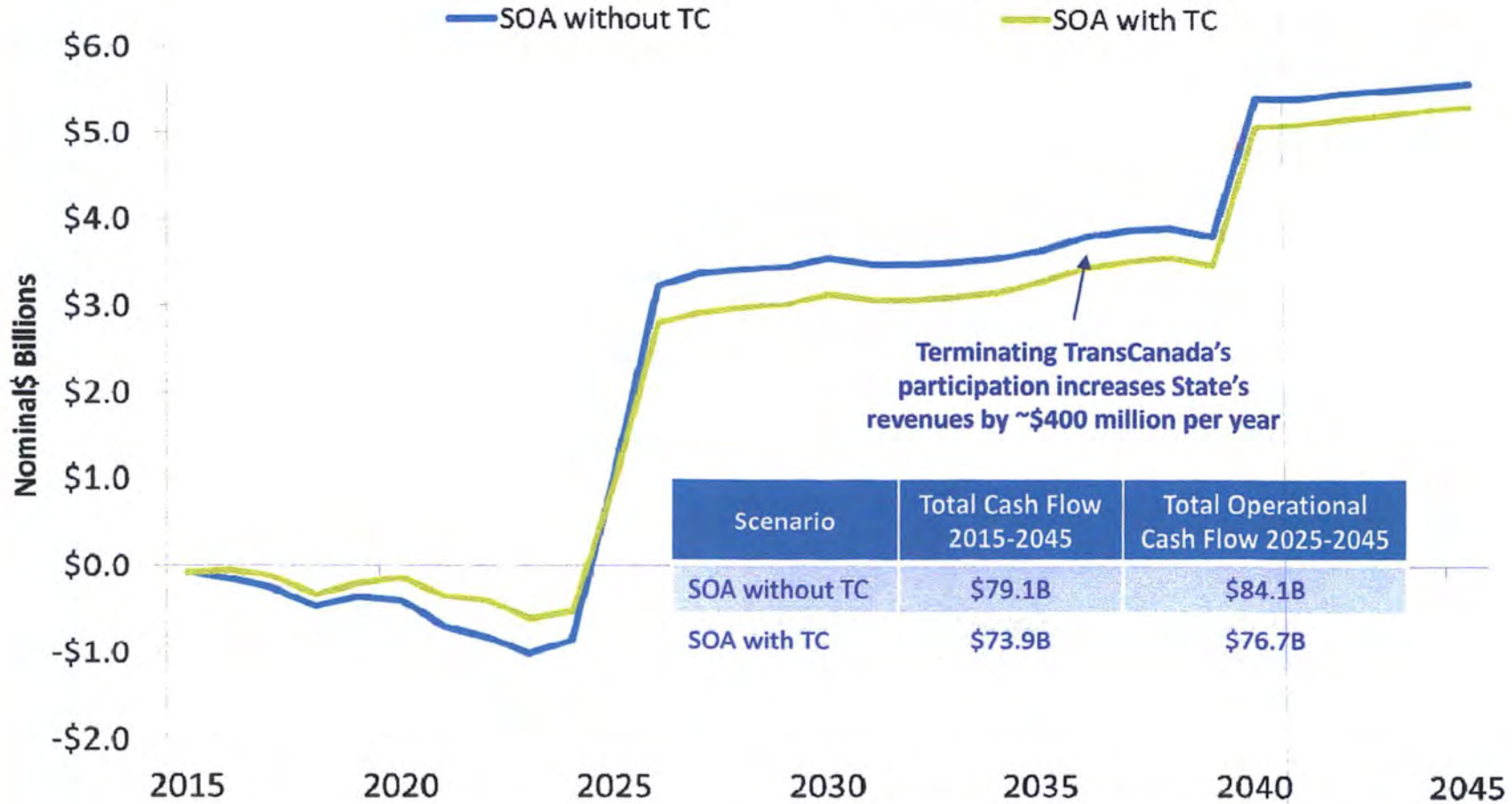


# ONCE OPERATIONAL, SOA IS EXPECTED TO RECEIVE ANNUAL CASH FLOWS OF ~\$400 MILLION HIGHER WITHOUT TC

ECONOMIC IMPACT?



SOA AKLING Cash Flow Forecast (Over 20 Years)



# NPV INCREASE TO THE STATE WITHOUT TC CAN BE BETWEEN \$0-1.2B OVER 20 YEARS

ECONOMIC IMPACT?



TRANSCANADA PARTICIPATION IN AKLING

### SOA NPV Increase Without TC (\$2015 Billions)



## TC INVOLVEMENT AND THE RISK OF NEGATIVE NETBACK FOR THE STATE

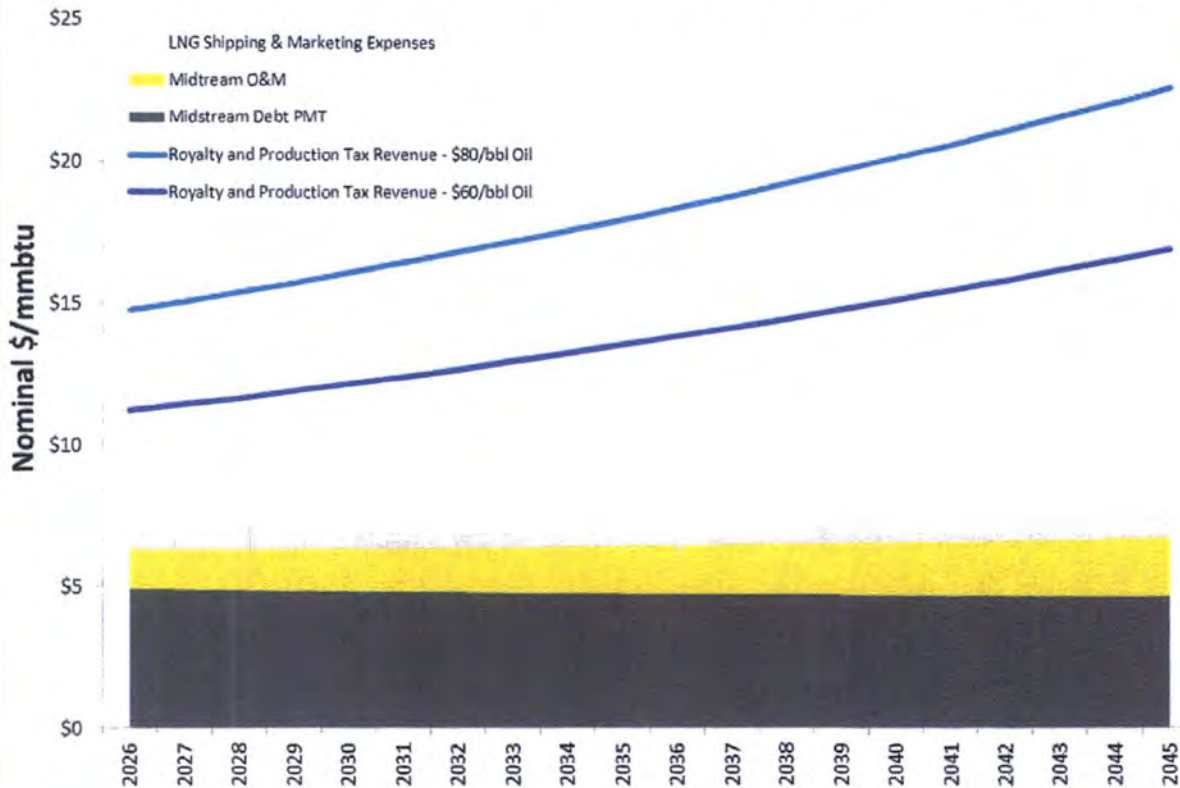


- **With an RIK election, the State could be exposed to negative netback if the revenue from its sale of RIK + TAG gas/LNG volumes is insufficient to cover its cost obligations as a shipper**
- **The State's midstream cost obligations as a shipper are directly affected by midstream ownership (State Midstream Company, TransCanada)**
  - Many of the cost obligations would be the same regardless of who owns the midstream assets. These include any upstream expenses, midstream O&M costs, marketing costs, and LNG liquefaction and shipping costs
  - Differences in the obligations arise from factors including how the project is financed, income tax, property tax, and return on equity
- **Note: During the sale of RIK and TAG gas and LNG , market pricing mechanisms such as price collars may be available to help manage the State's negative netback risk. The risk management available and associated costs to the State from such mechanisms will be evaluated during the marketing process and are not considered here. This analysis simply looks at the level of negative netback risk for the State that will need to be managed, with and without TC.**

# STATE'S MIDSTREAM COST OBLIGATIONS WITHOUT TC ARE EXPECTED TO BE ~\$7.30/MMBTU



SOA Expected Revenues & Midstream Costs Per Unit of Gas (Without TC)



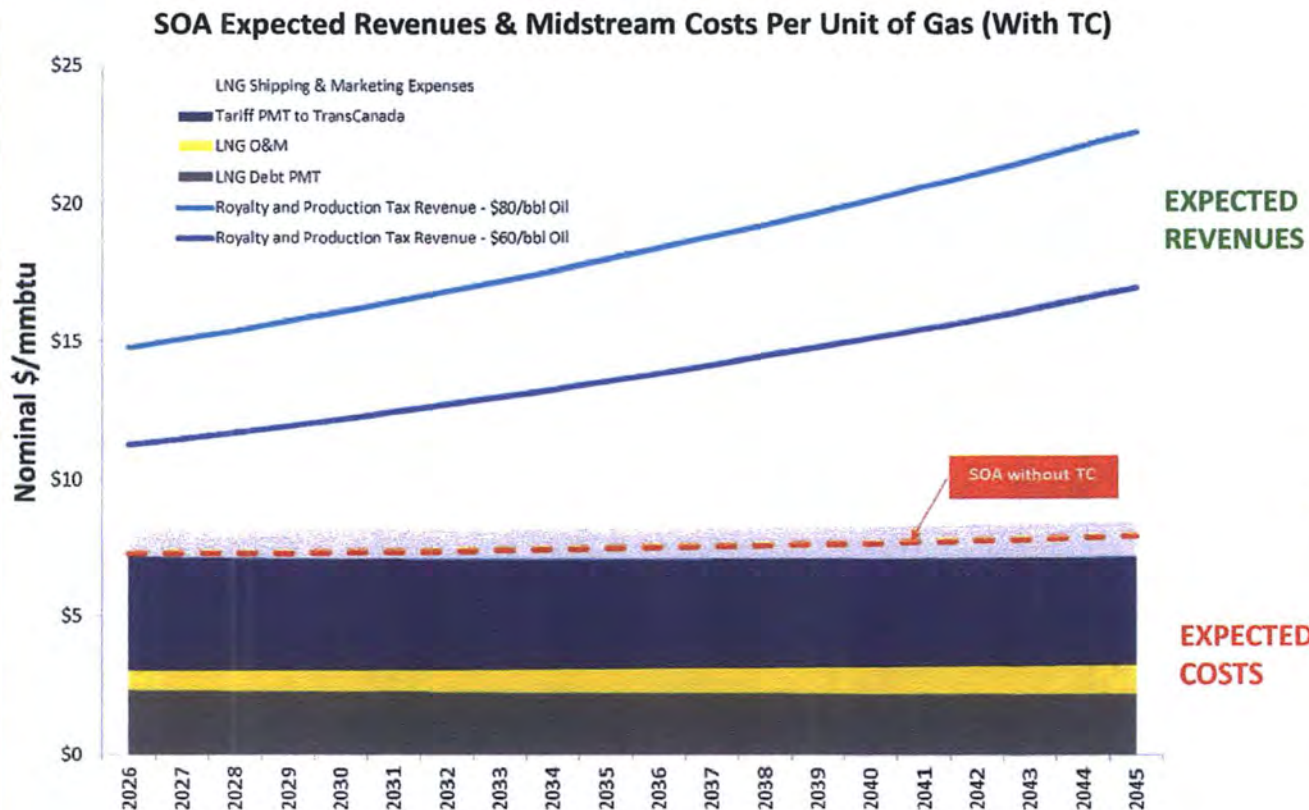
EXPECTED REVENUES PER UNIT

EXPECTED COSTS PER UNIT

- State's midstream cost obligations are expected to be ~\$7.30/MMBtu
- Equivalent to Oil prices in today's dollars at ~\$33/bbl (assuming 13.5% Slope and \$1/MMBtu price adder)
- Oil/LNG prices & gas production are key risks in meeting midstream payment obligations

How does TC Involvement in the project impact the State's ability to meet midstream obligations and not have negative netbacks?

# WITH TC, THE STATE'S MIDSTREAM COST OBLIGATIONS ARE EXPECTED TO INCREASE TO ~\$8.20/MMBTU



- State's midstream cost obligations are expected to be ~\$8.20/MMBtu with TC compared to ~\$7.30/MMBtu without TC
- Equivalent to Oil prices in today's dollars at ~\$38/bbl compared to ~33/bbl. (assuming 13.5% Slope and \$1/MMBtu price adder)

What is driving the ~\$0.90/MMBtu (in 2026\$) or \$5/bbl (in 2015\$) difference with TC's involvement?

# MIDSTREAM COST OBLIGATION DIFFERENCES

ECONOMIC IMPACT?

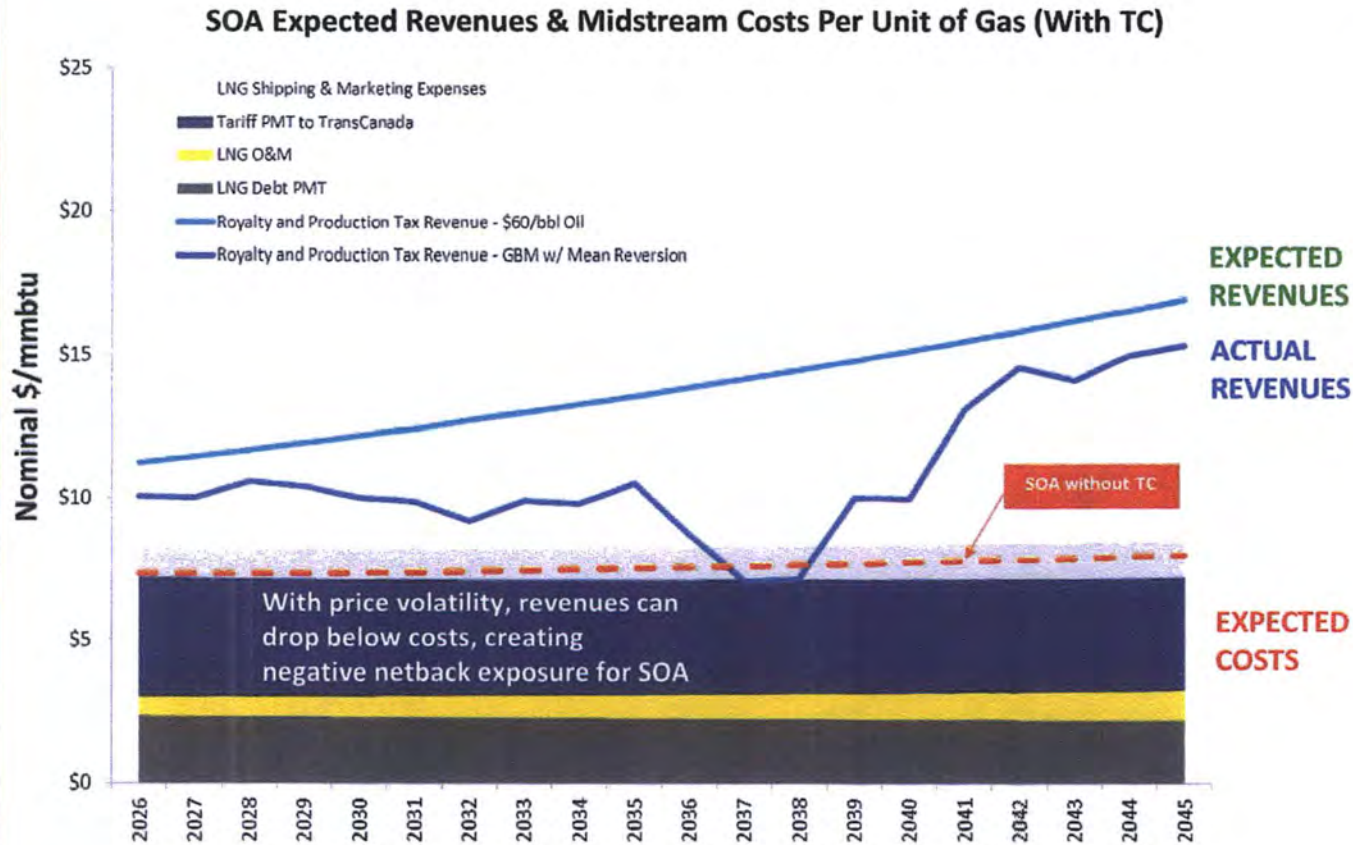


State Midstream Obligation	SOA Without TC	SOA With TC
Midstream O&M	No Difference	
LNG Shipping & Marketing	No Difference	
Weighted Cost of Capital (Return on equity & Cost of debt)	SOA is expected to have lower cost of capital than with TC	SOA pays TC's weighted cost of capital of 7.1% during construction & 6.75% during operations
Property Taxes	SOA Does Not Pay	SOA Tariff includes TC Property Tax Obligation
Income Taxes	SOA Does Not Pay	SOA Tariff includes TC's Payment of Income Taxes

Additional cost elements make SOA's midstream obligations higher with TC

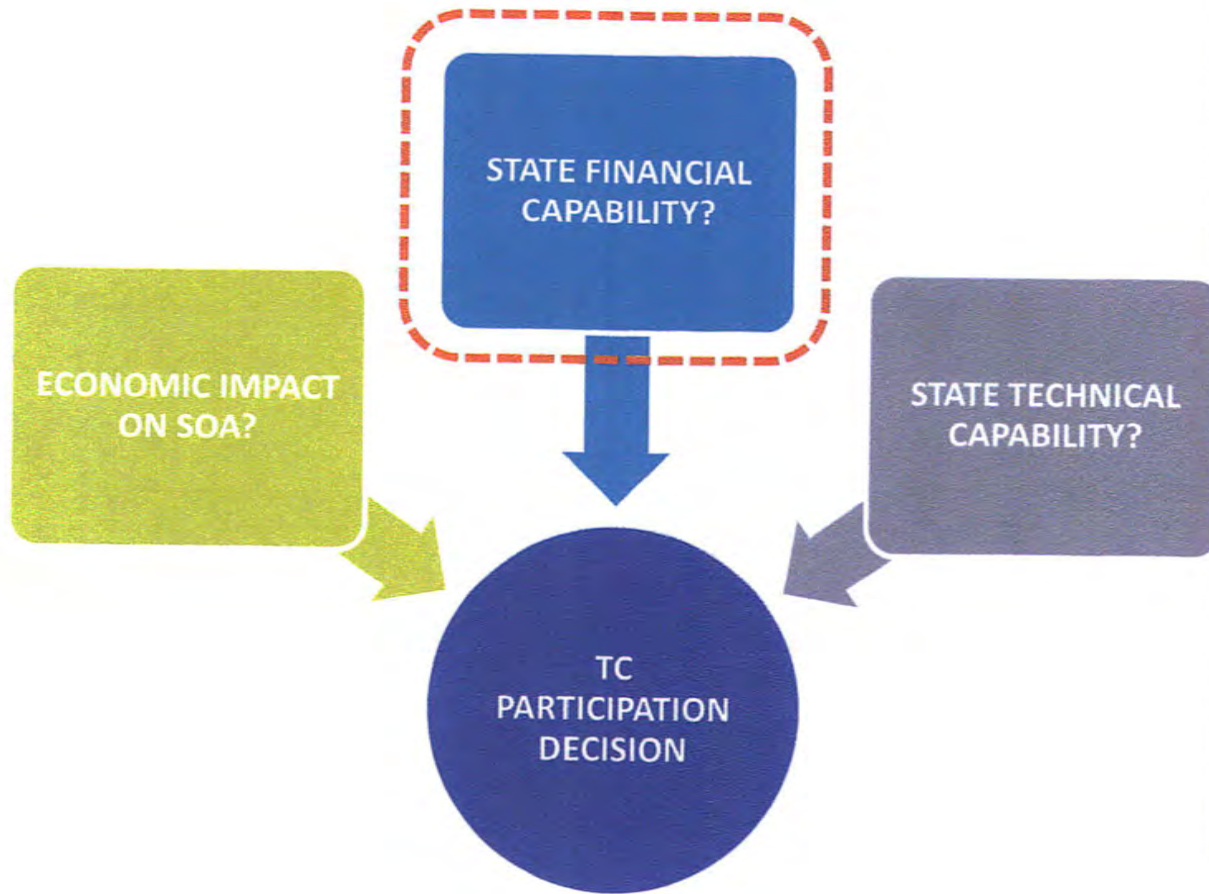
# STATE'S NEGATIVE NETBACK RISK INCREASES WITH TC: EXAMPLE

ECONOMIC IMPACT?



- With TC, the cost level that the State's revenues need to cover are about \$1/MMBtu higher than without TC
- This is expected to increase the likelihood and magnitude of negative netback—i.e., potential draws on the General Fund - that the State could experience during low price events

# SOME KEY FACTORS TO CONSIDER FOR STATE'S TC PARTICIPATION DECISION



## WHAT ARE THE FINANCIAL IMPLICATIONS TO SOA OF TC PARTICIPATION?



- **Two financial costs of terminating TC relationship:**

- Immediate transition costs of terminating TC involvement

- Subsequent direct investment in AKLNG midstream

- **Two financial benefits of terminating TC relationship:**

- Immediate relief from funding TC administrative costs<sup>1</sup>

- Eliminate accrual of TC financing costs (~7% interest)

<sup>1</sup> There may be corresponding increases to AGDC administrative costs associated with the Midstream.

# SOA'S UPFRONT CASH CALLS WITHOUT TC INCREASE BY ~\$108M FOR PRE-FEED AND ~\$310M FOR FEED



Nominal \$M	Midstream <sup>1</sup>
TC Termination Amount	~\$70 <sup>2</sup>
AGDC Pre-FEED	~\$38 <sup>3</sup>
FEED	~\$310
Construction <sup>4</sup>	~\$6,500 - \$7,800

} Pre-FEED

<sup>1</sup> Midstream includes PBU & PTU Transmission Lines, Gas Treatment Plant, and Mainline

<sup>2</sup> TC Termination Amount includes TC Internal Costs (AFUDC + Management Fees) and a credit of ~\$4M for SOA payment to TC for AGIA reimbursement

<sup>3</sup> Provided by AGDC based on current approved WP&B for AKLNG and includes an additional 30% contingency

<sup>4</sup> Range of costs is based on current estimates to 20% cost overrun

# WITHOUT TC, SOA'S TOTAL UPFRONT CASH CALLS WOULD BE ~\$173M FOR PRE-FEED & ~\$625M FOR FEED



Nominal \$M	Midstream <sup>1</sup>	LNG	Total	
TC Termination Amount	~\$70 <sup>2</sup>	-	~\$70	} Pre-FEED
AGDC Pre-FEED	~\$38 <sup>3</sup>	~\$65	~\$103	
FEED	~\$310	~\$315	~\$625	
Construction <sup>4</sup>	~\$6,500 - \$7,800	~\$6,500 - \$7,900	~\$13,100 - \$15,700	

<sup>1</sup> Midstream includes PBU & PTU Transmission Lines, Gas Treatment Plant, and Mainline

<sup>2</sup> TC Termination Amount includes TC Internal Costs (AFUDC + Management Fees) and a credit of ~\$4M for SOA payment to TC for AGIA reimbursement

<sup>3</sup> Provided by AGDC based on current approved WP&B for AKLNG and includes an additional 30% contingency

<sup>4</sup> Range of costs is based on current estimates to 20% cost overrun

## SOA'S COST OF CAPITAL IS EXPECTED TO BE LOWER THAN TC'S

DOR analyzes the TransCanada agreement as a non-GO State debt borrowing that may be called on demand by TransCanada with an interest cost significantly higher than the State could achieve through a market-rate State debt borrowing

- TC's "deemed" weighted cost of capital per contract is

Development & Construction:

70/30 Debt/equity ratio<sup>1</sup>

4.05% Cost of Debt/ 11.05% Return on Equity<sup>2</sup>

Weighted average cost of capital = **6.15%**<sup>2</sup>

Operation:

75/25 Debt/equity ratio

4.05% Cost of Debt/ 11.05% Return on Equity<sup>2</sup>

Weighted average cost of capital = **5.80%**<sup>2</sup>

- SOA's cost of financing its midstream share directly is expected to be lower than through TC

<sup>1</sup>Ratio applies through the second anniversary of the in-service date

<sup>2</sup>TC deemed cost of capital changes with variations in the yield of 30-year Treasuries. The cost of capital figures shown are based on the Treasuries yield as of September 25, 2015

## STATE'S ABILITY TO FUND TERMINATION AMOUNT FOR TC



- **The costs for the TC termination amount through pre-FEED to date will need to be funded through legislative appropriation**
- **Legislature has a number of viable readily implemented funding options available to it for the TransCanada reimbursement of Developments Costs.**

The Legislature could appropriate funds from the CBRF or authorize a short or intermediate term borrowing with non-GO State debt (moral obligation or certificates of participation)

The Legislature could also do a combination of the two, with initial funding from the CBRF to be reimbursed by a non-GO State debt issuance or proceeds from financing provided by future equity partners and/or LNG buyers

Note that given the relatively small size of the TransCanada reimbursement, the State could consider both bank financing and municipal market bonding

First Southwest believes that a State borrowing could be feasible and would result in materially lower interest costs to the State than under the TransCanada agreement

Interest payments on any State borrowing would be funded by annual appropriation, with the anticipation that principal repayment would be rolled into a future long term financing if the Project reaches FID

## STATE'S ABILITY TO FINANCE ITS SHARE OF AKLNG COSTS – PRE-FEED



- **AGDC's remaining midstream Pre-FEED JVA costs will need to be funded through legislative appropriations**
- **The funding could be done in the same way as the current AGDC Downstream Pre-FEED JVA costs are funded**
- **Alternatively, the same funding program identified for the TransCanada reimbursement of Development Costs could be utilized**

The Legislature could appropriate funds from the CBRF or authorize a short or intermediate term borrowing with non-GO State debt or a combination of the two

## STATE'S ABILITY TO FINANCE ITS SHARE OF AKLING COSTS – FEED



- The AGDC Downstream and Midstream FEED costs will need to be funded through legislative appropriations
- It is anticipated that the SOA total share of FEED amount could approach \$625 million, an increase of \$310 million without TC
- For the AGDC Downstream and Midstream FEED costs, the Legislature would have the same options available to fund such costs as outlined in the funding program identified for the TransCanada reimbursement
- In addition, given the additional time available before the FEED funding decision is ripe, the Legislature could consider proposing a GO debt offering which would require a voter referendum approval

The State would have the option to issue annual tranches of debt to meet the annual appropriation requirements or a single tranche to fund the total FEED period costs.

Interest payments could be funded by annual appropriation, with the anticipation that principal repayment would be rolled in a future long term financing.

**PROVIDED TO BLACK & VEATCH BY DEPARTMENT OF REVENUE**



## STATE'S ABILITY TO FINANCE ITS SHARE OF AKLING COSTS – FEED (CONT.)



- The state may also be able to obtain financing from future equity investors and/or LNG buyers
- Under the existing agreements with TC, the State has to support its obligations under the PA and FTSA with the full faith and credit of the State of Alaska or provide other credit support acceptable to TC

The State is expected to obtain less expensive borrowing on its own in the debt market

- Given that the State's financial consultants, First Southwest and Lazard, advise that the State would have the ability to access the bank debt and municipal bond market for funds to replace the TransCanada debt, DOR is comfortable the State can readily fund AGDC's share of costs through FEED at a lower overall cost to the State

## STATE'S ABILITY TO FINANCE ITS SHARE OF AKLNG COSTS – CONSTRUCTION



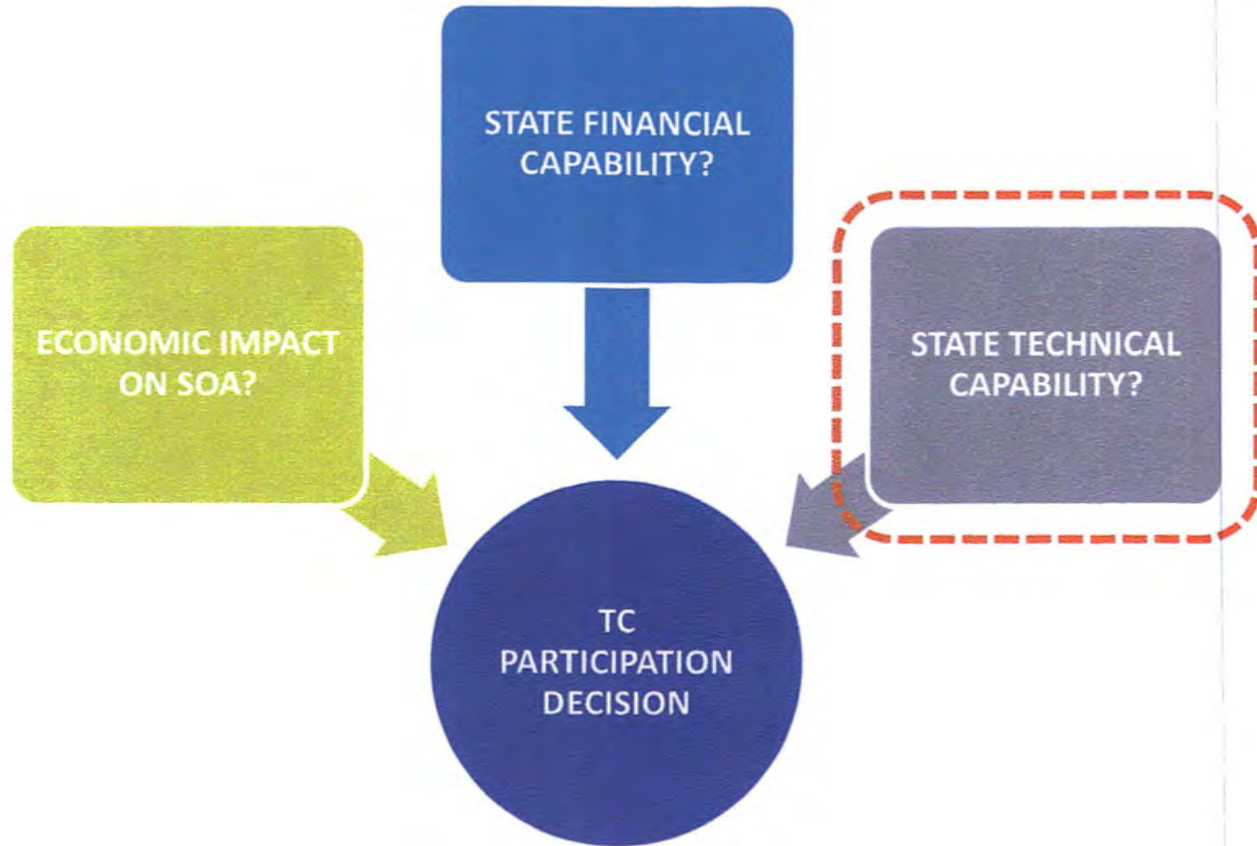
- The AGDC Downstream and Midstream post-FID construction costs will need to be funded through legislative appropriations
- It is anticipated that this amount could approach \$13.1-15.7 billion
- The Legislature would have the same options as for FEED costs to fund construction costs
- Given the magnitude of the expenditures, the borrowing plan would look more to the municipal bond market than to bank borrowing
- It is anticipated that at the time of placement of the Project into operation, the State would re-finance outstanding debt with long term municipal bond market borrowing or a Permanent Fund investment or a combination of both
- SOA/AGDC would not have the option to access project financing under our understanding of the current Constitution's limitations against pledging State royalties and tax revenues.

A Constitutional Amendment would be required specifically to allow a pledge of RIK/TAG revenues to enable an SOA/AGDC borrowing for the AKLNG Project

**PROVIDED TO BLACK & VEATCH BY DEPARTMENT OF REVENUE**



# SOME KEY FACTORS TO CONSIDER FOR STATE'S TC PARTICIPATION DECISION



## CAN THE STATE PROCEED WITHOUT TC – TECHNICAL ABILITY?



- TC is highly experienced in northern pipelines and leads the pipeline technical work for AKLNG
- TC in its current role performs or has performed several functions including the following:

Holds State of Alaska's midstream equity in AKLNG as signatory to the JVA

Is SOA's midstream participant in JVA Governance and decision making  
Provided the majority of the pipeline SMEs that were seconded to the JVA PMT

Provided technical advice to the State of Alaska on midstream design, especially the 48 inch pipe position

Helpful assistance and input on negotiation of key agreements like Expansion

Coordinated FERC NEPA Process

## MIDSTREAM CAPABILITIES WITHIN AKLNG



- The end of the pre-FEED stage in the AKLNG Project's development is a natural transition point in activities
- Project delay is not expected if TC agreement is terminated in December 2015, as the pre-FEED work products near completion
- The AKLNG Project producer partners have worldwide experience and resources to be able to step into the pipeline technical lead role played by TC

The #2 on the Pipeline Team is an EM employee with significant experience

The GTP, which is part of Midstream is already being managed by an EM secondee

Exxon designed and built TAPS and thus has Alaska-relevant experience on midstream

- AKLNG may be able to hire pipeline employees currently seconded to the project by TC

## AGDC CAPABILITIES IN MIDSTREAM



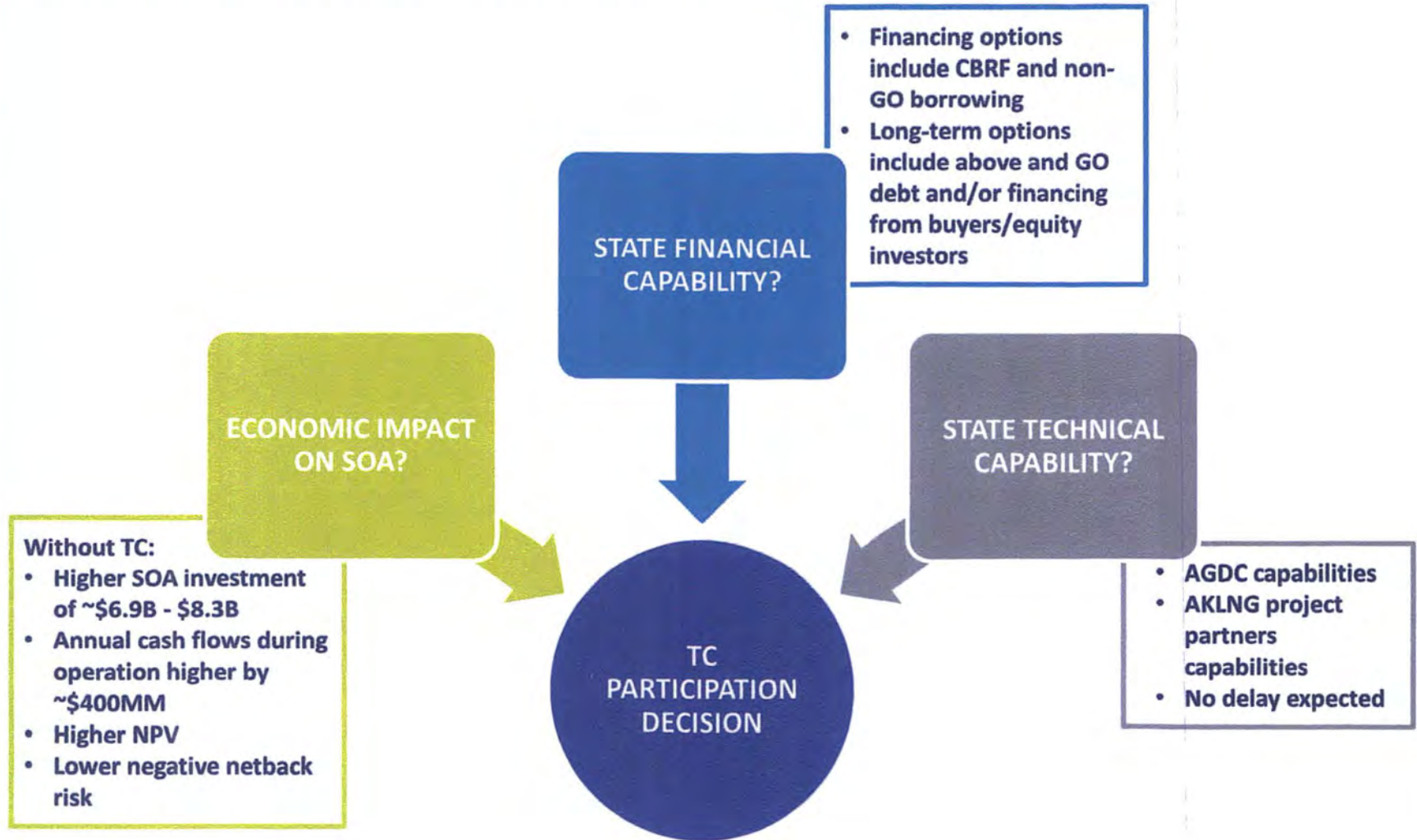
- **AGDC has completed Pre-FEED and FEED work on ASAP**
- **Practical knowledge/experience with the proposed RoW on ASAP – already have all the State lands RoW granted to them and expect the Federal portion to be granted as soon as the NEPA process is completed in mid 2016**
- **Experienced in the NEPA process although ASAP is under USACE and not FERC – AGDC has filed an EIS**
- **AGDC’s ERL person has taken over the permitting from the TC person who had led that effort**
- **Challenges/gaps –**
  - Limited current experience on the GTP - AGDC is expected to add staff/contractors to close this gap
  - Limited direct experience with 48” pipelines in northern conditions

## OTHER CAPABILITIES – COMMERCIAL



- **Both the State Gas Team and AGDC have strong midstream regulatory and commercial skills to participate in regulatory processes as well as in commercial negotiations with Producers**
- **Negotiations with Producers on project expansion and third party access issues are being led by the State Gas Team and AGDC using legal resources and SMEs where appropriate for support**

# SUMMARY OF 3 KEY FACTORS TO CONSIDER FOR STATE'S TC PARTICIPATION DECISION



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# APPENDICES



## HIGH LEVEL ASSUMPTIONS FOR ANALYSIS

Description	Assumption
Project In-Service	2025/2026
Analysis Period	First 20 years of operation
Pipeline Inlet (Tbtu/d)	3.2
Royalty	In Kind
Production Taxes (13% Gross)	Tax as Gas
AKLNG Project Capital Costs (2015\$)	~\$45B
SOA Equity	~24-25%
Long Term Flat Real Oil Prices (2015\$)	\$80/bbl
LNG Price (\$/MMBtu)	13.5%* Oil Price + \$1
Midstream CapEx Escalation (Short-term)	3.0%
Long Term Escalation	2.5%
Capital Structure	70% Debt/ 30% Equity
Cost of Debt	5%
ROE	12%

## LIST OF ACRONYMS

Acronym	Definition	Acronym	Definition
AFUDC	Additional Funds Used During Construction	MMBTU	Million British Thermal Units
AGDC	Alaska Gasline Development Corporation	MOU	Memorandum of Understanding
AGIA	Alaska Gasline Inducement Act	NEPA	National Environmental Policy Act
AKLNG	Alaska Liquefied Natural Gas Project	non-GO	non-General Obligation
APP	Alaska Pipeline Project	NPV	Net Present Value
ASAP	Alaska Stand Alone Pipeline	O&M	Operations and Maintenance
BP	(Formerly British Petroleum)	PA	Precedent Agreement
CBRF	Constitutional Budget Reserve Fund	PBU	Prudhoe Bay Unit
CP	Conoco Phillips	PMT	Payment
DNR	Department of Natural Resources	pre-FEED	Pre-Front End Engineering & Design
DOR	Department of Revenue	PTU	Point Thomson Unit
EIS	Environmental Impact Statement	RIK	Royalty in Kind
EM	ExxonMobil	ROE	Return on Equity
ERL	Environmental, Regulatory & Land	RoW	Right of Way
FEED	Front End Engineering & Design	SME	Subject Matter Expert
FERC	Federal Energy Regulatory Commission	SOA	State of Alaska
FID	Final Investment Decision	TAG	Tax as Gas
FTSA	Firm Transportation Sales Agreement	TAPS	Trans-Alaska Pipeline System
GBM	Geometric Brownian Motion	TC	TransCanada
GTP	Gas Treatment Plant	USACE	United States Army Corps of Engineers
JVA	Joint Venture Agreement	WACC	Weighted Average Cost of Capital
LNG	Liquefied Natural Gas	WP&B	Work Plan and Budget

## TC WITH 40% EQUITY OPTION

## THE OPTION TO BUY BACK 40% EQUITY

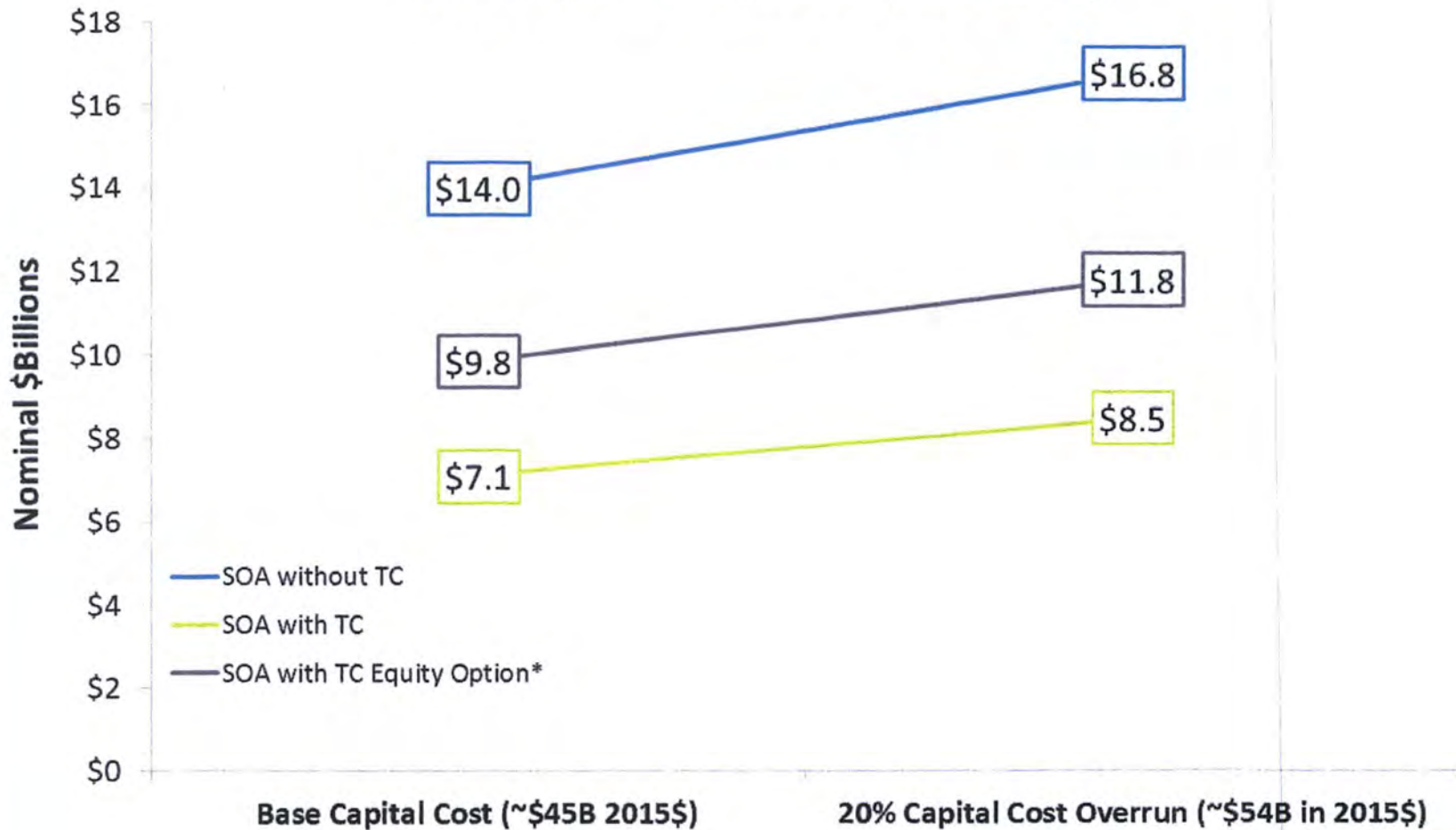
- Current MOU/PA with TransCanada also gives the State an option to buy back 40% of its original 25% share in the pipeline and GTP from TC
- Under the currently contemplated structure, the 40% interest would equate to ~10% equity (i.e., 40% of 25%) in GTP and Pipeline project
- Option must be exercised by December 2015

	Gas	GTP	Pipeline	LNG Plant
SOA With TC 40% Equity Option	SOA: ~ 25%	TC: ~15%	TC: ~15%	SOA: ~25%
		SOA: ~10%	SOA: ~10%	



# SOA UPFRONT CAPITAL COST EXPOSURE WITH TC EQUITY OPTION IS \$4.2-5.0B LOWER THAN WITHOUT TC

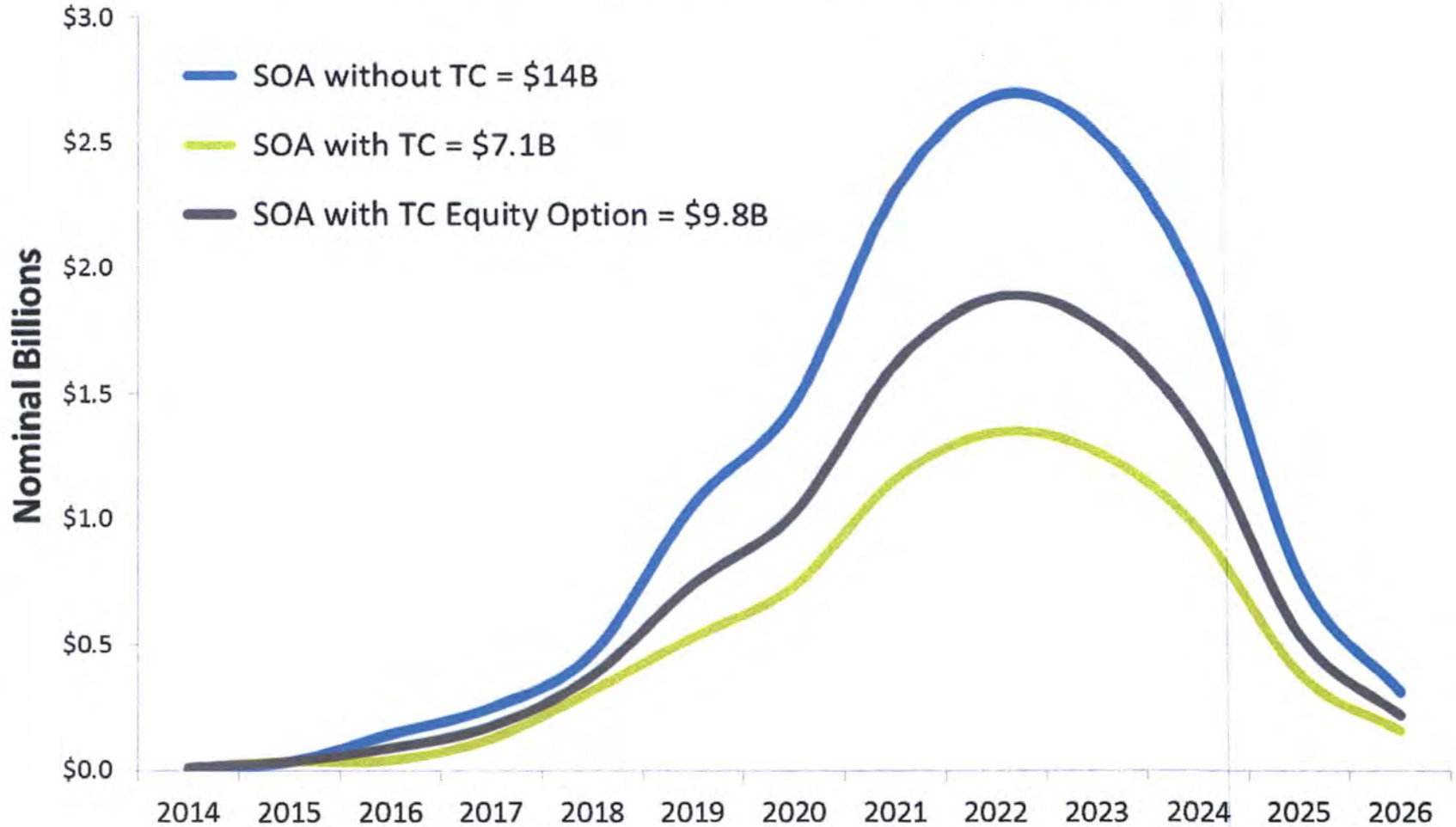
Impact of Project Capital Cost Risk On State's Upfront Investment (Unlevered)



\* Assumes State exercises 40% equity buy back with TransCanada at the beginning of FEED

# SOA'S ANNUAL INVESTMENT IN THE AKLNG PROJECT WITH TC EQUITY OPTION

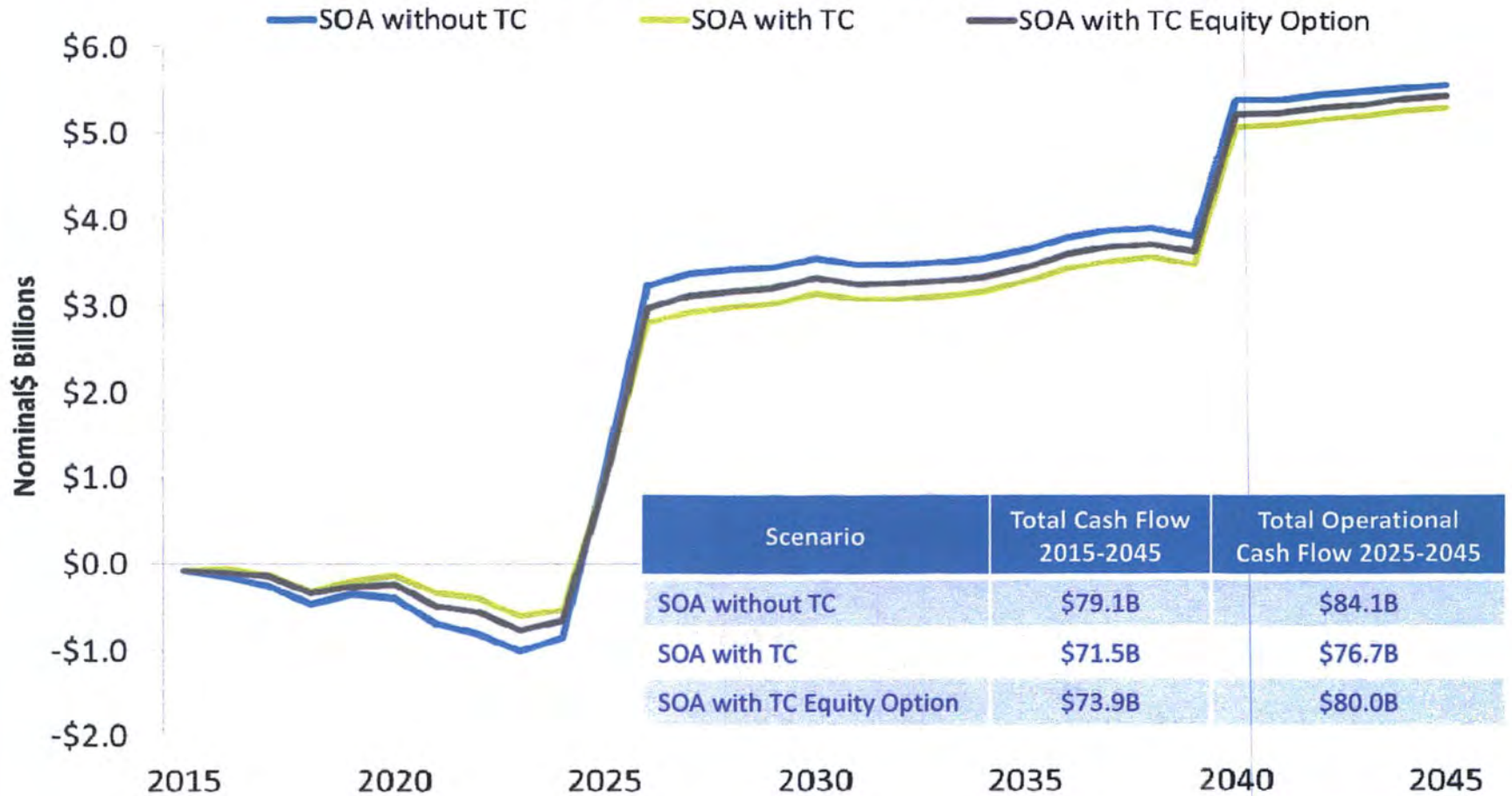
State of Alaska Investment Requirements (Unlevered)



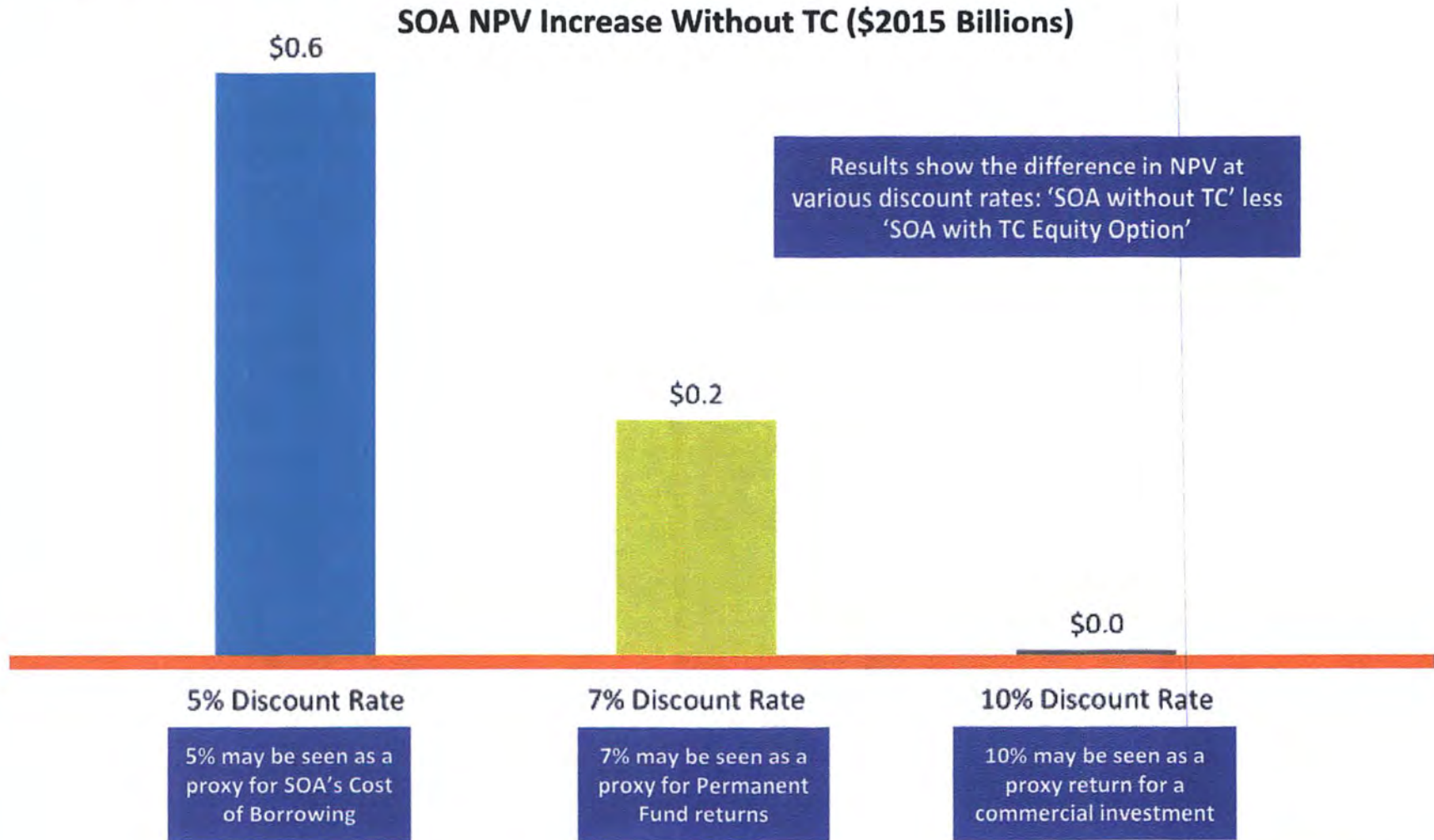
\* Assumes Capital Cost escalation of 3%

# SOA WITH TC EQUITY OPTION WOULD RECEIVE ANNUAL CASH FLOWS OF ~\$220M LOWER THAN WITHOUT TC DURING OPERATIONS

**SOA AKLNG Cash Flow Forecast (Over 20 Years)**



# NPV INCREASE TO THE STATE WITHOUT TC CAN BE BETWEEN \$0-0.6B OVER 20 YEARS WHEN COMPARED TO WITH TC EQUITY OPTION



\* Assumes 25% State equity participation

# TRANSCANADA AKLNG PARTICIPATION DECISION PRIMER

OFFICE OF THE GOVERNOR



THE STATE  
*of* **ALASKA**  
GOVERNOR BILL WALKER

24 OCTOBER 2015

## Table of Contents

1.0	Executive Summary.....	3
2.0	Introduction.....	3
3.0	TransCanada Precedent Agreement.....	4
4.0	Why is Termination of the TC Relationship in the State's Best Interests?.....	5
5.0	Why Terminate TC now?.....	6
6.0	What are the immediate implications for State of Alaska? .....	8
7.0	Conclusions & Recommendations.....	9

## 1.0 Executive Summary

**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 relative to 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 this agreement, it reviewed and debated the terms of the MOU during the 2014 legislative session. Under the PA, TransCanada pays upfront capital costs related to the State's share of the AKLNG midstream with the agreement that the State will repay all of TransCanada's costs with interest whether or not the AKLNG project is completed.

A critical component of the original MOU as well as the PA is that the State is authorized to take back its equity share of the AKLNG midstream components by exercising off-ramps designed in the agreement.

**Decision at hand:** Per the terms of the PA, the State is now faced with a December 31, 2015 deadline to make a decision on whether to take back TransCanada's share and have direct equity participation in the AKLNG midstream. To do so would require termination of the PA. Under the PA's terms, by December 31, the State is obligated to either enter into a Firm Transportation Services Agreement (FTSA) with TransCanada or terminate the PA. Alternatively, if agreeable to TransCanada, the State can negotiate to extend the date for entering into an FTSA beyond December 2015.

**Recommendation:** The State administration recommends termination of the TransCanada relationship by December 2015 and replacing it with the State's direct participation in the AKLNG midstream. The State administration expects this path to allow the State to better manage the obligation the State has for AKLNG midstream costs whether or not the project proceeds, increase the overall economics of the project to the State, and allow the State to have more direct voting rights on key AKLNG issues in return for its investment.

## 2.0 Introduction

The SOA is faced with the strategically important decision of whether to terminate the existing PA, which grants TransCanada a portion of SOA's equity and decision making responsibilities in the AKLNG Project. The decision hinges on the SOA's desire to either increase its direct participation in the Project and gain its full equity and voting rights equal to its share of gas or limit the upfront financial exposure for the SOA while giving up more control.

The State has two main options:

1. Terminate the PA by December 31, 2015 and reimburse TransCanada for its costs incurred to date (plus approximately 7% interest) – SOA increases overall equity and voting rights to 25%, which equals the SOA's share of gas;
2. Execute an FTSA with TransCanada by December 31, 2015; TransCanada would continue to incur costs on behalf of the SOA unless there is a termination at a later date, at which point the SOA will have to reimburse TransCanada's costs (plus approximately 7% interest)<sup>1</sup>

Note that option 2, executing an FTSA with TransCanada by December 31, 2015, would be premature and very risky from the State's perspective. The original December 2015 deadline to execute an FTSA was premised on an expectation that various project enabling agreements would be finalized to facilitate the State entering into any long-term transportation agreement and the associated guaranteed payments to TransCanada. If the SOA decides to continue the relationship with TransCanada, an extension of the deadline to execute an FTSA will need to be negotiated with TransCanada, assuming TransCanada is willing to consider that.

It is the recommendation of the administration to proceed with termination of the PA and to reimburse TransCanada for its costs incurred to date. As discussed in this primer, the administration believes that this is the best decision for the SOA, as regaining full voting rights will ensure the SOA is able to achieve the optimal value from the Project while enabling the SOA to actively manage risks.

### 3.0 TransCanada Precedent Agreement

The SOA entered into the PA with TransCanada in 2014 as a result of the decision to shift efforts from the Alaska Gasline Inducement Act (AGIA) project (also known as the Alaska Pipeline Project (APP)) to the AKLNG Project. TransCanada was the State's licensee under AGIA and had rights to the work product developed under those efforts. While TransCanada's work on AGIA and APP allowed smooth transition into pre-FEED for the AKLNG Project and the use of AGIA work products in the development of the AKLNG Project, the agreement with TransCanada was designed to provide the State (and TransCanada) with several off-ramps as the AKLNG Project moved through its different development stages. The State now believes that it is time to exercise an off ramp before December 31, 2015, and terminate its relationship with TransCanada.

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<sup>1</sup> The State also has a third option: exercise its option to acquire 40% of the equity of the TransCanada entity that will own the 25% of the AKLNG midstream. This option is not discussed in this primer but in general it has many of the same pros and cons associated with option 2 above, but to a somewhat lesser degree. (*e.g.*, not full voting rights and some limitation on the upfront financial exposure).

## 4.0 Why is Termination of the TC Relationship in the State's Best Interests?

First, it is important to understand a fundamental element of the structure of the SOA's current relationship with TransCanada. Under the current agreement, TransCanada pays the upfront costs related to the AKLNG midstream and the State has a contractual obligation to repay all of TransCanada's internal and project related costs with interest whether or not the Project is completed. The decision is not, whether or not, to pay TransCanada; the decision is whether to pay TransCanada a lower amount now or pay them a much larger amount later. Either way the State will owe payment to TC for holding our portion of the equity in the AKLNG midstream. This fact holds true whether or not the Project goes forward. In other words, the State ultimately bears all the development cost and risk associated with its equity ownership of the Project, regardless of TransCanada's participation.

**ALIGNMENT & VOTING RIGHTS:** Terminating the PA allows the State to better align its voting interest in the Project with its ownership percentage of gas. Currently, the SOA is estimated to receive 25% of the gas from Project; however, with TransCanada's equity participation in the midstream portion of the Project, the SOA only retains 25% equity in the LNG plant. As a result, the SOA's equity participation in the entire project, which determines the weight of voting rights, is only ~12.5% (LNG plant is expected to be approximately 50% of total cost). It should be noted that each of the Producers have alignment between their share of equity and gas in the project and hence the State is the only party currently without this alignment.

Under the current arrangement, TransCanada serves as the SOA's midstream participant in the joint venture agreement and holds the SOA's 25% equity share in the Project midstream. As a result, TransCanada makes decisions that are motivated by creating value for its shareholders, which are sometimes but not always aligned with the long-term interests of the State's shareholders, our citizens. To maintain independence in its control of the midstream segment, TransCanada is expected to require separate voting rights from those of the State for the midstream segment and equal voting rights with respect to AGDC with respect to matters that affect both the midstream and the LNG plant. By removing TransCanada, the SOA would gain voting rights equal to its gas share and have more direct influence over key decisions such as Project budget and schedule for the midstream portion. Importantly, the State would have more direct and timely access to information related to the AKLNG Project midstream

**ECONOMIC BENEFIT:** In addition to the misalignment of equity interest and share of gas in the project, the SOA may also be positioned to lose value in the Project by having TransCanada as an equity participant. The financial participation of TransCanada comes at a borrowing cost of ~7%. The SOA's borrowing costs have historically been lower than TransCanada's ~7% weighted cost of capital and the Department of Revenue (DOR) has opined that, in the future, the SOA's borrowing costs are expected to be lower than TransCanada's for the AKLNG Project. According to Black &

Veatch's report released on September 30, based on DOR's view of the SOA's ability to borrow funds at a lower cost, the SOA could realize up to \$400 million of additional annual net cash flows from the Project (depending on the actual final borrowing costs<sup>2</sup>) by financing the midstream portion of the Project itself. Even if the State experiences a credit downgrade and has a higher cost of capital, it is still expected to achieve higher annual net cash flows without TransCanada.

In other words, once the Project is in operation, the SOA would make a tariff payment to TransCanada that could exceed, by several hundred million dollars per year, the costs that it would otherwise owe to lenders at a lesser rate through direct state ownership. This incremental cost would also create additional risk of needing Legislative appropriations for the State to cover instances in which revenue from its gas sales is insufficient to cover its tariff costs to TransCanada (which will include, in addition to bank financing costs, a component to compensate TransCanada for their equity investment). As described by Black & Veatch's report, with TransCanada, the cost level that the State's revenues need to cover are expected to be as much as \$1/MMBtu higher than without TransCanada.

Additionally, the State's financial advisor, FirstSouthwest believes that a decision to terminate the PA with TransCanada will not, in and of itself, result in a downgrade of the State's credit rating. The State is already committed to pay the costs of TransCanada's involvement in the Project, so the State assuming TransCanada's costs does not increase the State's commitments. To the contrary, as the State's overall debt costs related to the Project are projected to be reduced in light of lower financing costs, the termination should be viewed by the credit ratings agencies as a net positive for the State. While the State may have to come up with funds on an accelerated basis if the agreement with TransCanada is terminated, FirstSouthwest believes that these funding amounts are well within the SOA's ability to raise funds. FirstSouthwest has noted that under both the TransCanada financing option and a State financing option, the State should anticipate a reduction in the State's credit rating during the construction period for the Project while no gas sale revenues are being generated, with the credit rating beginning to recover once gas sale revenues become established. First Southwest further noted that since the credit ratings agencies will consider the TransCanada financing option as being similar to a State debt obligation in their credit analyses, the magnitude of the credit rating reduction should not be greater if TransCanada is terminated, and could instead be mitigated by State financing as noted above.

## 5.0 Why Terminate TC now?

There are several reasons why the Administration believes terminating the PA by December 31, 2015 is the preferred path for the SOA rather than negotiating an extension to a later date.

**MANAGE FINANCIAL RISK:** First, there are significant financial implications to the SOA if the PA is not terminated but the Project does not progress to completion. The benefit from continued

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<sup>2</sup> It should be noted that if the State's borrowing costs are higher than generally presumed, then the additional annual cash flow benefit to terminating the PA with TransCanada could be less than indicated here.

TransCanada involvement stems from the potential reduction in State appropriations during the Project's development phase if indeed the project progresses to completion. This benefit, however, will be entirely eroded and will require even larger State appropriations (reflecting payments to TransCanada for interest and their internal costs) if the Project does not progress to completion. This is because under the PA terms, there is no sharing between the State and TransCanada of project development or construction risks; the State bears these risks in their entirety:

- If the Project is terminated prior to the end of Pre-FEED, then the State will need to reimburse TransCanada for its expenditures to date, plus interest, within the time period established in the PA; a higher interest rate applies if the payment is made later;
- If the Project is terminated during or at the conclusion of FEED the State is expected to owe TransCanada its development costs plus interest, although that would have to be agreed as part of the FTSA;
- If the Project is terminated during construction, the State is expected to owe TransCanada its share of the construction costs plus interest, although that would have to be agreed as part of the FTSA. Assuming that is true, then the SOA's cost responsibility would be higher than it would have been without TransCanada.

Accordingly, any financial value of TransCanada's involvement comes only if the project is indeed brought into operation. Should the project fail, then a very substantial, one-time appropriation would likely need to be assembled very quickly to cover all prior development costs and TransCanada's internal costs, plus associated interest. That appropriation would include not only the funds involved in the currently-requested appropriation for reimbursing TransCanada, but also all such amounts subsequently spent. Finally, borrowing costs at such time would reflect the lender community's knowledge that the State's path to a future revenue-generating gasline project had been halted or delayed; that is, they would likely be higher than they are today.

Put differently, if it assumes full and direct ownership in the Project now, the State today enjoys certain inherent risk mitigation opportunities, in the way of low borrowing costs, should the Project not proceed. Not only are interest rates historically low, but lenders also recognize that the State's finances may be importantly boosted in the future from a successful gasline project. In the event of Project failure at least one, and perhaps both, of these mitigating factors may be absent.

**AVOID BACK-IN RIGHTS:** A second reason for terminating the PA now is that unlike the PA, the proposed FTSA is expected to include a commitment to give "back-in" rights for TransCanada. The back-in right states that within five years of exercising its termination option, if the State participates in a pipeline project to commercialize North Slope gas that is substantially similar to the AKLNG project, the State would need to offer TransCanada an option to participate in the GTP and pipelines of that project under similar terms. Terminating TC's participation now would give the State a clean off-ramp without needing to offer any back-in rights.

**INFLUENCE DESIGN DECISIONS:** Finally, certain key project decisions are slated to be made in the next six months. There is a fundamental difference between the State's and the producers' (and potentially TransCanada's) primary decision criteria for these decisions. By terminating the PA with TransCanada, the State would gain voting rights equal to its gas share and have a more direct

influence over key decisions related to the midstream such as Project budget, schedule and by-product handling. In addition, terminating the PA with TransCanada is expected to facilitate simpler and more efficient resolution of voting rights in AKLNG governance agreements currently being negotiated.

## 6.0 What are the Immediate Implications for State of Alaska?

**FINANCIAL IMPACT:** The most significant impact of terminating the PA with TransCanada will be financial. If the SOA assumes TransCanada's role in the midstream of the Project, then the SOA will also have to assume the upfront cash calls responsibility for a full 25% share of project development and construction costs. If the PA is terminated, the SOA will have to reimburse TransCanada for any direct project payments they've made since January 2014 as well as their related internal management costs and a 7.1% carrying cost. It is estimated that this will total approximately \$70 million through the end of 2015. The additional SOA costs to complete the midstream Pre-FEED work in 2016 would be ~\$61 million per Alaska Gasline Development Company (AGDC) estimates based on AKLNG pre-FEED cost estimates. If the project moves into final construction, the SOA will be responsible for arranging financing of approximately \$13-14.0 billion, or about twice what would have been needed with TransCanada. TransCanada's continued involvement in the project would reduce the SOAs share of direct Midstream financing during development and construction. However, the SOA would still be obligated through the FTSA to ultimately repay TC's capital invested.

**TECHNICAL IMPACT:** A secondary consequence of terminating the PA would be the need to replace the technical expertise that TransCanada provides to the Project. However, the AKLNG Project partners have worldwide experience and the resources to be able to step into the pipeline lead role and associated technical positions currently staffed by TransCanada employees.

Alaska Gasline Development Company (AGDC) has recently completed development of Pre-FEED and FEED for the Alaska Stand Alone Pipeline (ASAP) project, on time and under budget. The AGDC team is available on an interim basis to support the State's interest in a natural gas pipeline from the North Slope. AGDC's technical staff is familiar with Alaska-specific design and construction issues that are critical for AKLNG project success. AGDC assets include the proposed SOA right-of-way (RoW) for most of the pipeline alignment and the Federal land RoWs are expected to be granted in mid-2016. Additionally, AGDC has taken over TC's role of coordinating the AKLNG Parties in the owners' review and guidance on the Federal Energy Regulatory Commission (FERC) National Environmental Policy Act (NEPA) resource report filing for the Project.

**SOURCE OF FINANCING:** Lastly, by terminating the PA with TransCanada, the SOA eliminates a source of funding. As discussed previously, this does not pose a challenge to the SOA's ability to finance their portion of the project. However, if one of the producers decides to withdraw from the Project, having TransCanada as a participant could provide more options to fund the withdrawn producer's portion. It should be noted that depending on the timing of any withdrawal by one of the producers, other partners including potential LNG buyers may be willing to step in and invest in the Project.

## 7.0 Conclusions & Recommendations

The current arrangement with TransCanada was designed to provide the State (and TransCanada) with several off-ramps as the AKLNG Project moved through its different development stages, including an important clean off-ramp for the State in December 2015. The State administration recommends termination of the TransCanada relationship by December 2015 and replacing it with the State's direct participation in the AKLNG midstream. As described in the assessment above, the exercise of this off-ramp is expected to

- create greater alignment and more direct voting rights on key AKLNG issues in return for its investment,
- help the State better manage its obligations for AKLNG midstream costs whether or not the project proceeds, and
- improve the overall economics of the project to the State

**Preliminary Agreements to be Negotiated Should Enabling Legislation Pass**

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Category	Agreement(s)	Signatory/Lead	Counterparty	Execution	Consultation	Legislative Approval
<b>General</b>	AGIA Termination	DNR/DOR	TC	Q2 2014		No
<b>Equity</b>	Equity Option Agreement (EOA)	DNR	TC, AGDC	Q2 2014	DOR	No
	Exercise Equity Option	AGDC	TC	Q4 2015	DOR	Appropriation
	JVA (Pre-FEED) Joint Venture Agreement	AGDC	AKLNG Project Parties	Q2 2014	DNR/DOR	Appropriation
	JVA (FEED) Joint Venture Agreement	AGDC	AKLNG Project Parties	Q1 2016	DNR/DOR	Appropriation
<b>Midstream</b>	Precedent Agreement (PA)	DNR	TC	Q2 2014	DOR	No
	Midstream Services Agreement (FTSA)	DNR	TC	Q4 2015	DOR	Yes
	Liquefaction Services Agreement	DNR	AGDC	Q4 2015	DOR	Yes
<b>Upstream</b>	Lease Modification	DNR	Producer Parties	Q4 2015/FID	DOR	No
	Balancing and Offtake	DNR	Producer Parties	Q4 2015	DOR	Yes
<b>Downstream</b>	Preliminary Marketing/Disposition Agreements	DNR	Individual Producer Party or Other	Q4 2015/FID	DOR/AGDC	Yes
<b>Other</b>	Financing	DOR	TBD	TBD/FID	DNR	Yes - Public Vote?
	Impact Payment & PILT Proposal/Recommendations	DOR	AKLNG Project Parties	Q4 2014	Communities	Yes - Statutory changes to enable
	Sales and Purchase Agreement (SPA)	DNR/Marketer	LNG Buyers	TBD/FID	DOR/AGDC	Yes

Notes:

1. The list may not be inclusive of all the potential agreements necessary to advance the AKLNG Project.
2. "Agreement(s)" can include multiple agreements/contracts.
3. The "consultation" column reflects CS SB 138 fin am

Prepared by Department of Revenue/Department of Natural Resources. Revised 4/3/2014

- UPDATED VERSION W/WHAT'S BEEN EXECUTED, WHAT'S BEEN ADJUSTED/PUSHED BACK?
- ALSO, LIST/MATRIX OF ALL SERVICES CONTRACTS THAT HAVE BEEN LET RE: AKLNG, THUS FAR W/DOLLAR AMOUNTS AND BRIEF SUMMARY OF WORK PRODUCT?

REDACTED

Confidential and Proprietary pursuant to AS 38.05.020(b)(12), a provision of SB 138 (2014).

**ALASKA LNG MIDSTREAM SERVICES  
PRECEDENT AGREEMENT**

**THIS PRECEDENT AGREEMENT** is entered into as of this 9th day of June, 2014 (the “**Effective Date**”).

**PARTIES:**

**TRANSCANADA ALASKA MIDSTREAM LP**  
a Delaware limited partnership (“**Transporter**”)

**AND**

**THE STATE OF ALASKA,**  
acting in its proprietary capacity as owner of the State Gas Share  
 (“**Shipper**”).

**RECITALS:**

- A. On January 14, 2014, TADI, the State, AGDC and Affiliates of the Producer Parties (the “**HOA Parties**”) entered into a Heads of Agreement (“**HOA**”) which outlined the general principles governing the development of the Alaska LNG Project and related matters;
- B. As set forth in the HOA, the Producer Parties desire for the State to participate in the Alaska LNG Project by accepting the State Gas Share, and thereby participating with an ownership interest in the Alaska LNG Project commensurate with the percentage that the State Gas Share represents as a portion of the total natural gas flow from the Point Thomson Unit and the Prudhoe Bay Unit as reflected in the Key Project Agreements (as may be adjusted from time to time in accordance therewith, the “**Shipper Percentage**”), with the intent that the State or its designees will hold a percentage ownership interest in the Alaska LNG Project equal to the Shipper Percentage;
- C. The State selected TADI (now succeeded by its Affiliate, Transporter) to hold (in Transporter’s name) the Shipper Percentage of the equity in the Midstream Facilities of the Alaska LNG Project. Accordingly, on December 12, 2013, TADI, TC Alaska, Foothills (collectively the “**TC MOU Parties**”) and the State entered into a Memorandum of Understanding regarding the Alaska LNG Project, as clarified by the Letter of Clarification to Memorandum of Understanding, executed April 4, 2014 (collectively, the “**MOU**”);
- D. On May 8, 2014, the Enabling Legislation, as defined in the MOU, was signed into law and the provisions relevant to the MOU became effective, which Enabling Legislation is acceptable to the TC MOU Parties and the State;
- E. Pursuant to and in accordance with the MOU, TADI, through Affiliates, formed Transporter to allow Transporter, as TADI’s Affiliate, to acquire a participation interest in the Pre-FEED JVA and the FEED Agreement, and to acquire an equity participation interest in the Midstream Facilities equal to the Shipper Percentage to provide the Services to Shipper (the actual corporate structure of the Alaska LNG Project and Transporter’s equity participation interest in the Midstream Facilities are to be agreed upon by the parties to the Pre-FEED JVA and the State and finalized during the Pre-FEED process);

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- F. In order for the Parties to participate in the Pre-FEED and FEED process and to ultimately participate with the Alaska LNG Parties to make a positive FID in respect of the Midstream Facilities, the Parties acknowledge their mutual interests in furthering the development of the Midstream Facilities as part of the Alaska LNG Project; and
- G. In furtherance of the foregoing, the Parties desire to enter into this PA (which in all respects supersedes and replaces Exhibit C to the MOU) that sets forth the terms upon which the Parties will develop and enter into the FTSA.

NOW THEREFORE the Parties agree as follows:

**ARTICLE 1  
DEFINITIONS AND INTERPRETATION**

**1.1 Definitions**

Whenever used in this PA, capitalized terms used will have the meanings set out in section 1 of Schedule A. The rules of interpretation set out in section 2 of Schedule A will apply to this PA.

**1.2 Schedules**

The schedules to this PA, as listed below, are an integral part of this PA:

<u>Schedule</u>	<u>Description</u>
A	Definitions and Interpretation
B	FTSA Terms
C	Negotiated Rate Principles
D	Creditworthiness Requirements
E	Audit Protocol
F	Transporter Conveyance Mechanics
G	Illustrative FTSA Table of Contents

**ARTICLE 2  
PROJECT DEVELOPMENT PROCESS**

**2.1 Pre-FEED Process and FTSA Development Process**

The Parties agree that the process for development and execution of the FTSA as contemplated by this PA shall proceed in the following manner:

- (a) Promptly following the Effective Date, in the event the Pre-FEED JVA has not been executed, the Parties shall take reasonable commercial steps to finalize the Pre-FEED JVA. Upon agreement upon the terms of the Pre-FEED JVA by the State and the parties thereto (including Transporter), and execution of the Pre-FEED JVA by the Producer Parties and AGDC, Transporter will execute and deliver the Pre-FEED JVA simultaneously with the execution and delivery of the Pre-FEED JVA by the other parties thereto.

Confidential and Proprietary pursuant to AS 38.05.020(b)(12), a provision of SB 138 (2014).

- (b) Commencing promptly following the Effective Date and proceeding with reasonable dispatch, the Parties shall:
  - (i) Negotiate and seek to agree upon the final terms of the FTSA, as described in Section 2.2;
  - (ii) Determine the final contractual and regulatory structure applicable to the Midstream Facilities provision of the Services by Transporter to Shipper and such other shippers in such manner as the Parties may agree, acting reasonably, as described in Section 2.3;
  - (iii) Consult with each other in the establishment of the material provisions pertaining to the development, operation (including access to), and expansion of the Midstream Facilities to be contained in the Key Project Agreements;
  - (iv) Participate in the development of the definitive FEED Agreement and the other Key Project Agreements with a view to advancing the Alaska LNG Project to FEED and to FID; and
  - (v) Upon agreement pursuant to Section 2.2, submit to the State Legislature for approval (1) the FTSA, and (2) the FTSA Legislation, and shall support the approval of the FTSA Legislation.
- (c) Upon satisfaction of the conditions precedent set forth in ARTICLE 3 and provided this PA has not expired pursuant to Section 4.1(a) or been earlier terminated, the Parties shall execute the FTSA.

## 2.2 FTSA Terms

*All of Section 2.2 is commercially sensitive for TransCanada and has been redacted on the basis that the State of Alaska intends to issue a Notice of Termination to TransCanada Alaska Midstream LP once an appropriation to pay TransCanada has been approved. In such case there will be no FTSA and so this Section 2.2 is not relevant.*

## 2.3 Regulatory Strategy and Structure

- (a) Using reasonable efforts with due diligence and good faith, and pursuant to the process in Section 5.2, Transporter and Shipper shall seek to determine the appropriate strategy, in consultation with the appropriate regulatory agencies, where appropriate, in respect of Regulatory Approvals to be obtained by or on behalf of Transporter or Shipper (in their capacities as such) to allow Transporter to provide the Services as contemplated by the FTSA Terms. The strategy shall consider and incorporate, among other things, the appropriate regulatory regime and the terms of any service rules and regulations, if applicable.
- (b) The Parties agree that the intent of any such strategy, regime or regulatory structure is to be consistent with the following:
  - (i) the Pre-Construction Regulatory Approvals process for the Alaska LNG Project as a whole as reflected in the Key Project Agreements, including Article 6 of the HOA;

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- (ii) the process and schedule for (1) the Pre-FEED and FEED processes, (2) FID, and (3) construction and operation of the Midstream Facilities as determined in connection with the Alaska LNG Project as a whole as reflected in the Key Project Agreements; and
  - (iii) the FTSA Terms, the Negotiated Rate Principles, and the Creditworthiness Requirements.
- (c) In any consultation with FERC or other applicable regulatory agency in connection with the foregoing, Transporter will be the lead party for Transporter and Shipper as the primary point of communication with FERC or such other regulatory agency for the provision of Services by Transporter in respect of the Midstream Facilities (in coordination with the Pre-FEED JVA Parties, if necessary), and Shipper may participate in such communications. Nothing herein limits in any way Shipper's ability to meet and discuss issues with FERC or other applicable regulatory agencies in furtherance of its interests, including its interests (i) as a sovereign in its capacity as the State, (ii) as a shipper, and (iii) as an Affiliate of AGDC with respect to the LNG Plant. Transporter and Shipper agree that any such communications and discussions will be consistent with the terms of this PA, including the framework and agreements between the Parties pursuant to this Section 2.3.
- (d) Transporter and Shipper shall coordinate the preparation of the applications to secure the primary Regulatory Approvals in respect of the Services in conjunction with the operation of the Coordination Committee. Shipper expressly agrees to cooperate with the efforts of Transporter to obtain any such Regulatory Approvals sought by Transporter pursuant to and in accordance with Section 2.3, including providing any information that is reasonably requested by Transporter in preparing applications or prosecuting applications for such Regulatory Approvals. Shipper agrees not to appeal any such Regulatory Approvals which are issued substantially on the terms initially applied for and which are consistent with this PA, the FTSA (and FTSA Terms), the HOA and the Key Project Agreements and those items determined pursuant to Section 2.3(b) for the term of the FTSA and as considered by the Coordination Committee, unless Shipper is of the reasonable opinion that any provision or condition of such Regulatory Approvals which varies from or is in addition to the provisions or conditions initially applied for may have a material adverse effect on Shipper.

**2.4 Creditworthiness Requirements**

- (a) During the term of this PA and the term of the FTSA, Shipper shall establish and maintain its creditworthiness in accordance with the Creditworthiness Requirements.
- (b) Immediately prior to (i) execution of the FTSA, and (ii) FID, as reasonably requested by Shipper, Transporter shall demonstrate to Shipper's reasonable satisfaction that Transporter has provided (or is capable of providing) any required financial assurances in accordance with the Key Project Agreements.

**2.5 State Shipper Requirements**

For greater certainty for purposes of this PA and the FTSA (including the FTSA Terms), the following provisions shall only apply to Shipper where Shipper is the State Shipper: Section 2.3 (Regulatory Strategy and Structure), Section 4.4 (Conveyance of Transporter Alaska LNG Project Interest to Shipper), Section

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5.1 (Alaska LNG Project Information), Section 5.2 (Coordination Committee), Section 5.3 (Development Costs Approval), parts 4 and 5 of Schedule B (Buy-Back Right and Put Option), parts 17-19 of Schedule B (Expansions), and Schedule F (Transporter Conveyance Mechanics).

### ARTICLE 3 CONDITIONS PRECEDENT

#### 3.1 Shipper's Conditions Precedent

Shipper's obligation to execute the FTSA is subject to the satisfaction or written waiver (in its sole discretion) of the following conditions precedent within the time frames specified (each, a "**Shipper Condition**"):

- (a) **FTSA Legislation:** on or before the FTSA Decision Date the FTSA Legislation has become effective on terms satisfactory to Shipper in its sole discretion;
- (b) **Key Project Agreements:** the State and the Producer Parties shall have negotiated Key Project Agreements that, in Shipper's sole discretion, are sufficient for Shipper to make a State Gas Share determination; and
- (c) **Transporter Performance under this PA:**
  - (i) a Default Event of Transporter shall not have occurred and remain uncured; and
  - (ii) Shipper has received evidence (satisfactory to Shipper in its sole discretion) that Transporter has satisfied or waived the Transporter Conditions; and

The conditions precedent stated in this Section 3.1 are included for the sole benefit of Shipper and may only be waived by Shipper. Subject to Shipper's obligations in respect of the Termination Amount pursuant to Section 4.3, Shipper shall have no other liability whatsoever to Transporter in the event that any or all of the Shipper Conditions are not satisfied.

#### 3.2 Transporter's Conditions Precedent

Transporter's obligation to enter into the FTSA is subject to the satisfaction or express waiver (in its sole discretion) of the following conditions precedent within the time frames specified (each, a "**Transporter Condition**"):

- (a) **FTSA Legislation:** on or before the FTSA Decision Date the FTSA Legislation has become effective on terms satisfactory to Transporter in its sole discretion;
- (b) **Shipper Performance under this PA:**
  - (i) a Default Event of Shipper shall not have occurred and remain uncured (including in respect of the Creditworthiness Requirements); and
  - (ii) Transporter shall have received evidence (satisfactory to Transporter in its sole discretion) that Shipper has satisfied or has waived the Shipper Conditions.

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The conditions precedent stated in this Section 3.2 are included for the sole benefit of Transporter and may only be waived by Transporter. Transporter shall have no liability whatsoever to Shipper in the event that any or all of the Transporter Conditions are not satisfied.

#### ARTICLE 4 TERM AND TERMINATION

##### 4.1 Term

The PA shall become effective as of the Effective Date and shall remain in effect, subject to Shipper's or Transporter's exercise of rights pursuant to Section 4.2 until the earliest to occur of the following (the "**Expiry Date**") (at which time this PA shall expire automatically without further action by either of the Parties):

- (a) the date that is one day prior to the second anniversary of the Effective Date; and
- (b) the Parties' execution of the FTSA, which, by its terms, will supersede and replace this PA.

##### 4.2 Termination

This PA may be terminated prior to the Expiry Date as follows:

- (a) **Termination by Shipper:** Upon the delivery by Shipper to Transporter of a Notice of termination in the event that:
  - (i) the term(s) of the Key Project Agreements to which Shipper or its Affiliate is a party, is/are not acceptable to Shipper in its sole discretion;
  - (ii) each of (1) AGDC, (2) Transporter, and (3) one or more of the Producer Parties, have not executed the Pre-FEED JVA on or before November 30, 2014, or such later date agreed to by the Parties;
  - (iii) on or before the FTSA Decision Date, Transporter fails to execute the FTSA (including failure by the Parties to agree to the terms of the FTSA);
  - (iv) prior to a positive FEED Decision, Shipper elects, in its sole discretion, to terminate 90 days from providing Notice of termination to Transporter;
  - (v) any final Regulatory Approvals include material unacceptable condition(s) or requirement(s) to Shipper in its sole discretion, provided that such Notice is delivered within 90 days from the date of issuance of such Regulatory Approval;
  - (vi) the Pre-FEED JVA is (1) terminated prior to the expiry of the Pre-FEED JVA for any reason other than entry into the FEED Agreement, or (2) expires without a FEED Decision;
  - (vii) Transporter withdraws from the Pre-FEED JVA;
  - (viii) Any one or more of the Shipper Conditions have not been satisfied or waived within the time frame specified (or such later date as Shipper may agree), or if no time frame is specified, on or before the FTSA Decision Date; or

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- (ix) a Default Event of Transporter occurs, as set out in Section 6.1.
- (b) **Termination by Transporter:** Upon delivery by Transporter to Shipper of a Notice of termination in the event that:
  - (i) the term(s) of the Key Project Agreements to which Transporter or its Affiliate is a party, is/are not acceptable to Transporter in its sole discretion;
  - (ii) each of (1) AGDC, (2) Transporter, and (3) one or more of the Producer Parties, have not executed the Pre-FEED JVA on or before November 30, 2014, or such later date agreed to by the Parties;
  - (iii) on or before the FTSA Decision Date, Shipper fails to execute the FTSA (including failure by the Parties to agree to the terms of the FTSA);
  - (iv) any final Regulatory Approvals include material unacceptable condition(s) or requirement(s) to Transporter in its sole discretion, provided that such Notice is delivered within 90 days from the date of issuance of such Regulatory Approval;
  - (v) the Pre-FEED JVA is (1) terminated prior to the expiry of the Pre-FEED JVA for any reason other than entry into the FEED Agreement, or (2) expires without a FEED Decision;
  - (vi) any one or more of the Transporter Conditions have not been satisfied or waived within the time frame specified (or such later date as Transporter may agree), or if no time frame is specified, on or before the FTSA Decision Date; or
  - (vii) upon the occurrence of any of the following:
    - 1) Shipper fails to approve a Revised Transporter Estimate pursuant to Section 5.3(b)(iii);
    - 2) a Default Event of Shipper occurs, as set out in Section 6.3; or
    - 3) Transporter provides Notice to Shipper of its intent to terminate this PA pursuant to Section 7.4(d).

#### 4.3 Payment of Termination Amount

- (a) In the event of (i) expiry of this PA pursuant to Section 4.1(a), or (ii) termination of this PA for any reason pursuant to Section 4.2, Shipper shall pay Transporter an amount equal to the Development Costs for the period up to and including the Termination Date. (collectively, all amounts calculated pursuant to and in accordance with this Section 4.3(a) are the "**Development Cost Amount**").
- (b) If this PA:
  - (i) expires pursuant to Section 4.1(a);
  - (ii) is terminated pursuant to Section 4.2 as a result of any of the following events:

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- 1) by Shipper pursuant to Section 4.2(a) (except in the event of a Default Event of Transporter pursuant to Section 4.2(a)(ix));
- 2) by Transporter pursuant to (A) Section 4.2(b)(vii) (Shipper-initiated Transporter termination), or (B) Section 4.2(b)(vi) resulting from a failure of the Transporter Condition in Section 3.2(a) (FTSA Legislation) or Section 3.2(b) (Shipper Performance), then

in addition to the Development Cost Amount, Shipper shall further pay interest to Transporter calculated in accordance with the Carrying Cost Calculation (collectively, all amounts payable by Shipper to Transporter as calculated pursuant to Section 4.3(a) and this Section 4.3(b) are the "**Termination Amount**").

- (c) Upon delivery of a Notice of termination for a termination event described in Section 4.3(a):
  - (i) Transporter shall deliver to Shipper within 30 days a final report of the Termination Amount as of the Termination Date, together with reasonable supporting documentation thereof (collectively, "**Termination Amount Notice**").
  - (ii) Upon request by Shipper (and no later than 10 days following receipt of such request), Transporter must provide information reasonably requested by Shipper concerning specific elements forming part of the Development Costs as part of Termination Amount, including supporting documentation and justification.
  - (iii) Not later than 30 days following receipt of the Termination Amount Notice, Shipper shall either (1) pay the Termination Amount, or (2) provide Notice to Transporter in reasonable detail of any objection to the Termination Amount, identifying those amounts forming part of the Termination Amount objected to and presenting an alternate Termination Amount (the "**Termination Amount Objection**"). For greater certainty, Shipper shall be restricted from objecting to any amounts forming part of the Termination Amount that have been deemed to be Prudent Costs pursuant to the terms of this PA.
  - (iv) If Shipper has delivered a Termination Amount Objection and the Parties fail to agree upon the Termination Amount within 5 Business Days following Transporter's receipt of the Termination Amount Objection, then either Party may provide Notice to the other of its intent to commence the Dispute Resolution Procedure in respect of such Dispute, and
    - 1) Shipper shall make payment in full of the Termination Amount as specified in the Termination Amount Notice within 5 Business Days of the Notice of intent to commence the Dispute Resolution Procedure; and
    - 2) Transporter shall be entitled to receive and retain all undisputed portions of the Termination Amount, and any disputed amounts of the Termination Amount shall be paid into escrow in a trust account pending resolution of the Dispute pursuant to the Dispute Resolution Procedure. Upon resolution of the disputed portion of the Termination Amount, Transporter shall: (i) return such part of the disputed portion to the Shipper in the amount

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ultimately resolved in its favor, and/or (ii) transfer such part of such disputed portion to Transporter in the amount ultimately resolved in its favor. Interest earned on the Trust account shall be distributed *pro rata* with the distribution of the disputed amount as ultimately resolved.

- (v) Shipper shall pay interest at a rate of interest equal to the Agreed Interest Rate, on any amount outstanding after the payment due date pursuant to this Section 4.3(c), commencing on either:
  - 1) where this PA has been terminated by Transporter pursuant to Section 4.2(b), on the date that is 90 days after such payment due date (provided that interest shall continue to accrue on the outstanding amounts at an annual rate of interest equal to 7.1% compounded monthly and accruing daily prior to such 90<sup>th</sup> day); and
  - 2) in all other instances, on such payment due date.
- (d) Shipper's obligation to reimburse Transporter for the Termination Amount and pay Transporter any interest amounts payable pursuant to this Section 4.3 shall be Transporter's exclusive remedy in law and equity in the event this PA expires or terminates; provided however, in the event that Transporter is unable to enforce such obligation of Shipper, Transporter shall be entitled to assert all claims available to it at law or in equity to recover the Termination Amount. Subject to the foregoing, nothing herein is intended to affect Transporter's rights under Section 6.4 governing a Default Event of Shipper.
- (e) Shipper covenants that it will make all required appropriations requests from the Alaska Legislature in respect of the Termination Amount and take all reasonable commercial efforts to have all such appropriation requests approved by the Alaska Legislature.
- (f) Shipper's obligation to make payments pursuant to this Section 4.3 shall survive any expiration or termination of this PA until all such amounts owed by Shipper have been paid in full.

#### **4.4 Conveyance of Transporter Alaska LNG Project Interest to Shipper**

Upon a Termination Event and payment in full to Transporter of the Termination Amount and any interest amounts payable pursuant to Section 4.3, Transporter shall convey (or shall cause to be conveyed) the interests to Shipper (or its designee Affiliate) in accordance with the Transporter Conveyance Mechanics.

#### **4.5 Survival**

In the event this PA expires pursuant to Section 4.1(a) or is terminated pursuant to Section 4.2, the following Sections shall survive and shall continue to be of full force and effect for such period as necessary to give effect thereto: Article 1 (Definitions and Interpretation), Section 4.3 (Development Cost Reimbursement), Section 4.4 (Conveyance of Transporter Alaska LNG Project Interest to Shipper), Section 7.2 (Limitation of Liability), Section 7.1 (Confidentiality Agreement), Section 7.6 (Governing Law) and Section 7.7 (Dispute Resolution).

**ARTICLE 5**  
**PROJECT DEVELOPMENT COOPERATION**

**5.1 Alaska LNG Project Information**

- (a) In order to provide timely access to Shipper to material and relevant information relating to the development of the Midstream Facilities (collectively, "**Project Information**"), including (1) draft Key Project Agreements to which Transporter is or will be a Party, (2) information relating to all activities, design basis, and regulatory progress, and (3) quarterly progress reports including spend to date and schedule updates, that Transporter receives in its capacity as an equity participant in the Alaska LNG Project, Transporter will provide Shipper with the Project Information in a manner mutually agreeable to both Parties. Notwithstanding the foregoing, Transporter's obligation to include specific Project Information (and Shipper access to such Project Information) shall be subject to (and limited by) Governmental Requirements and any confidentiality restrictions contained in the applicable Project Agreements to which Transporter is a Party.
- (b) Shipper use of any information provided pursuant this Section 5.1 shall be subject to any confidentiality restrictions arising from Section 7.1 and the Project Agreement(s) to which such information arises.

**5.2 Coordination Committee**

- (a) To provide for the overall supervision and direction of, and strategic guidance with respect to, the development of the Midstream Facilities and the matters described in Section 2.1, a coordination committee shall be established and maintained during the term of this PA (the "**Coordination Committee**").
- (b) The Coordination Committee will consist of at least two representatives of each Party (as designated by Notice to the other Party, each such designated representative for a Party, a "**Nominee**"). The Nominees, acting reasonably, will seek to reach consensus on all decisions, directions and other matters on which the Coordination Committee takes action under this PA.
- (c) The Coordination Committee shall meet at agreed upon times (not less than once per month for the period prior to FID, and not less than quarterly thereafter) to carry out its mandate. The Parties will work to schedule such meetings prior to each meeting of a Key Project Agreement governing body meeting concerning the Midstream Facilities or Integrated Matters, to determine whether the Parties have, or can reach, a common position on issues to be addressed at such governing body meetings (including in respect of any WP&B as contemplated by Section 5.3(a)). The agenda for any Coordination Committee meeting shall be distributed to the Nominees in advance of any such meeting. At the time of a meeting, items may be added to the agenda for that meeting only as the Coordination Committee may approve. All meetings shall be held at locations to be agreed upon by the Nominees and such meetings may be held by video conference or teleconference, as proposed by a Party by Notice to the other Party.
- (d) To the extent any issues relating to Project Information (not including WP&B approval pursuant to Section 5.3(a)) have not been resolved to Shipper's satisfaction at the applicable meeting of the Coordination Committee, then upon Notice from Shipper of any

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remaining concerns with any Project Information, Transporter will act in good faith to raise and seek to resolve Shipper's concern through the applicable various committees established pursuant to the Key Project Agreements to which Transporter is a Party. Should Shipper's concern still not be resolved to Shipper's satisfaction, then Transporter will consider Shipper's outstanding concern when exercising its voting discretion on related matters before such committees. Transporter will advise the Shipper of its position with respect to the outstanding Shipper concern prior to any such vote.

### 5.3 Development Costs Approval

(a) *AKLNG Development Costs:*

- (i) On a timely basis after receipt thereof by Transporter pursuant to the Pre-FEED JVA or the FEED Agreement (as applicable), Transporter will provide Shipper with Notice of the then-applicable WP&B including a copy of the proposed WP&B ("**WP&B Notice**") for Shipper review and approval of the proposed WP&B. The WP&B Notice shall include reference to the date for approval or rejection of such WP&B by Transporter ("**WP&B Decision Date**") in its capacity as equity or participating interest holder in the Midstream Facilities in accordance with the established WP&B approval protocol in the applicable Key Project Agreements, including the Pre-FEED JVA and the FEED Agreement. The Parties acknowledge that the initial WP&B for the Pre-FEED JVA [REDACTED] is deemed to be approved by Shipper.
- (ii) Not later than five (5) Business Days prior to the WP&B Decision Date (the "**Shipper Decision Date**") Shipper shall provide Transporter with Notice ("**Shipper WP&B Notice**") of its determination whether such WP&B should be approved or rejected by Transporter, together with, in the case of rejection, supporting reasons for such rejection.
- (iii) If Shipper has provided Transporter with the Shipper WP&B Notice by the Shipper Decision Date, Transporter shall vote (as part of the approval process under the applicable Key Project Agreement) in accordance with the election of Shipper contained in the Shipper WP&B Notice. If the Shipper WP&B Notice indicates a rejection of such WP&B, Transporter shall raise the concern described in the Shipper WP&B Notice in connection with the exercise of such vote.
- (iv) In the event Shipper does not provide the Shipper WP&B Notice to Transporter by the Shipper Decision Date, Transporter shall be entitled to exercise its vote whether to approve or reject such WP&B in its sole discretion.
- (v) Notwithstanding Section 5.3(a)(iii), Transporter shall not be obliged to vote not to approve a WP&B where Shipper has elected to reject such WP&B if failure by Transporter to approve such WP&B would result (or be reasonably likely to result) in either a breach by, or default of, Transporter of the applicable agreement giving rise to the WP&B or an acceleration of any material obligations of Transporter pursuant to such agreement.

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(b) *Transporter Development Costs:*

- (i) Promptly following the Effective Date and not later than ["120 days following the Effective Date" charged to "November 18, 2014" by amendment], the Parties shall agree upon a budget (including contingencies and applicable allocations of overhead components) for Transporter Development Costs for the period from the Effective Date to the Expiry Date (the total agreed budgeted amount is the "**Transporter Authorized Amount**"). Upon such agreement, Shipper acknowledges and accepts that the Transporter Authorized Amount is not a firm estimate, quotation or price, but only an estimate of the Transporter Development Costs to such date.
- (ii) If at any time Transporter reasonably anticipates that the Transporter Authorized Amount in effect at such time will be exceeded, Transporter shall provide Notice to Shipper containing reasonable details of such anticipated additional expenditures and its revised estimate in respect of the total Transporter Authorized Amount (the "**Revised Transporter Estimate**"). Transporter shall provide, upon the reasonable request of Shipper, such additional details and information as may be reasonably required in respect of such Revised Transporter Estimate.
- (iii) Shipper shall provide Notice to Transporter within ten (10) Business Days of its receipt of a Revised Transporter Estimate whether it approves or rejects the Revised Transporter Estimate. Upon approval of a Revised Transporter Estimate (as may be amended by agreement of the Parties), such Revised Transporter Estimate shall constitute the Transporter Authorized Amount unless and until further revised in accordance with this Section 5.3(b). If Shipper fails to approve a Revised Transporter Estimate within such time frame, Transporter shall have a right to terminate this PA in accordance with Section 4.2(b)(vii)1).
- (iv) Nothing contained in this Section 5.3(b) shall restrict Transporter's rights to make expenditures necessary and proper for the protection of life, health, the environment and property in the case of an emergency without Shipper's approval; provided, however, that Transporter shall immediately notify Shipper of the details of such emergency, the measures taken and the estimated costs. All such actual costs shall constitute part of the Transporter Authorized Amount in addition to the Transporter Authorized Amount in effect at such time (subject to audit in accordance with the Audit Protocol).

(c) *Prudent Costs:* All costs and expenses that have actually been incurred and that are:

- (i) approved or deemed approved by Shipper or any Affiliate pursuant to this Section 5.3 (including any portion forming part of the Transporter Authorized Amount); or
- (ii) pursuant to or in connection with a WP&B approved by the applicable Alaska LNG Parties (and in effect) under any Key Project Agreement (including where Transporter has voted to reject such WP&B pursuant to Section 5.3(a)(iii)),

shall be Prudent Costs for all purposes under this PA and the FTSA.

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## ARTICLE 6 EVENTS OF DEFAULT

### 6.1 Default Events of Transporter

The following constitute Default Events of Transporter for the purposes of this PA:

- (a) an Insolvency Event occurs in relation to Transporter (unless any such Insolvency Event was caused, directly or indirectly, by a failure on the part of Shipper or any Affiliate of Shipper as a Limited Partner of Transporter to advance funds in connection with a cash call related to a requirement to advance funds under a Project Agreement); and
- (b) Transporter defaults in the performance or observance of any material covenant, obligation or condition to be observed or performed by it pursuant to this PA and does not remedy such default (if reasonably remediable) within 30 days of having received a default Notice advising Transporter to do so from Shipper or if not reasonably remediable within such 30-day period, fails to commence to remedy within such 30-day period and thereafter to proceed diligently and as expeditiously as possible to do so within a reasonable schedule agreed to by Shipper, acting reasonably.

### 6.2 Shipper Remedies

If a Default Event of Transporter occurs, Shipper may pursue such remedies available to it at law or in equity, including for direct damages suffered by Shipper, injunctive relief and specific performance, as appropriate.

### 6.3 Default Events of Shipper

The following constitute Default Events of Shipper for the purposes of this PA:

- (a) an Insolvency Event occurs in relation to Shipper or its Credit Support Provider;
- (b) Shipper fails to maintain the Creditworthiness Requirements and fails to remedy such default within the relevant time frame specified in paragraph 5 of Schedule D; and
- (c) Shipper defaults in the performance or observance of any other material covenant, obligation or condition to be observed or performed by Shipper pursuant to this PA and does not remedy such default (if reasonably remediable) within 30 days of having received a Default Notice from Transporter advising Shipper to do so, or if not reasonably remediable within such 30-day period, fails to commence to remedy within such 30-day period and thereafter to proceed diligently and as expeditiously as possible to do so within a reasonable schedule agreed to by Transporter, acting reasonably.

### 6.4 Transporter Remedies

If a Default Event of Shipper occurs, subject to the limitations contained in Section 4.3(d) in respect of payment of the Termination Amount upon expiration or termination of this PA, Transporter may pursue

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such remedies available to it at law or in equity, including for direct damages suffered by Transporter, injunctive relief and specific performance, as appropriate.

## ARTICLE 7 MISCELLANEOUS

### 7.1 Confidentiality Agreement

Except to the extent expressly set forth to the contrary herein, this PA and all information generated and/or exchanged by the Parties pursuant to this PA shall be deemed to be Confidential Information subject in all respects to the Confidentiality Agreement, and all matters relating to this PA fall within the scope of "Discussions" as defined in the Confidentiality Agreement. The provisions of this Section 7.1 shall survive the termination of this PA and the assignment by a Party and its Affiliates of all of their interests in this PA prior to termination of this PA for the period specified in the Confidentiality Agreement.

### 7.2 Limitation of Liability

- (a) Under no circumstances shall:
  - (i) Transporter and its Affiliates and their respective directors, stockholders, officers, employees, agents, consultants, representatives, successors, transferees and assigns, or
  - (ii) Shipper and its Affiliates and their respective directors, stockholders, officers, employees, agents, consultants, representatives, successors, transferees and assigns,

be liable to the other Party (or any other Person claiming by through or under such other Party) for any Consequential Losses.

- (b) Transporter (and its Affiliates and their respective directors, stockholders, officers, employees, agents, consultants, representatives, successors, transferees and assigns) is not liable to Shipper (and its Affiliates and their respective directors, stockholders, officers, employees, agents, consultants, representatives, successors, transferees and assigns) for any Losses (howsoever caused and whether contractual or tortious), asserted against or suffered or incurred by the Shipper (or its Affiliates and their respective directors, stockholders, officers, employees, agents, consultants, representatives, successors, transferees and assigns), or any of them, except and to the extent that such Losses are caused by Gross Negligence or Wilful Misconduct, subject to any applicable restrictions binding upon Shipper under Alaska law as of the Effective Date in relation to any agreements surrounding the foregoing.

### 7.3 Mutual Representations and Warranties

Each Party represents and warrants to the other Party that:

- (a) **Organization, Qualification, and Corporate Power:** In the case of Transporter, it is duly organized or formed, validly existing, and in good standing under the laws of the jurisdiction of its organization or formation, and has all requisite power and authority to

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own, lease, and operate its assets and to carry on its businesses as they are now being conducted.

- (b) **Authorization of Transactions; Validity and Enforceability:** It has all requisite power and authority to enter into this PA, to perform its obligations hereunder, and to consummate the transactions contemplated hereby. The execution, delivery, and performance by it of this PA and the consummation by it of the transactions contemplated by this PA have been duly authorized by all necessary statutory, administrative, or corporate or partnership action or other action (as applicable) on the part of it. This PA has been duly executed and delivered by such Party. and, assuming the due authorization, execution, and delivery hereof by the other Party, constitutes a legal, valid, and binding obligation of it enforceable against it in accordance with its terms, except as such enforceability may be affected by: (i) applicable bankruptcy, reorganization, insolvency, moratorium, and other laws and court decisions of general application, including statutory and other laws regarding fraudulent or preferential transfers relating to, limiting, or affecting the enforcement of creditors' rights generally; and (ii) general principles of equity, including the effect of such general principles of equity upon the specific enforceability of any of the remedies, covenants, or other provisions contained herein and therein, and their application (regardless of whether enforcement is considered in a proceeding at law or in equity) as such principles relate to, limit, or affect the enforcement of creditors' rights generally, and provided that Transporter makes no representation and warranty as to the effect of Chapter 14 SLA 14 (also known as Senate Bill 138).
- (c) **Non-contravention; Consents and Approvals:** The execution and delivery by it of this PA, the consummation of the transactions contemplated by this PA, and the performance of the obligations of such Party hereunder will not conflict with, or result in any violation of or default under, any provision of any governing instrument applicable to such Party, or any agreement or other instrument to which such Party is a party or by which such Party (and in the case of a partnership each of its partners) or any of its assets is bound, or any Governmental Requirement or other law applicable to such Party, its assets, or to this PA.

#### 7.4 Discriminatory Changes in Law

- (a) If the State enacts or amends (or is proposing to enact or amend) any Governmental Requirement in such a manner as to create a discriminatory adverse effect on Transporter (including any discriminatory adverse change to or effect on the assets, business operations or financial condition of the Transporter or its Affiliates) or any Midstream Facility (a "**Discriminatory Change in Law**"), then either Party may provide Notice to the other to express an opinion on its likely effects, giving details of its opinion of:
  - (i) any necessary change in the Services;
  - (ii) whether any changes are likely or required to the terms of this PA or the FTSA to deal with the effects of the Discriminatory Change in Law; and
  - (iii) whether relief from compliance with obligations is required during the implementation of any relevant Discriminatory Change in Law, including any loss of revenue or increase in costs (including Development Costs) that will result from the relevant Discriminatory Change in Law.

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- (b) As soon as practicable after receipt of any Notice pursuant to Section 7.4(a) from either Party, the Parties shall discuss the issues referred to in such Notice and:
  - (i) any ways in which Transporter can mitigate the effect of the Discriminatory Change of Law; and
  - (ii) the Parties will diligently and in good faith seek to renegotiate the terms of this PA and/or the FTSA to comply with such Discriminatory Change of Law and in accordance with the initial expectations of the Parties under this PA; provided, however, that the Parties recognize that discussion of the issues referred to in such Notice shall not constitute an admission by either Party that (i) there has been a Discriminatory Change in Law, or (ii) that a Party has an obligation to amend this PA.
  
- (c) Upon the occurrence of the Discriminatory Change in Law and subject to Transporter's reasonable commercial efforts to mitigate such Discriminatory Change in Law, and failing agreement of the Parties under Section 7.4(b)(ii) as to any modifications to this PA and/or the FTSA, then to the extent that:
  - (i) such Discriminatory Change of Law prevents Transporter from complying with any of its obligations under this PA or the FTSA, such failure to comply with that obligation shall be deemed not to be a breach of the applicable agreement;
  - (ii) as a non-remote result of the Discriminatory Change in Law:
    - 1) there is any increase in costs borne by Transporter in connection with the Midstream Facilities that would not otherwise be included in the Annual Reservation Charge as Annual Fixed O&M Expenses or Taxes Other Than Income Taxes in accordance with the Negotiated Rate Principles contained in Schedule C, then from and after the effective date of such Discriminatory Change in Law, such increased costs shall be incorporated into the Annual Reservation Charge to the account of Shipper; and
    - 2) any capital modifications are required to be made to any of the Midstream Facilities, the associated costs shall be borne by Shipper as an incremental capital cost in accordance with the Negotiated Rate Principles.

For greater certainty, such incremental costs shall be subject to audit in accordance with the Audit Protocol.
  
- (d) If Transporter reasonably determines that a Discriminatory Change of Law has occurred and its rights (including reasonable economic expectations) have been materially adversely effected that cannot be mitigated on reasonable commercial terms pursuant to Section 7.4(c), then Transporter shall have the right to terminate this PA pursuant to Section 4.2(b)(vii)3, or the FTSA pursuant to the equivalent provisions thereof.

**7.5 Notices**

- (a) Whenever this PA requires or permits any notice (each, a "Notice") to be given to any Party or any other Person, such Notice must be in writing and must be delivered in person

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or by courier or electronic mail. A Notice will be deemed given when the Person to which it is addressed receives it; provided, however, that electronic mail if sent with an automatic delivery receipt received and retained which is transmitted after the normal business hours of the recipient will be deemed given on the next Business Day unless the recipient has in fact acknowledged its earlier receipt. All Notices to a Party must, if not delivered in person, be sent to the address for that Party which Section 7.5(b) specifies or at such other address as that Party has specified by Notice to the other Party. Oral communication does not constitute Notice for purposes of this PA, and telephone numbers for the Parties are listed below as a matter of convenience only.

- (b) This Section 7.5(b) includes initial contact information, including e-mail addresses and telephone numbers, for each Party. A Party may change its contact information from time to time by Notice to the other Party.

**Transporter**

Address: c/o TransCanada Alaska GP Inc.  
450 – 1<sup>st</sup> Street SW  
Calgary, AB T2P 5H1  
Canada

Attention: President

Telephone No. 832-320-5655  
E-mail Address [dean\\_patry@transcanada.com](mailto:dean_patry@transcanada.com)

with a copy to:

Address: 717 Texas Street, Suite 2400  
Houston, TX 77002

Attention: Corporate Secretarial

Telephone No. 832-320-5201  
E-mail Address [jon\\_dobson@transcanada.com](mailto:jon_dobson@transcanada.com)

**Shipper**

Address: State of Alaska  
Department of Natural Resources  
550 W. 7th. Avenue, Suite 1400  
Anchorage, AK 99501

Attention: Commissioner Joe Balash

Telephone No. 907-269-8431  
E-mail Address [joe.balash@alaska.gov](mailto:joe.balash@alaska.gov)

Whenever any Notice is required to be given under the provisions of this PA, a waiver thereof in writing signed by the Person or Persons entitled to receive that Notice, whether before or after the time stated therein, will be equivalent to the giving of that Notice.

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## 7.6 Governing Law

This PA and all Disputes arising under this PA shall be governed by and construed in accordance with the laws of the State of Alaska, without regard to the conflicts of law principles thereof, and the federal laws applicable therein.

## 7.7 Dispute Resolution

- (a) All Disputes shall be referred to the Senior Executives of the Parties, upon which:
  - (i) the Senior Executives representing the Parties shall meet within five (5) days of submission of the Dispute at a mutually acceptable time and place to exchange relevant information in an attempt to resolve the Dispute;
  - (ii) if a Senior Executive intends to be accompanied at the meeting by any other Person, the other Party's Senior Executive shall be notified of such intention at least three (3) Business Days in advance of the meeting and may also be accompanied to the meeting by another Person, provided that the maximum number of Persons from each Party shall be limited to three (3) including the Senior Executive;
  - (iii) all Persons (other than the Senior Executive) shall attend the meetings only as advisors to the Senior Executive they accompany; and
  - (iv) the Parties shall cause their respective Senior Executives to work together diligently and in good faith with the objective to resolve any Disputes consistent with the principles of this PA as soon as reasonably practicable.
- (b) Any and all Disputes not resolved by the Senior Executives shall be resolved in accordance with the following:
  - (i) Jurisdiction. Each of the Parties irrevocably agrees that any legal action, suit or proceeding arising out of or relating to this PA brought by any Party or its successors or assigns shall be brought and determined in the state courts of the State of Alaska, except that claims which are in the exclusive jurisdiction of the federal courts may be brought and determined in federal court in Alaska, and each of the Parties hereby irrevocably submits to the exclusive jurisdiction of the aforesaid courts for itself and with respect to its property, generally and unconditionally, with regard to any such proceeding arising out of or relating to this PA or the transactions contemplated by this PA. Each of the Parties agrees not to commence any proceeding relating to this PA except in the courts described above in Alaska, other than proceedings in any court of competent jurisdiction to enforce any judgment, decree or award rendered by any such court in Alaska as described herein. Each of the Parties further agrees that Notice as provided in Section 7.5 shall constitute sufficient service of process and the Parties further waive any argument that such service is insufficient. Each of the Parties hereby irrevocably and unconditionally waives, and agrees not to assert, by way of motion or as a defense, counterclaim or otherwise, in any proceeding arising out of or relating to this PA or the transactions contemplated by this PA, (i) any claim that it is not personally subject to the jurisdiction of the courts in Alaska as described

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herein for any reason, (ii) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) and (iii) that (A) the proceeding in any such court is brought in an inconvenient forum, (B) the venue of such proceeding is improper or (C) this PA, or the subject matter hereof, may not be enforced in or by such courts.

- (ii) WAIVER OF JURY TRIAL. EACH PARTY HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS PA OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (II) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS PA BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 7.7(b).
- (iii) Confidentiality. To the extent permitted by law, all negotiations, mediation and court determinations relating to a Dispute (including a settlement resulting from negotiation or mediation, a court order, documents exchanged or produced during a mediation or legal proceeding, and memorials, briefs or other documents prepared for any Dispute resolution) are confidential and may not be disclosed by the Parties, their Affiliates, and their respective employees, officers, directors, counsel, consultants, and expert witnesses, except (in accordance with Section 7.1) to the extent necessary to enforce this Section 7.7 or any court order, to enforce other rights of a Party, or as required by law or applicable securities exchange or securities commission; provided, however, that unintentional breach of this confidentiality provision shall not void any settlement or award.
- (iv) Costs of Dispute. Each Party shall bear its own expenses and costs incurred in connection with the proceedings, including attorneys' fees with respect to any Dispute.

## 7.8 Assignment

- (a) Shipper may only assign its rights and obligations under this PA and the FTSA with Transporter's consent (not to be unreasonably withheld), provided the assignee assumes in writing such rights and obligations on terms and conditions satisfactory to Transporter, including meeting and maintaining the Creditworthiness Requirements.
- (b) Where a proposed transferee of Shipper's interest pursuant to Section 7.8(a):
  - (i) is the State (or an Affiliate or agency thereof) and AS 09.50.250 – AS 09.50.280 has been repealed or amended in a manner such that the proposed transferee has or

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may have a right to claim sovereign immunity for any matters arising out of this PA or the FTSA, or

- (ii) is a government entity (or an Affiliate or agency thereof) other than the State or an Affiliate or agency thereof that now or hereafter has a right to claim sovereign immunity for itself or any of its assets,

then it shall be a condition precedent to the effectiveness of an assignment pursuant to this Section 7.8 (and the equivalent provision of the FTSA) that:

- (iii) the transferee acknowledges that its rights and obligations under this PA and the FTSA are of a commercial and not a governmental nature, and
  - (iv) the transferee waives any current or future immunity to the fullest extent permitted by Governmental Requirements of any applicable jurisdiction for any matters arising out of this PA and the FTSA. This waiver includes immunity from (A) any expert determination, mediation, or arbitration proceeding commenced pursuant to the applicable agreement; (B) any judicial, administrative or other proceedings to aid the expert determination, mediation, or arbitration commenced pursuant to the applicable agreement; and (C) any effort to confirm, enforce, or execute any decision, settlement, award, judgment, service of process, execution order or attachment (including pre-judgment attachment) that results from an expert determination, mediation, arbitration or any judicial or administrative proceedings commenced pursuant to such agreement.
- (c) Transporter may assign its rights and obligations under this PA or the FTSA to an Affiliate either (i) if the Shipper is the State (or an Affiliate of the State), with the prior written consent of Shipper (not to be unreasonably withheld), provided the assignee assumes in writing such rights and obligations on terms and conditions satisfactory to Shipper, or (ii) in all other instances, without the prior written consent of Shipper, provided that timely Notice of its intended assignment is provided to Shipper.
  - (d) Transporter shall not assign its rights or obligations under this PA or FTSA to a non-Affiliate without the prior written consent of Shipper (not to be unreasonably withheld), provided the assignee assumes in writing such rights and obligations on terms and conditions satisfactory to Shipper.

## 7.9 General

- (a) **Binding Effect:** This PA binds, and inures to the benefit of, the Parties and their respective successors (including any successor by reason of amalgamation of any Party) and permitted assigns.
- (b) **Governmental Requirements:** This PA, and the rights and obligations of the Parties under this PA are subject to all valid and applicable Governmental Requirements, except choice of law or conflict-of-laws rules or principles under Section 7.6.
- (c) **Severability:** If, in any jurisdiction, any provision of this PA or its application to any Party or circumstance is restricted, prohibited or unenforceable, such provision shall, as to such jurisdiction, be ineffective only to the extent of such restriction, prohibition or

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unenforceability without invalidating the remaining provisions of this PA and without affecting the validity or enforceability of such provision in any other jurisdiction or without affecting its application to other Parties or circumstances.

- (d) **Relationship of the Parties:** Neither this PA nor any other documentation or communication between the Parties shall constitute or create a joint venture, partnership, legal entity, or other similar business combination or arrangement between the Parties. Each Party shall act only on an individual and several basis. No Party shall have the right to act as an agent for or a servant or employee of the other Party, to make commitments or assume obligations for and on behalf of the other Party, or to bind the other Party for any purpose whatsoever.
- (e) **Waiver:** No waiver by a Party of any breach by any other Party in the performance of any provision, condition, or requirement of this PA is deemed to be a waiver of, or in any manner a release of such Party from, performance of any other provision, condition, or requirement. No waiver is deemed to be a waiver of, or in any manner a release of such other Party from future performance of the same provision, condition, or requirement; nor shall any delay or omission of a Party to exercise any right hereunder in any manner impair the exercise of any such right or any like right accruing to it thereafter. Any waiver of any provision, condition, or requirement of this PA is valid only if it is in writing and signed by the Party against whom it is sought to be enforced.
- (f) **Waiver of Sovereign Immunity:** The provisions of AS 09.50.250 – AS 09.50.280 permit Transporter to bring an action against Shipper arising under this PA. The Parties agree any change in Alaska law that eliminates or materially impairs Transporter's rights to bring an action under this PA shall be deemed to be a Discriminatory Change in Law. Shipper acknowledges that its rights and obligations hereunder are of a commercial and not a governmental nature.
- (g) **Amendment:** No amendment, supplement, modification or waiver or termination of this PA and, unless otherwise specified, no consent or approval by either Party, shall be binding unless executed in writing by the Party to be bound thereby.
- (h) **Further Assurances:** Each Party agrees to use reasonable efforts to take, or to cause to be taken, all actions, and to do, or to cause to be done, all things reasonably necessary or appropriate to consummate the actions this PA contemplates.
- (i) **Entire Agreement:** This PA and any other documents or agreements between the Parties delivered in connection with this PA constitute the entire agreement of the Parties relating to their relationship under this PA. All prior negotiations and all provisions and concepts contained in all prior agreements (including the MOU and the Alaska LNG Midstream Services Term Sheet attached as Exhibit C to the MOU) between the Parties on matters contained in this PA are expressly superseded by this PA. The Parties expressly waive any reliance on representations or course of dealings made prior to the execution of this PA regarding the subject of this PA.
- (j) **Third Party Beneficiaries:** No provision of this PA confers, or is to be construed, deemed or interpreted as conferring, on any Person other than the Parties, any rights or remedies hereunder.

**REDACTED**

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- (k) **Execution and Delivery:** This PA may be executed in one or more counterparts, all of which will be considered one and the same agreement and will become effective when two or more counterparts have been signed by each of the Parties named on the original signature pages hereof and delivered to the other Party, it being understood that the Parties need not sign the same counterpart.

*Remainder of page intentionally left blank*

*Execution page follows*

**REDACTED**

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**IN WITNESS OF WHICH** the Parties have duly executed and delivered this PA.

**TRANSCANADA ALASKA  
MIDSTREAM LP, by its general partner,  
TRANSCANADA ALASKA GP INC.**

**THE STATE OF ALASKA**

By:

\_\_\_\_\_  
Name:  
Title:

By:

\_\_\_\_\_  
Name:  
Title:

By:

\_\_\_\_\_  
Name:  
Title:

**SCHEDULE A**  
*Definitions and Interpretation*

Section 1 – Definitions

In the PA, unless the context otherwise requires:

“**Acid Gas**” means CO<sub>2</sub>, H<sub>2</sub>S and other impurities contained in natural gas.

“**Additional Gas**” has the meaning specified in Schedule B.

“**Affiliate**” means in relation to a Party any company, corporation, partnership or other legal entity (in this definition, each such entity and each Party are sometimes referred to as a “**Company**”) which is:

- (a) directly or indirectly, owned or controlled by such Party;
- (b) directly or indirectly owns or controls such Party; or
- (c) directly or indirectly, owned or controlled by a Company that also, directly or indirectly, controls such Party.

For the purpose of this definition:

- (i) a Company is directly owned or controlled by another Company that owns or controls shares or other interests carrying in the aggregate more than 50 percent of the voting rights exercisable at a general, shareholders, or members meeting of the first-mentioned Company, or the right to appoint or dismiss a majority of the directors thereof, or the power to direct or cause the direction of the management or policies through the ownership of securities, by contract or otherwise. A Company is indirectly owned or controlled by a Company or Companies (the “parent Company or Companies”) if a series of Companies can be specified, beginning with the parent Company or Companies and ending with the particular Company, so related that each Company of the series, except the parent Company or Companies, is directly controlled by one or more of the Companies in the series.
- (ii) in relation to Shipper, those State entities that otherwise meet the definition of “Affiliate” set forth above, when acting only in the State’s proprietary capacity (and not in a governmental capacity), including State corporations or authorities established by statute as instrumentalities of the State.

“**AGDC**” means the Alaska Gasline Development Corporation.

“**AGIA**” means the Alaska Gasline Inducement Act, AS 43.90, as well as the regulations promulgated thereunder.

“**AGIA License**” means the Alaska Gasline Inducement Act License issued December 5, 2008, by the State of Alaska to the AGIA Licensee, under the authority of AGIA, as amended by project plan amendments approved on January 29, 2010, May 2, 2012, June 11, 2013 and December 12, 2013.

“**AGIA Licensee**” means collectively, TransCanada Alaska Company, LLC and Foothills Pipe Lines Ltd.

**"AGIA Project Plan Amendment 1B"** means the project plan amendment under the AGIA License approved by the Alaska Commissioner of Natural Resources and the Alaska Commission of Revenue pursuant to AS 43.90.210 on December 12, 2013.

**"Agreed Interest Rate"** means interest compounded on a monthly basis, at the rate per annum equal to (a) the one (1) month term LIBOR rate applicable on the first Business Day prior to the due date of payment and thereafter on the first Business Day of each succeeding calendar month, plus (b) 10%. If the aforesaid rate is contrary to any applicable usury law, the rate of interest to be charged shall be the maximum rate permitted by such applicable law.

**"AKLNG Development Costs"** means all costs and expenses incurred under the CSA or any Project Agreement to which Transporter or any of its Affiliates is a Party, which shall include:

- (a) any contract cancellation penalties and continued funding obligations under such agreements;
- (b) all costs payable pursuant to [REDACTED] of the Pre-FEED JVA or equivalent articles under the CSA or other Project Agreements.

AKLNG Development Costs shall not include any costs or expenses for which Transporter or its Affiliates have received payment or reimbursement under the CSA or other Project Agreements.

**"Alaska North Slope"** means that part of the State that lies north of 68 degrees north latitude.

**"Alaska LNG Project"** means collectively, (i) the Midstream Facilities, and (ii) the LNG Plant.

**"Alaska LNG Parties"** means, collectively, as of the Effective Date, Transporter, the Producer Parties and AGDC and their respective Affiliates that have an equity or participation interest in the Alaska LNG Project.

**"Annual Decommissioning Allowance"** has the meaning specified in paragraph 5 of Part D of Schedule C.

**"Audit Protocol"** means the protocol for the review and audit of information by Shipper as set forth in Schedule E.

**"Business Day"** means a day, other than a Saturday, Sunday or holiday, on which federally chartered banks are open for commercial banking business (including dealings in foreign exchange and foreign currency deposits) in both Calgary, Alberta, Canada and Anchorage, Alaska.

**"Buy-Back Notice Date"** has the meaning specified in Schedule B.

**"Carrying Cost Calculation"** means the calculation of interest on a particular cost or expenditure forming part of the Development Costs, calculated at a rate of 7.1% per annum and compounded monthly and accruing daily. Such interest shall accrue, in respect of such cost or expenditure, from the later of (i) the FERC Pre-Filing Date, and (ii) the 15<sup>th</sup> day of the calendar month of the month such cost or expenditure was incurred, until the date of payment.

**"Claims"** means, in relation to any Person, any and all claims, actions, causes of action, accounts, liens, demands, lawsuits, suits, judgments, awards, adjudications, writs, orders, audits, proceedings, arbitrations, mediations, hearings, investigations or actions by any Governmental Authority, brought against or suffered, sustained or incurred by such Person, in each case whether fixed or contingent or foreseen or unforeseen, and whether based on contract, tort, statute or other legal or equitable theory of recovery.

**“Confidentiality Agreement”** means the Alaska LNG Project Confidentiality Agreement entered into by the State, Transporter, AGDC and TADI dated on or about the Effective Date, as such agreement may be amended from time to time.

**“Consequential Loss”** means, as to any Person, any damage, cost, expense, liability, or loss (including pass-through claims for indemnification or contribution owed to another Person under a contract, governmental requirement, or other obligation) of that Person that is caused (directly or indirectly) by any of the following arising out of, relating to, or connected with the PA or work carried out (or failed to be carried out) in relation to it: loss or deferment of income or profits; loss of use of any asset; loss of business or reputation; loss of business opportunity; loss of labor or management productivity; increases in wage, salary, or other cost of labor cost; or other indirect damages or losses, costs, expenses, or liabilities, whether or not similar to the foregoing; in addition, Consequential Loss includes any exemplary (whether statutory or common law), punitive, special, or treble or other multiple damages. Without limiting the generality of the foregoing, Consequential Losses include any:

- (a) losses arising as a result of hedges, swaps, derivatives, forwards, futures, options; and
- (b) loss of any contract of Shipper.

Notwithstanding any other provision of the foregoing definition, Consequential Losses shall not include:

- (i) any payment obligations to Transporter as set forth in the PA or FTSA (or any accelerations thereof as damages for a breach of contract), including (1) payment of the Termination Amount, or (2) payment of the Total Obligation under the PA or FTSA, as applicable; or
- (ii) to the extent direct contract damages that would otherwise meet the definition of Consequential Loss have been awarded to a non-Affiliate third party and are subject to allocation between or among the Parties to the Dispute.

**“Conveyance Assets”** has the meaning specified in the Transporter Conveyance Mechanics.

**“Coordination Committee”** has the meaning specified in Section 5.2(a).

**“Credit Support Provider”** has the meaning specified in Schedule D.

**“Creditworthiness Requirements”** means those requirements specified in Schedule D.

**“Creditworthy”** means, in respect of any Person, a Person that satisfies the requirements set forth in paragraph 1 or paragraph 2 of Schedule D at the relevant time.

**“CSA”** means the Concept Selection Agreement for ANS Gas Development dated March 29, 2012 between TADI and Affiliates of the Producer Parties, as amended from time to time.

**“Default Event”** means any one of the events of default specified in Sections 6.1 or 6.3.

**“Delivery Point”** means the point of custody transfer for the delivery of natural gas on a Midstream Facility, which shall be on the outlet side of the measurement station or at such other point as may be agreed upon between Transporter and Shipper.

**“Development Costs”** means all Prudent Costs incurred by Transporter and its Affiliates after December 31, 2013 in the development, design, financing, construction, acquisition and commissioning of the Midstream Facilities, which costs shall be comprised of only (i) the AKLNG Development Costs, and (ii) the Transporter Development Costs, deducting from the sum of (i) and (ii) the following amounts:

- (a) all AGIA payments received and retained by the AGIA Licensee relating to Transporter’s or its Affiliates’ share of development costs for activities authorized under the AGIA Project Plan Amendment 1B and carried out after December 31, 2013; and
- (b) all proceeds received by Transporter or its Affiliates from the State, any State Affiliate or State entity for use of the work or data created with the AKLNG Development Costs or the Transporter Development Costs.

**“Development Cost Amount”** has the meaning specified in Section 4.3(a).

**“Discriminatory Change in Law”** has the meaning specified in Section 7.4.

**“Dispute”** means a dispute, matter, controversy or claim between or among the Parties or their Affiliates arising out of or relating to the PA or FTSA (as applicable), including the validity, interpretation, construction or enforcement of this PA, or a Party’s (or a Party’s Affiliate’s) performance, privileges, rights or obligations under or with respect to the PA or FTSA (as applicable), including the Audit Protocol.

**“Dispute Resolution Procedure”** means, (i) for purposes of the PA, the procedure set forth in Section 7.7; and (ii) for purposes of the FTSA, the applicable dispute resolution procedure set forth in the FTSA, which is intended to be materially consistent with that described in Schedule B.

**“Dollars”** and the sign “\$” means US dollars.

**“Downstream Activities”** means all operations and activities undertaken with respect to the LNG Plant as part of the Alaska LNG Project.

**“Effective Date”** has the meaning specified in the preamble to the PA.

**“Enabling Legislation”** means Chapter 14 SLA 14 (also known as Senate Bill 138).

**“End of ICT Purchase Price”** means an amount equal to the greater of (a) \$1, and (b) the net book value determined as the difference between the GPIS Balance, less the Accumulated Depreciation amount as of the end of the ICT, plus (i) the book value of any physical materials and supplies, and (ii) any prepayments of amounts by Shipper that have not amortized prior to the end of the ICT, subject to adjustments reflecting reconciliations consistent with paragraph 6 of Part C of Schedule C.

**“Entity”** means any foreign or domestic general partnership, limited partnership, limited liability company, corporation, joint enterprise or venture, joint stock company, business or statutory trust, employee benefit plan, cooperative, association, or other legal entity.

**“Expansion”** has the meaning specified in Schedule B.

**“Expansion Shipper”** has the meaning specified in Schedule B.

**“Expiry Date”** has the meaning specified in Section 4.1.

**“FEED”** means a front-end engineering and basic engineering design study, which the Parties anticipate to include the following (with the detailed work plan and deliverables of FEED being developed during Pre-FEED):

- (a) Sufficiently detailed basic engineering packages for the components of the Alaska LNG Project and a contracting strategy to enable contractor bidding for the Engineering, Procurement and Construction (“EPC”) contracts;
- (b) A resourcing, commissioning and start-up plan;
- (c) The finalization of those Key Project Agreements (to be entered into after the FEED Agreement) required to implement the Alaska LNG Project;
- (d) A technical and commercial definition of the Alaska LNG Project;
- (e) A detailed update of the Alaska LNG Project economics, financing and commercial assumptions, including an updated estimate of capital costs sufficient for a final investment decision;
- (f) A final assessment of environmental, social and health impacts of the Alaska LNG Project;
- (g) Long-lead procurement activities;
- (h) Other activities necessary to enable a final investment decision to be taken by the Alaska LNG Parties such as but not limited to financing, permitting and registration; and
- (i) The bidding and internal selection of EPC contractors, as applicable.

**“FEED Agreement”** means the agreement under which FEED would be undertaken for the Alaska LNG Project.

**“FEED Decision”** [REDACTED] as defined in the Pre-FEED JVA.

**“FERC”** means the Federal Energy Regulatory Commission and any successor thereof.

**“FERC Pre-Filing Date”** means the date of FERC approval of Alaska LNG Project’s request to initiate the pre-filing process.

**“FID”** means the final investment decision by some or all of the Alaska LNG Parties to proceed to construct the Alaska LNG Project.

**“Financial Security”** has the meaning specified in Schedule D.

**“FTSA”**, means one or more transportation services agreements entered into by Transporter and Shipper (or their permitted assigns) for the Pipelines and the GTP, containing terms and conditions substantially consistent with the FTSA Terms.

**“FTSA Decision Date”** means December 31, 2015 or such later date as the Parties may agree.

**“FTSA Legislation”** means legislation to be enacted by the Alaska Legislature that has become effective as provided under AS 01.10.070, that authorizes Shipper to enter into the FTSA and to the extent applicable to fund, subject to appropriation, the State’s direct and contingent payment obligations for the Termination Amount under the FTSA.

**“FTSA Terms”** has the meaning specified in Section 2.2(a).

**“Gas Pipeline”** means the Alaska LNG Project component consisting of a main natural gas pipeline from the outlet flange of the GTP on the Alaska North Slope to the inlet flange of the LNG Plant, which may have five (5) or more off-take points along the pipeline for deliveries of gas within the State. The term “Gas Pipeline” refers to the main gas pipeline and does not include any gas pipelines downstream of any off-take point between the GTP and the LNG Plant.

**“Gas Treatment Plant”** or **“GTP”** means the Alaska LNG Project component consisting of facilities and related activities to receive natural gas from the PBU Gas Transmission Line, the PTU Gas Transmission Line, and/or other facilities, treat the natural gas to pipeline quality specifications, dispose of or deliver by-products, deliver liquid products for further transportation, and deliver treated natural gas for transportation through the Gas Pipeline.

**“Governmental Authority”** means:

- (a) any domestic or foreign federal, provincial, state, territorial, county, regional district, borough, city, municipal or other government or any agency, board, bureau, commission, court, department, or other instrumentality of any such government acting in a governmental capacity; or
- (b) any Person having the authority under any applicable governmental requirement to assess and collect taxes for its own account;

in each case having jurisdiction or authority in regard to the applicable Person or thing.

**“Governmental Requirement”** means any applicable obligation, limitation or requirement that applies to the Midstream Facilities or the Parties:

- (a) under any law, including the common law and any statute, code, ordinance, order, rule, regulation, judgment, decree, injunction, writ, edict, award, authorization or other requirement of any Governmental Authority;
- (b) included in any issued Regulatory Approval; or
- (c) resulting from binding arbitration or mediation with a Governmental Authority.

**“Gross Negligence”** means any act or failure to act (whether sole, joint or concurrent) by Senior Supervisory Personnel of Transporter which was a reckless disregard of or wanton indifference to, harmful consequences such Person knew, or should have known, that such act or failure to act would have on the safety or property of another Person.

**“HOA”** has the meaning specified in Recital A.

**“HOA Parties”** has the meaning specified in Recital A.

**“ICT”** has the meaning specified in Schedule B.

**“ISD”** means the commercial in-service date of the Alaska LNG Project.

**“Initial System”** means the Midstream Facilities as initially constructed and placed in service as of ISD.

**“Insolvency Event”** means, in relation to any Person, the occurrence of one or more of the following:

- (a) an order is made or an effective resolution passed for the winding-up, liquidation or dissolution of the Person;
- (b) the Person institutes proceedings for its winding up, liquidation or dissolution, or takes action to become a voluntary bankrupt, or consents to the filing of a bankruptcy proceeding against it, or files a proposal, a notice of intention to make a proposal, a petition or answer or consent seeking reorganization (including under any Insolvency Law), readjustment, arrangement, composition or similar relief under any Insolvency Law or consents to the filing of any such petition, or consents to the appointment of a receiver, liquidator, trustee or assignee in bankruptcy or insolvency of all or a substantial part of the property of the Party or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they come due, or commits any other act of bankruptcy, or suspends or threatens to suspend transaction of its usual business, or any action is taken by the Person in furtherance of any of the aforesaid;
- (c) a court having jurisdiction enters a decree or order adjudging the Person a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, readjustment, arrangement, composition or similar relief under any Insolvency Law, or a decree or order of a court having jurisdiction for the appointment of a receiver, liquidator, trustee or assignee in bankruptcy or insolvency of all or a substantial part of the undertaking or property of the Person, or for the winding up, dissolution or liquidation of its affairs, is entered and the decree, order or petition is not contested and the effect of it stayed, or any material part of the property of the Person is sequestered or attached and is not returned to the possession of the Person or released from such attachment within twenty (20) days thereafter;
- (d) any proceedings, voluntary or involuntary, are commenced, or an order or petition is issued, respecting the Person pursuant to any Insolvency Law;
- (e) the Person causes or institutes any proceeding for its dissolution or termination; or
- (f) the Person is generally not paying its debts as they become due or makes a general assignment for the benefit of creditors.

**“Insolvency Law”** means any Governmental Requirement respecting bankruptcy, insolvency, fraudulent preferences or other matters affecting the rights of creditors generally.

**“Integrated Matters”** means, collectively, those Alaska LNG Project activities related to both (i) the Downstream Activities, and (ii) the Midstream Activities, as contemplated by [REDACTED] of the Pre-FEED JVA.

**“Key Project Agreements”** means, collectively, the HOA, the Pre-FEED JVA, the FEED Agreement, the Project Equity Participation Agreement and those other material Project Agreements relating to the development and operation of the Midstream Facilities or the Alaska LNG Project as a whole.

**“Liabilities”** or **“Liability”** means any and all liabilities and obligations, whether under common law, in equity, under any Governmental Requirement or otherwise, whether tortious, contractual, vicarious, statutory or otherwise, whether absolute or contingent and whether based on fault, strict liability or otherwise.

**“LIBOR”** means, for any calendar month (one of the twelve (12) calendar months of the calendar year commencing on the first day of each calendar month, in accordance with the Gregorian Calendar, and the term “Monthly” shall be construed accordingly, the percentage rate per annum, compounded on a

monthly basis, equal to the average of the annual yield rates applicable to one-month dollar deposits which rate is shown on the display referred to as the "LIBOR Page" (or any display substituted therefor) of Reuter Monitor Money Rates Service (or its successor) as at approximately 10:00 a.m. (New York time) on the first Business Day of that month.

"**Linefill Gas**" has the meaning specified in Schedule B.

"**Losses**" means, in relation to a matter, any and all losses, damages, costs, disbursements, out-of-pocket expenses, charges, indebtedness, obligations, assessments, fines, penalties, fees and expenses of every kind, nature or description incurred or sustained by a Person, including court costs, costs incurred or sustained in connection with any Claims (including Professional Fees and reasonable costs of investigating and defending Claims) arising from such matter, regardless of whether such Claims are sustained, together with any interest which may be imposed in connection therewith.

"**LNG**" means any hydrocarbon or mixture of hydrocarbons consisting predominantly of methane in a liquid state at or below its boiling point at a pressure of approximately one (1) atmosphere.

"**LNG Plant**" means the Alaska LNG Project component consisting of an LNG plant facility, including the structures, equipment, underlying land rights and all other associated systems, for pre-processing and liquefaction of natural gas, and storage and off-loading of liquefied natural gas, including terminal facilities and auxiliary marine vessels.

"**Maintenance Capital Additions**" means, collectively, facility additions required to maintain the reliable capacity of the Midstream Facilities or to extend the useful life of the facilities, for which costs have not been expensed as Annual Fixed O&M Expenses as described in Schedule C, part D, paragraph 6.

"**Midstream Activities**" means all operations and activities undertaken with respect to the Midstream Facilities as part of the Alaska LNG Project.

"**Midstream Facilities**" means, collectively: (i) the PBU Gas Transmission Line, (ii) the PTU Gas Transmission Line, (iii) the Gas Pipeline, and (iv) the Gas Treatment Plant, and "**Midstream Facility**" means any one of them.

"**Moody's**" means Moody's Investors Service, Inc. or its successor.

"**MOU**" has the meaning specified in Recital C.

"**NGA**" means the Natural Gas Act, 15 U.S.C. § 717b, *et seq.*

"**Negotiated Rate**" means the negotiated rate for the provision of the Services, calculated in accordance with the Negotiated Rate Principles.

"**Negotiated Rate Principles**" means the Negotiated Rate principles set forth in Schedule C.

"**Nominee**" has the meaning specified in Section 5.2(b).

"**Notice**" has the meaning specified in Section 7.5(a).

"**Other Shipper**" has the meaning specified in Schedule B.

"**PA**" means the agreement to which this Schedule A forms a part, together with all Schedules attached to such agreement, and any extension, renewal or amendment thereof agreed to in writing by the Parties.

**“Partnership Asset Conveyance”** means an election by Shipper pursuant to the Transporter Conveyance Mechanics.

**“Partnership Interest Conveyance”** means an election by Shipper pursuant to the Transporter Conveyance Mechanics.

**“Party”** means Shipper or Transporter individually, and **“Parties”** means Shipper and Transporter collectively.

**“PBU Gas Transmission Line”** means the Alaska LNG Project component consisting of a natural gas transmission line from the outlet flange of the Prudhoe Bay Unit Central Gas Facility to the inlet flange of the GTP, including the structures, equipment, underlying land rights and all other associated systems.

**“Pre-FEED”** means pre-front-end engineering and design work and activities on the approved concept in preparation for FEED for the Alaska LNG Project, including technical and execution studies and optimization and FEED/EPC invitation to tender development including sufficient design detail and environmental field work to support FERC applications and filings.

**“Pre-FEED JVA”** means the Alaska LNG Project Pre-FEED Venture Agreement to be executed, after Enabling Legislation becomes effective, by the Producer Parties, Transporter and AGDC on terms acceptable to the parties thereto, as may be amended from time to time.

**“Person”** means any natural person, Entity, estate, labour union, or Governmental Authority.

**“Pipelines”** means, collectively, the PTU Gas Transmission Line, the PBU Gas Transmission Line and the Gas Pipeline, and **“Pipeline”** means any one of them.

**“Point Thomson Unit”** means the oil and gas leases and described land located on the North Slope of Alaska as may exist from time to time from which oil, gas and associated substances are developed and produced on a unitized basis under the terms of the Unit Agreement for the Development and Operation of the Point Thomson Unit with the State of Alaska, dated March 1, 1977 and the Unit Operating Agreement Point Thomson Unit Area by and between the Working Interest Owners of the Point Thomson Unit, dated March 1, 1977, each as amended from time to time.

**“Pre-Construction Regulatory Approvals”** means, collectively, those Regulatory Approvals that are, in the opinion of Transporter, material and customarily required by prudent pipeline operators prior to the commencement of on-site construction or pre-construction activities.

**“Prior Capital Contribution”** means the Transporter’s Affiliates share of costs incurred on the Alaska portion of the AGIA Project from December 5, 2008 to the effective date of the Pre-FEED JVA that have not otherwise been included as Development Costs, less a credit equal to the AGIA reimbursement received and retained by the Transporter or its Affiliates that were associated with such costs. The maximum amount of Prior Capital Contribution shall be determined as agreed by the Parties prior to the FTSA Decision Date and shall not exceed \$70 million.

**“Producer Parties”** means ExxonMobil LNG LLC, BP Alaska LNG LLC and ConocoPhillips Alaska LNG Company, and their respective upstream Affiliates operating in Alaska, and such parties’ successors in interest in accordance with the agreements governing the Alaska LNG Project.

**“Professional Fees”** means reasonable: (i) fees and disbursements of legal counsel on a solicitor and his own client basis; and (ii) fees and disbursements of any other professional advisors and consultants, including expert witnesses, and such other reasonable out-of-pocket expenses as are incurred in connection with such professional advisors and consultants.

**“Project Agreements”** means, collectively, those final agreements among any or all of the Alaska LNG Parties, the State and Shipper to (i) give effect to the HOA, and (ii) develop, construct, own or operate the Alaska LNG Project, including the HOA, the Pre-FEED JVA, the FEED Agreement and the Project Equity Participation Agreement.

**“Project Equity Participation Agreement”** means the agreement or agreements including some or all of the Producer Parties, Transporter and AGDC under which the ownership structure of the Alaska LNG Project and the holding of participating equity interests (including the Shipper Percentage) are established.

**“Project Information”** has the meaning specified in Section 5.1(a).

**“Prudent Costs”** means those incurred costs that could reasonably be expected to be incurred by a qualified, experienced, responsible and financially sound developer of facilities in the nature of the Midstream Facilities, acting reasonably, prudently, fairly and in good faith. Prudent Costs shall include those incurred costs deemed to be prudently incurred pursuant to Section 5.3(c) or the Audit Protocol.

**“Prudhoe Bay Unit”** means the oil and gas leases and described land located on the North Slope of Alaska as may exist from time to time from which oil, gas and associated substances are developed and produced under the terms of the Unit Agreement Prudhoe Bay Unit with the State of Alaska, dated April 1, 1977 and the Unit Operating Agreement Prudhoe Bay Unit by and between the Working Interest Owners of the Prudhoe Bay Unit, dated April 1, 1977, each as amended from time to time.

**“PTU Gas Transmission Line”** means the Alaska LNG Project components consisting of a natural gas transmission line from the outlet flange of the Point Thomson Unit production facility to the inlet flange of the GTP, including the structures, equipment, underlying land rights and all other associated systems.

**“Rate Base”** has the meaning as specified in Schedule C.

**“Receipt Point”** means the point of custody transfer for the receipt of natural gas into a Midstream Facility, which shall be on the inlet side of the measurement station or at such other point as may be agreed between Transporter and Shipper.

**“Regulatory Approvals”** means collectively, such applications, accreditations, authorizations, approvals, declarations, qualifications, notifications, consents, permits, franchises, certificates, licenses, waivers, implementing orders, or exemptions, or registrations or filings, and any necessary amendments or supplements thereto, of any Governmental Authority, that Transporter or its Affiliate, in its sole discretion, determines are necessary for, and are on terms satisfactory to, Transporter or its Affiliate for the construction, ownership and operation of the Midstream Facilities and to provide the Services.

**“Related Parties”** means Affiliates and any respective representatives, successors, assigns, officers, directors, employees, shareholders, members, agents, contractors, consultants and advisors of a Person or Persons.

**“Remaining Useful Life of the Midstream Facilities”** means, at any time, the estimated length of time remaining before the Midstream Facilities will need to be decommissioned, taking into account the condition, operating environment, service level, capacity utilization, technical obsolescence and functional obsolescence of such facilities, as well as the remaining useful life of the Midstream Facilities determined pursuant to the Key Project Agreements, as such time is (i) determined by an independent qualified expert appointed as agreed by the Parties, or (ii) otherwise agreed to by the Parties.

“**Renewal Date**” has the meaning specified in Schedule B.

“**Required Accounting Practice**” means the usual and customary accounting practices of Transporter or its Affiliates consistently applied in businesses similar to that conducted by Transporter.

“**Revised Transporter Estimate**” has the meaning specified in Section 5.3(b)(ii).

“**S&P**” means Standard & Poor’s Financial Services LLC or its successor.

“**Senior Executive**” means any individual who has the authority to negotiate and bind the Party to a settlement of the Dispute for that Party. For purposes of the State, the Commissioner of the Department of Natural Resources is the Senior Executive.

“**Senior Supervisory Personnel**” means any individual who functions for the Party or one of its Affiliates at a management level equivalent or superior to any individual functioning as such Party’s senior manager who has direct responsibility for, and directs all operations of such Party in relation to the Midstream Facilities, but excluding all individuals functioning at a level below this position.

“**Services**” has the meaning specified in Schedule B.

“**Shipper**” has the meaning specified in the preamble to the PA.

“**Shipper Condition**” has the meaning specified in Section 3.1.

“**Shipper Decision Date**” has the meaning specified in Section 5.3(a)(ii).

“**Shipper Percentage**” has the meaning specified in Recital B.

“**Shipper WP&B Notice**” has the meaning specified in Section 5.3(a)(ii).

“**State**” means the State of Alaska. As of the Effective Date, the Shipper is the State.

“**State Gas Share**” means, collectively, the State’s share of royalty in kind gas and gas production tax as gas provided by the Producer Parties and received by the State from the Producer Parties’ natural gas resources on the North Slope of Alaska, should the State elect to receive its royalty in kind and production tax as gas.

“**State Shipper**” means Shipper, where Shipper meets the following criteria:

- (a) is the State;
- (b) holds (pursuant to this PA or the FTSA) at least 50% of the Transporter Capacity of the Gas Pipeline and the GTP, and
- (c) it or its Affiliate is not otherwise in default under this PA, the FTSA or any other agreement in relation to the Alaska LNG Project between Transporter or its Affiliates and Shipper or its Affiliates.

“**TADI**” means TransCanada Alaska Development Inc., a Delaware corporation.

“**Tax**” means all income, profits, capital gains, franchise, use, ad valorem, property, excise, payroll, stamp, documentary, real property transfer or gain, gross receipts, goods and services, harmonized sales, pipeline transportation, user, value added, sales, registration, transfer, withholding, or other tax, fee, assessment, or charge any Governmental Authority imposes, including any interest, penalty, or additional amount it also may impose on the tax, fee, assessment, or charge.

“**TC MOU Parties**” has the meaning specified in Recital C.

“**Term**” has the meaning specified in Schedule B.

“**Termination Amount**” has the meaning specified in Section 4.3(b) for purposes of the PA, and for purposes of the FTSA Terms and the FTSA, as specified in provisions comparable to Section 4.3(b).

“**Termination Amount Objection**” has the meaning specified in Section 4.3(c)(ii).

“**Termination Amount Notice**” has the meaning specified in Section 4.3(c)(i).

“**Termination Date**” means the earlier to occur of (i) the Expiry Date, and (ii) the date on which the PA terminates under Section 4.2.

“**Total Obligation**” means: (i) for the period prior to ISD, an amount equal to the Shipper Percentage of the total development and capital costs of the Midstream Facilities, including AFUDC; and (ii) from ISD and for the balance of the Term, an amount equal to all payment obligations of Shipper under the FTSA for the remaining Term.

“**Transmission Lines**” means the Alaska LNG Project components consisting of the PBU Gas Transmission Line and the PTU Gas Transmission Line.

“**TransCanada**” means TransCanada PipeLines Limited, a federal Canadian corporation.

“**TransCanada Costs**” means those salaries, wages, employee benefits and overhead for the employees and internal contractors of Transporter or its Affiliates to the extent engaged in the development, design, financing, construction and commissioning of the Midstream Facilities.

“**Transporter**” has the meaning specified in the preamble to the PA.

“**Transporter Authorized Amount**” has the meaning specified in Section 5.3(b)(i), as such Transporter Authorized Amount may be increased pursuant to Section 5.3(b).

“**Transporter Capacity**” means Transporter’s share of total capacity available in each Midstream Facility as part of the Initial System, as established and reflected in the relevant Key Project Agreements to which Transporter is a party (including any Key Project Agreements addressing gas balancing and related capacity issues).

“**Transporter Condition**” has the meaning specified in Section 3.2.

“**Transporter Conveyance Mechanics**” means those provisions outlined in Schedule F.

“**Transporter Development Costs**” means, without duplication of any AKLNG Development Costs, all costs and expenses (including TransCanada Costs) incurred by Transporter through:

- (a) Transporter’s role as sponsor or equity participant in the Alaska LNG Project and all associated costs and expenses not otherwise considered AKLNG Development Costs (including costs incurred for regulatory strategy and Regulatory Approvals, securing financing or acquiring lands or rights-of-way for the Alaska LNG Project);
- (b) development of the PA and FTSA and all other related agreements in respect of the Services;

- (c) development of all other agreements between Transporter and the State and their respective Affiliates in respect of the Alaska LNG Project (including governance or equity option agreements);
- (d) participation in the development of the Pre-FEED JVA, FEED Agreement, and the Project Agreements to which Transporter or its Affiliates is a party, which are not otherwise described in paragraphs (a), (b) or (c) of this definition;
- (e) development of, participation in, and prosecution of, the Regulatory Approvals described in and contemplated by Section 2.2;
- (f) carrying out of administration and reporting obligations to and with Shipper pursuant to the PA, FTSA and all other agreements between Transporter and Shipper and their respective Affiliates;
- (g) governmental relations in respect of the Alaska LNG Project, including presentations to, and discussions with, the State and the Alaska Legislature as requested by Shipper or the State;
- (h) business development activities in respect of the Midstream Facilities or the Services, including shipper (other than Shipper) solicitation and other engagement activities (for greater certainty, any costs associated with such business development activities in respect of an Incremental Expansion (as described in Part 20 of Schedule B) shall be allocated to such Incremental Expansion upon the in-service date of such Incremental Expansion);
- (i) cooperation and coordination with AGDC regarding the Alaska LNG Project;
- (j) establishment and administration of Transporter and the Services, including the costs of the general partner of Transporter in administering Transporter's affairs; and
- (k) the administration or termination of AGIA or the AGIA License.

For purposes of calculating the Development Cost Amount pursuant to Section 4.3(a) on expiration or termination of the PA, the Transporter Development Costs shall not exceed the Transporter Authorized Amount then in effect.

**“Wilful Misconduct”** means any act or failure to act (whether sole, joint or concurrent) by Senior Supervisory Personnel of Transporter, which was voluntary and was intended to cause harmful consequences such Person knew would have on the safety or property of another Person, provided that Wilful Misconduct does not include any act or failure to act insofar as it: (i) constituted Gross Negligence or mere ordinary negligence; or (ii) was done or omitted in accordance with the express instructions or approval of the other Party.

**“WP&B”** means, in relation to the AKLNG Development Costs, a work program and budget pursuant to the Key Project Agreements whereby Transporter or its Affiliates incur AKLNG Development Costs.

**“WP&B Decision Date”** has the meaning specified in Section 5.3(a)(i).

**“WP&B Notice”** has the meaning specified in Section 5.3(a)(i).

Section 2 – Certain Rules of Interpretation

In the PA:

- (a) **Article/Section References:** References to “Article” or “Section” mean the specified Article or Section of the PA, and the word “Schedule” refers to schedules to the PA, unless the PA specifies otherwise.
- (b) **“Herein”:** The PA uses the words “herein,” “hereof,” and “hereunder” and words of similar import to refer to the PA as a whole and not to any provision of the PA.
- (c) **Number and Gender:** Unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.
- (d) **Uses of Certain Words:** The word “including” (and, with correlative meaning, the word “include”) means including, without limiting the generality of any description preceding that word. The words “shall” and “will” are used interchangeably in the mandatory and imperative sense. The word “may” means is authorized or permitted to, while “may not” means is not authorized or permitted to. The word “knowledge” (and, with correlative meaning, the word “known”) means actual knowledge of a fact, rather than constructive knowledge of a fact.
- (e) **Generally Accepted Meanings:** Words, phrases, or expressions that are not defined in the PA but that have a generally accepted meaning in the practice of measurement and metering in the international businesses of production, transportation, distribution, and sale of gas have that meaning in the PA.
- (f) **Time Periods:** The word “day” means one of Monday through Sunday of each week including legal holidays. Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next Business Day following if the last day of the period is not a Business Day.
- (g) **Statutory references:** A reference to a statute includes all regulations made pursuant to such statute and, unless otherwise specified, the provisions of any statute or regulation which amends, supplements or supersedes any such statute or any such regulation.
- (h) **Governmental references:** A reference to a governmental official, agency, board, bureau, commission, department, or other instrumentality thereof continues to apply regardless of any changes in name or title, and applies to the successor official, agency, board, bureau, commission, department, or other instrumentality thereof to which the referenced responsibilities or functions may be transferred. Reference to a government official includes the official’s designee.
- (i) **No Strict Construction:** The language used in this PA is the language chosen by the Parties to express their mutual intent, and no rule of strict construction shall be applied against any Party.
- (j) **Derivative Terms:** Where a term is defined herein, a capitalized derivative of such term shall have a corresponding meaning unless the context otherwise requires.
- (k) **Headings:** Headings of Articles and Sections are inserted for convenience of reference only and shall not affect the construction or interpretation of the PA.

- (l) **Numerical Conflicts:** In the event of a conflict between a written numerical reference and its corresponding parenthetical numeric reference, the written numerical reference shall govern.
- (m) **Consent:** Whenever a provision of the PA requires an approval or consent and such approval or consent is not delivered within the applicable time limit, then, unless otherwise specified, the Party whose consent or approval is required shall be conclusively deemed to have withheld its approval or consent.
- (n) **Currency:** Unless otherwise specified, all references to money amounts are to the lawful currency of United States of America.
- (o) **Time:** Time is of the essence in the performance of the Parties' respective obligations.

**SCHEDULE B**  
***FTSA Term Sheet***

*All of Schedule B is commercially sensitive for TransCanada and has been redacted on the basis that the State of Alaska intends to issue a Notice of Termination to TransCanada Alaska Midstream LP once an appropriation to pay TransCanada has been approved. In such case there will be no FTSA and so this Schedule B is not relevant.*

**SCHEDULE C**  
*Negotiated Rate Principles*

*All of Schedule C is commercially sensitive for TransCanada and has been redacted on the basis that the State of Alaska intends to issue a Notice of Termination to TransCanada Alaska Midstream LP once an appropriation to pay TransCanada has been approved. In such case there will be no FTSA and so this Schedule C is not relevant.*

**SCHEDULE D**  
*Creditworthiness Requirements*

*All of Schedule D is commercially sensitive for TransCanada and has been redacted on the basis that the State of Alaska intends to issue a Notice of Termination to TransCanada Alaska Midstream LP once an appropriation to pay TransCanada has been approved. In such case there will be no FTSA and so this Schedule D is not relevant.*

**Confidential and Proprietary pursuant to AS 38.05.020(b)(12), a provision of SB 138 (2014).**

**SCHEDULE E**  
***Books & Records and Audit Protocol***

*All of Schedule E is commercially sensitive for TransCanada and accordingly has been redacted.*

**SCHEDULE F**  
*Transporter Conveyance Mechanics*

Upon the occurrence of an event giving rise to these Transporter Conveyance Mechanics, the following mechanics shall apply:

- (a) Shipper shall provide Notice to Transporter of its election of either a "Partnership Interest Conveyance" or a "Partnership Asset Conveyance" in the manner outlined in paragraphs (b) and (c) below. For a termination of the PA or the FTSA as described in paragraph (d)(ii) below, such Notice shall be delivered concurrently with payment of the Termination Amount. For a transfer as described in paragraph (d)(i) below, such Notice shall be delivered on such date as is agreed by the Parties in the FTSA.
- (b) If Shipper has elected a Partnership Interest Conveyance, Transporter shall cause an assignment of the Partnership Interests of the TransCanada Limited Partner and General Partner (as such terms are defined in the limited partnership agreement of Transporter) to Shipper or its designee Affiliate, and the general partner of Transporter shall provide written notice to its limited partners of the occurrence of such event (a "**Termination Conveyance Notice**"). The Termination Conveyance Notice shall identify:
  - (i) the event which gives rise to these Transporter Conveyance Mechanics and the provision of the PA or FTSA which grants such conveyance right;
  - (ii) the partner which is obligated to make the transfer and the partner (or its Affiliate designee) that has the right to receive the transfer of a partnership interest in Transporter (the "**Partnership Interest**"); and
  - (iii) the price for the Partnership Interest to be transferred, which is determined in accordance with paragraph (d) below.
- (c) If Shipper has elected a Partnership Asset Conveyance, assign or transfer to Shipper (or its designee Affiliate) (which items are, collectively, the "**Conveyance Assets**"):
  - (i) all of its interest in either the Pre-FEED JVA or the FEED Agreement, whichever is then in force, in accordance with the provisions of such agreement;
  - (ii) any equity participation interest in the Alaska LNG Project and the Midstream Facilities pursuant to any Project Agreement then in force, in accordance with the provisions of such agreement; and
  - (iii) such other assets of Transporter as are used and useful in respect of the Midstream Facilities.
- (d) The transfer price for the Partnership Interest or the Conveyance Assets (as applicable) to be transferred shall be determined as follows:
  - (i) with respect to transfers resulting from the Buy-Back Right and the Put Option as set forth in FTSA Terms, the transfer price shall be equal to the End of ICT Purchase Price; and
  - (ii) with respect to transfers resulting from a termination of:
    - (A) the PA under Section 4.4, or

- (B) the FTSA prior to FID under the provisions of the FTSA giving effect to part 6 of Schedule B;

the transfer price shall be \$1.00.

- (e) In addition to payment of the transfer price as described in paragraph (d) above, Shipper (or its designee Affiliate) shall reimburse Transporter (in the case of a Partnership Asset Conveyance), or the transferring Entity of the Partnership Interest for all reasonable costs and expenses incurred by such Entity in giving effect to the transfer contemplated by these Transporter Conveyance Mechanics, including all legal fees and all costs and expenses associated with (i) complying with the requirements of any of the Key Project Agreements, including obtaining any required consents or approvals; and (ii) obtaining any Regulatory Approvals in respect of such transfer. Such costs and expenses may be audited by Shipper in accordance with the Audit Protocol for a period of 1 year following the closing date of the purchase and sale transaction.
- (f) For greater certainty, any such assignment shall be made to Shipper:
  - (i) in the event of a Partnership Interest Conveyance, after the TransCanada Limited Partner (as defined in the limited partnership agreement of Transporter) has received its share of any distributions related to the Termination Amount, and
  - (ii) promptly, and shall not be delayed until final resolution of any Dispute pursuant to Section 4.3(c) of the PA or comparable provision of the FTSA. Any amounts payable to Transporter in relation to the resolution of such Dispute shall result in a corresponding increase to the transfer price by way of post-closing adjustment.
- (g) The proceeds shall be payable by the Shipper or its Affiliate designee receiving the transfer of Partnership Interest from the transferring Partner or receiving the Conveyance Assets from the Transporter, as applicable.
- (h) In the event of a Partnership Interest Conveyance, the Termination Conveyance Notice shall contain such other terms and conditions as are necessary or appropriate in connection with the transactions contemplated therein, provided that none of such terms and conditions shall conflict in any way with the provisions of these Transporter Conveyance Mechanics, the PA, the FTSA or any Key Project Agreements to which Transporter is a party.
- (i) The applicable purchase and sale agreement shall be prepared on terms customarily included in similar transactions and agreed upon by the Persons involved such transaction. Any such assignment shall be made on an "as is, where is" basis, without representation or warranty of any kind by the relevant assigning Entity, subject only to a reasonable representation and warranty by such assigning Entity as to its title or right to transfer such items free and clear of any liens and encumbrances other than those liens and encumbrances as would typically be allowed in respect of comparable transferred interests.
- (j) The completion of the purchase and sale transaction pursuant to this Schedule F shall take place at Houston, Texas on the date no later than the number of days specified below after (1) the Termination Conveyance Notice (in the case of a Partnership Interest Conveyance), or (2) payment of the Termination Amount :
  - (i) 120 days for a conveyance in respect of those provisions of the FTSA corresponding to parts 4 or 5 Schedule B; or

(ii) 30 days for a conveyance in respect of a notice delivered under Section 4.4;

*provided, however,* that if any Regulatory Approval or waiting period is required in connection with any such transfer, then such period shall be extended by the number of days necessary to satisfy such regulatory requirement. If such day is not a Business Day, the closing shall occur at the same time and place on the next succeeding Business Day.

(k) For greater certainty, any assignment made pursuant to these Transporter Conveyance Mechanics shall be subject to (i) any restrictions contained in the Key Project Agreements and (ii) those matters outlined in Section 2.2(c) of the PA (or equivalent provision of the FTSA).

**SCHEDULE G**  
*Illustrative FTSA Table of Contents*

*All of Schedule G has been redacted on the basis that the State of Alaska intends to issue a Notice of Termination to TransCanada Alaska Midstream LP once an appropriation to pay TransCanada has been approved. In such case there will be no FTSA and so this Schedule G is not relevant.*

**4. Tuesday**  
**October 27, 2015**



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## **TransCanada's AKLNG Participation: Financing Issues**

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**Special Session**  
October 24, 2015



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## 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?

---

## **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?

## 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**

---

## 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

## Example: Credit Rating Agency Treatment of “Take-or-Pay” PPAs

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

MOODY'S  
INVESTORS SERVICE

### RATING METHODOLOGY Regulated Electric and Gas Utilities

“ [...] by paying the capacity charge, the utility is effectively providing the funds to service the debt associated with the power station.

[...]

When the accounting treatment of a PPA is a debt or lease equivalent (such that it is reported on the balance sheet, or disclosed as an operating lease and thus included in our adjusted debt calculation), we generally do not make adjustments to remove the PPA from the balance sheet. However, in relevant circumstances we consider making adjustments that impute a debt equivalent to PPAs that are off-balance sheet for accounting purposes.”

“PPAs are recognized qualitatively to be a future use of cash whether or not they are treated as debt-like obligations in financial ratios.”

- 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

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## 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 (B&V 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

---

## 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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**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?**

## 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%
  - 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

## Sample TC Deemed Weighted Average Cost of Capital under the PA\*

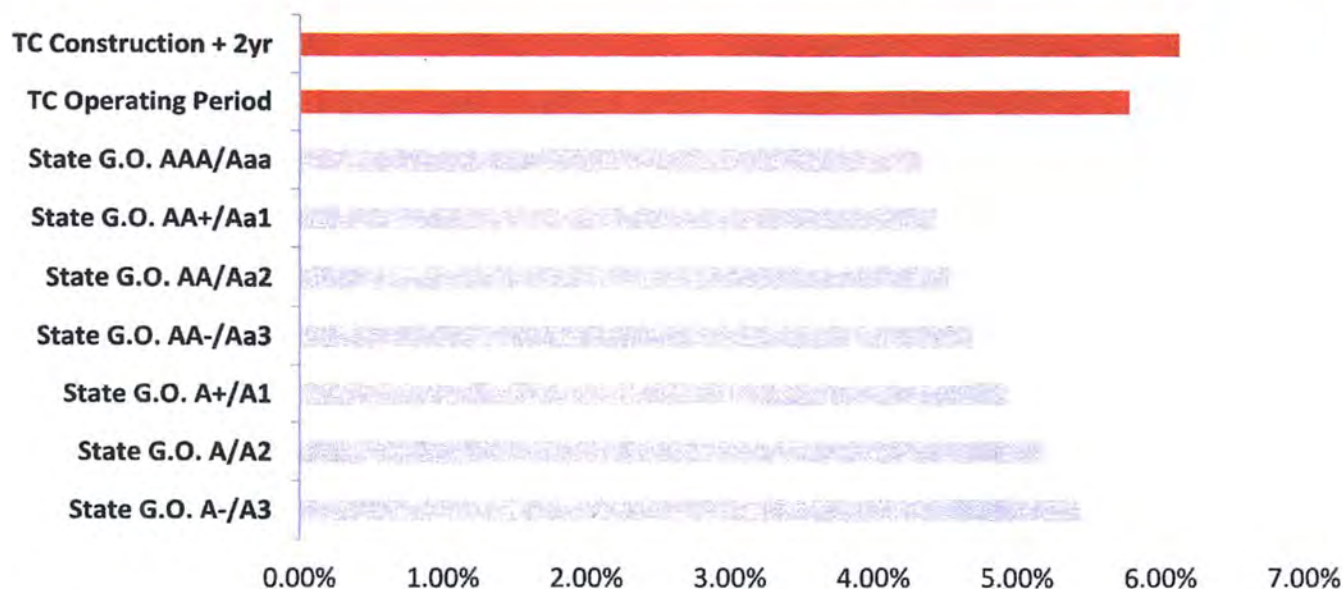
	Dec 12 <sup>th</sup> , 2013	Sep – Oct 2015
<b>30-Year Treasury Yield</b>	<b>3.91%</b>	<b>~2.95%</b>
<b>TC WACC through 2<sup>nd</sup> Year from ISD</b>	<b>7.10%</b>	<b>~6.15%</b>
<b>TC WACC after 2<sup>nd</sup> Year from ISD</b>	<b>6.75%</b>	<b>~5.80%</b>

\*Actual cost of capital could be higher or lower at the time of financings.

## 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

**How will the State fund its share of Midstream project costs?**

## 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

Pre-FEED	FEED	Construction
2014-2016	2016-2018	2019-2026
<b>~144 million</b>	<b>~675 million</b>	<b>~13 billion</b>

\* Including payment of the TC Termination Amount and excluding prior pre-FEED appropriations and projected AGDC or agency costs.

## 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

\* These are the same funding options for the LNG Plant if TC remained in the Project.

---

## 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

---

## 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

## 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**

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## Potential Funding Sources: LNG Buyers and Other Equity Investors

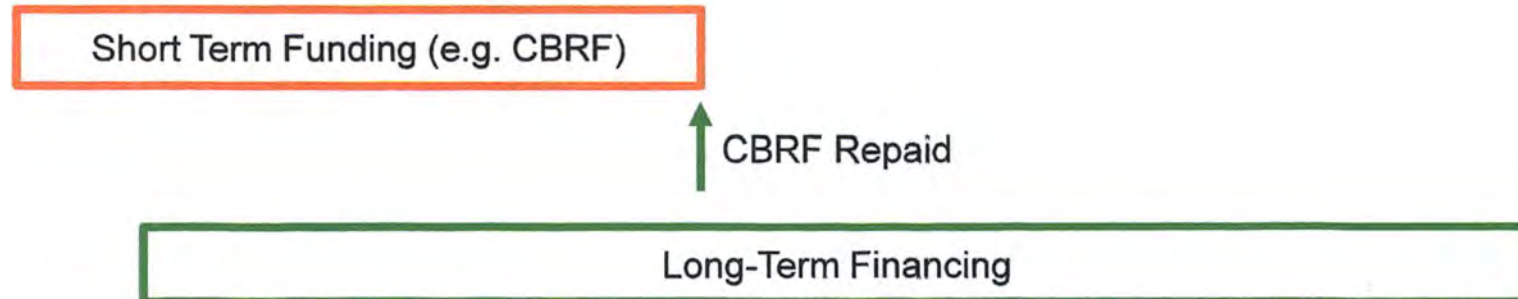
The Legislature could authorize pursuit of investment from LNG buyers or other equity investors:

- 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**

## Example Funding Scenario (For Illustrative Purposes Only)

Pre-FEED	FEED	Construction
2014-2016	2016-2018	2019-2026
~144 million	~675 million	~13 billion



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

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## Conclusion

- 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

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## Contact Information

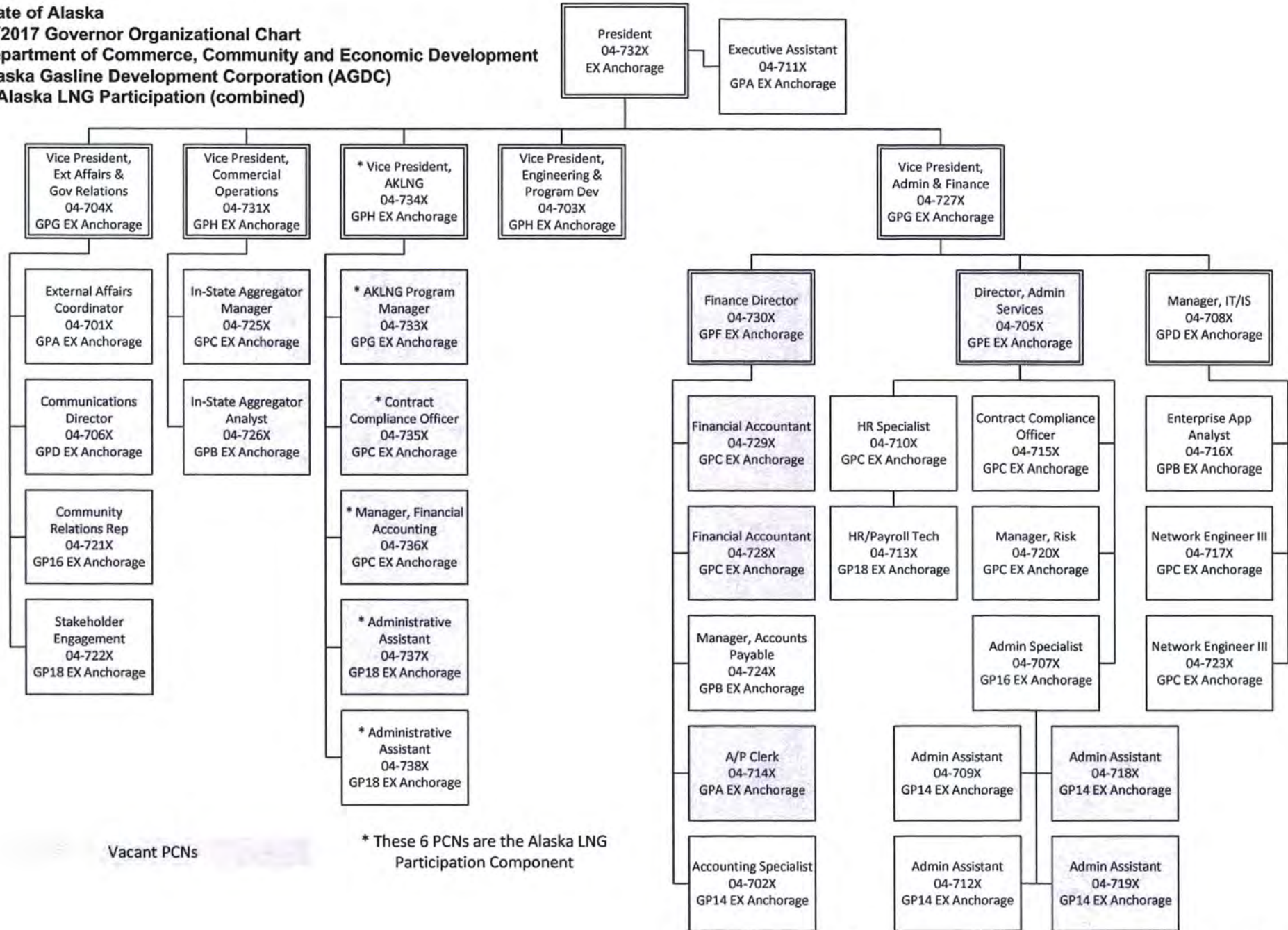
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**5. Wednesday**  
**October 28, 2015**

State of Alaska  
 FY2017 Governor Organizational Chart  
 Department of Commerce, Community and Economic Development  
 Alaska Gasline Development Corporation (AGDC)  
 & Alaska LNG Participation (combined)



Vacant PCNs

\* These 6 PCNs are the Alaska LNG Participation Component



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# Alaska LNG Project Participation

Senate Finance Committee

October 28, 2015



# Authority Granted in SB 138

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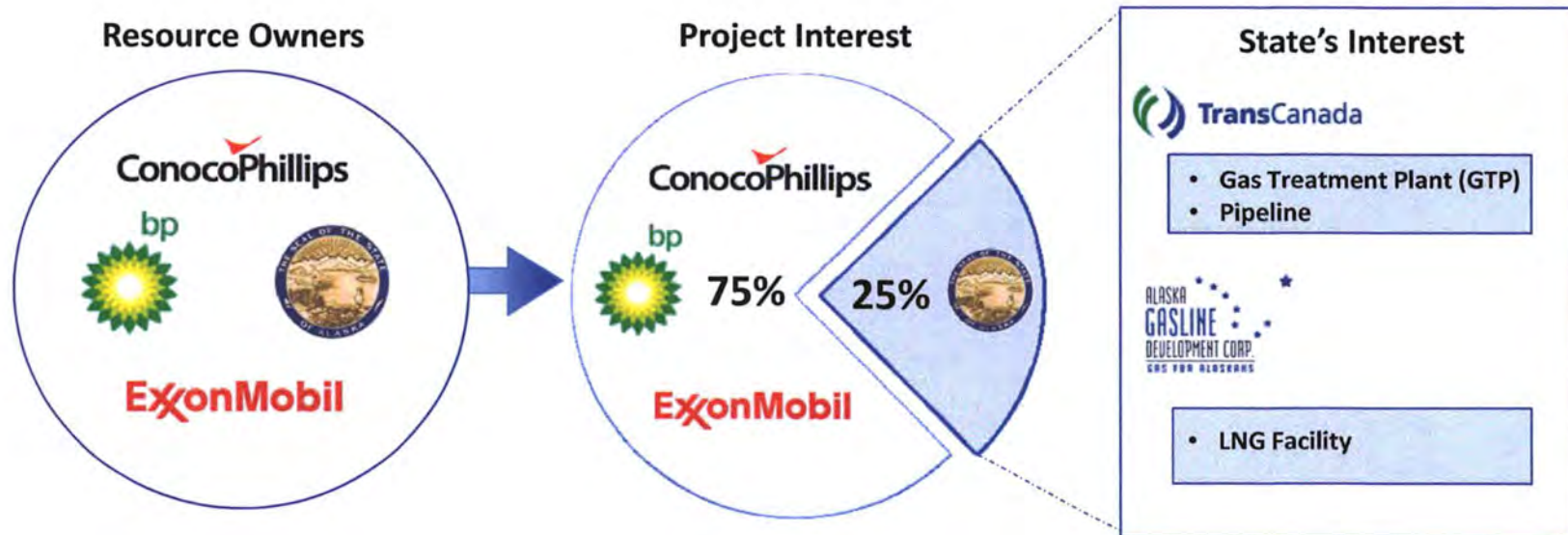
- AGDC has primary responsibility for developing an Alaska LNG project on the state's behalf [AS 31.25.005 (1)]
- AGDC may acquire a direct ownership interest in any component of an Alaska LNG project [AS 31.25.080 (a)(23)]
- AGDC may enter into contracts related to treating, transporting, liquefying or marketing gas - *in consultation with DNR & DOR* [AS 31.25.080 (a)(24)]
- AGDC shall assist DNR & DOR to [AS 31.24.005 (2) & (3)]:
  - Maximize the value of the state's gas resources
  - Provide economic benefits in the state
  - Provide revenue to the state

# AGDC's Role in Alaska LNG

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- Signatory to the Joint Venture Agreement governing the Alaska LNG project
- Hold the state's 25% equity interest in the LNG facility (downstream component) of the integrated project
- Member of the Sponsor Group, Management Committee (ManCom) and the Project Steering Committee (PSC)
- Participate in integrated project decisions
- Participate in commercial negotiations related to marketing, expansion, third-party access and domestic gas supply
- Plan and develop off-takes for in-state gas deliveries

# Alaska LNG Project Participation



- AGDC holds State's interest in downstream: LNG Facility
- TransCanada holds State's interest in mid-stream: Pipeline & GTP

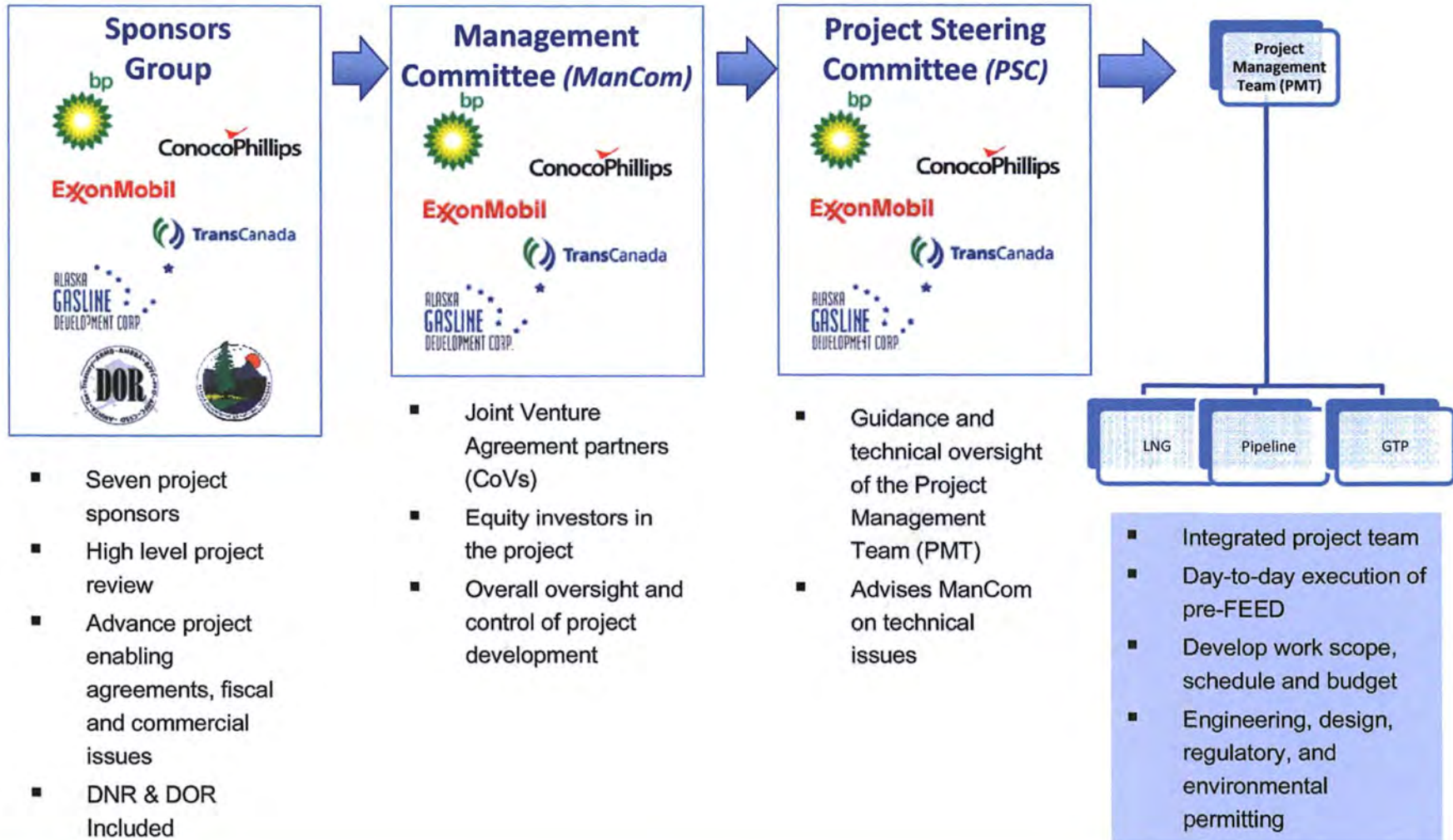
# Governance Related Issues

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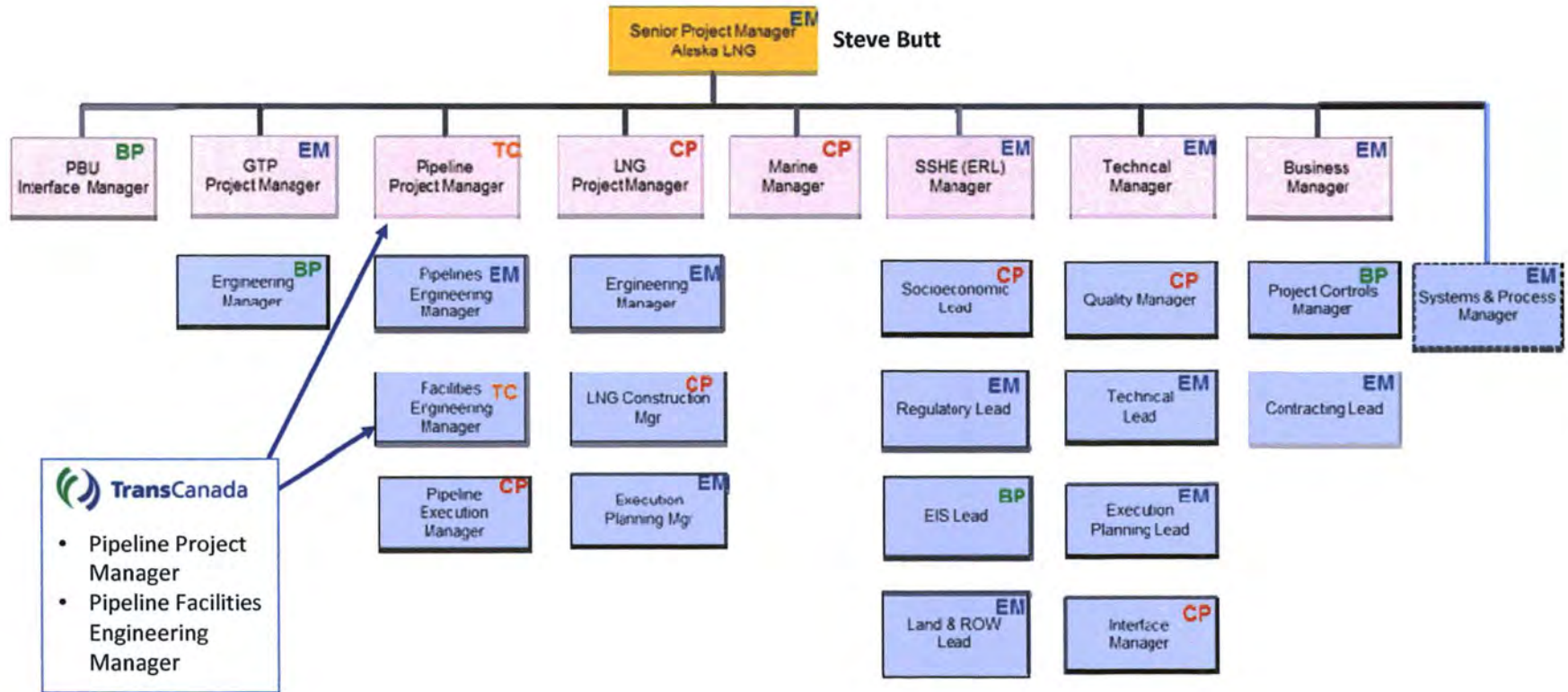
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- **Equity Alignment:** State's share of gas in the project (25%) is not equal to its current equity in the integrated project:
  - State, through AGDC, holds 25% in the downstream (LNG plant)
  - TC holds 25% in the midstream (pipeline & GTP)
  - State's resulting equity in the integrated project is ~ 12.5%
  
- **Voting Rights:** State doesn't have full voting participation in all project decisions:
  - State, through AGDC, votes on downstream issues
  - TC votes on mid-stream issues
  - If TC exits, AGDC would have full voting rights on each project component and in all integrated project decisions

# Project Governance



# Project Management Team (PMT)



TransCanada currently has two individuals in the leadership structure of the PMT

# Project Management Team (PMT)

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- Project Management Team (PMT) created by Alaska LNG co-venture partners (CoVs) to lead day-to-day project development
- PMT is led by ExxonMobil's Steve Butt and staffed with other CoV employees who have been seconded to the project
- CoVs nominate employees based on skills and experience
  - PMT evaluates nominees and Management Committee approves
  - Positions are filled using a “best player plays” approach
  - Seconded's salary and expenses covered by project
- AGDC is active at all governance levels – Sponsors, ManCom and PSC
- AGDC does not currently have employees seconded to PMT
- PMT hires engineering and specialist contractors to advance design efforts
  - Vast majority of project work is done by contractors under the supervision of the PMT

# Project Management Team (PMT)

## Staffing Principles

- Leverage existing company strengths - ensure “right person, right job” or “best player plays”
- Joint Venture Agreement (JVA) parties can nominate employees for any position
- Ensure all parties are represented at leadership levels
- Locate teams for maximum effectiveness; co-located with major contractors where appropriate
- Appointments to leadership roles require unanimous approval of the parties

Project Secondees	EM	CP	TC	BP	Total
Leadership Team <i>Senior Project Manager and direct reports</i>	5	2	1	1	9
Key Positions	10	4	1	3	18
Other Positions	73	20	10	5	108
<b>Total</b>	<b>88</b>	<b>26</b>	<b>12</b>	<b>9</b>	<b>135</b>

# TransCanada's Role Alaska LNG

---

- Hold the state's 25% interest in the project's mid-stream: pipeline and gas treatment plant (GTP)
- Fund pre-FEED cash calls associated with the state's mid-stream interest
- 12 secondees, primarily pipeline Subject Matter Experts (SME), in the Project Management Team
  - Leadership team, Pipeline Project Manager (1 of 9)
  - Key role, Pipeline Facilities Engineering Manager (1 of 18)
  - Environmental, Regulatory, & Land (ERL) (1 of 32)
  - Gas Treatment Plant sub-project (1 of 17)
  - Pipeline sub-project (8 of 36)

# TransCanada's Role Alaska LNG

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- TransCanada (TC) is not expected to build the pipeline, that will be managed by the PMT
- If TC exits the project, the PMT will seek nominations for the vacated positions
- TC has offered to allow its PMT employees to remain during a transition period
- All CoVs, including AGDC, can nominate employees to fill those positions
- AGDC has individuals qualified to nominate for Pipeline and GTP openings

# AGDC Technical Team - Skills

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AGDC's technical staff:

- Senior credentialed professionals with industry and mega-project backgrounds
- Arctic pipeline and facilities design, construction, and operations experience
- Alaska-specific design and construction experience
- Major capital project management expertise
- Working knowledge of technical and regulatory assets owned by AGDC

# AGDC Technical Team - Results

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AGDC completed development of the Alaska Stand Alone Pipeline (ASAP) Project:

- Completed Pre-FEED and FEED for North Slope gas treatment facility, 733-mile mainline, and 30-mile Fairbanks lateral pipeline
- Completed Class 3 cost estimate and project execution plan
- Delivered on time and under budget
- Core technical team still engaged on an interim basis pending state policy decisions

# AGDC Ability to Assume TC's Role

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- Currently holds state's interest in LNG facility – a complex and expensive component in the integrated project
- Already assumed TC's role in coordinating the FERC NEPA process
- Engaging on mid-stream technical issues currently
- Technical staff available to fill PMT positions as necessary:
  - Subject Matter Experts (SME) based in Alaska
  - Key roles in prior Alaska pipeline projects, including TAPS
  - Dedicated professionals committed to SOA interests

# Alaska LNG Fund Status

AKLNG Fund Capitalization (SB 138)		\$ (000)
<b>Original Fiscal Note Allocations</b>		
AGDC: AKLNG Project Participation FY14 & FY15		\$67,265
Dept. of Revenue: Project Financing Options Report		\$2,500
Dept. of Transportation: Infrastructure Studies		\$70
<b>Total Fund Cap</b>		<b>\$69,835</b>
<b>Spending by Category Thru FY16</b>		
RSA to Department of Revenue		(\$2,500)
RSA to Department of Transportation		(\$70)
AKLNG Project Cash Calls		(\$51,382)
AGDC Corporate Operating Component		(\$4,396)
AGDC External Contractual Support (SMEs)		(\$5,235)
Additional Contractual Work for TC Pickup		(\$5,900)
Reimbursement Due AGDC for AKLNG Project Work		\$2,750
<b>Estimated Outflow Thru FY16</b>		<b>(\$66,733)</b>
Estimated Available Start of FY17 Budget Year		\$3,101 **

\*\* Available to apply towards AGDC's FY17 Alaska LNG operating budget component

# AGDC Special Session Appropriations

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## Capital Appropriation (\$144,045.0)

- \$68,445.0 – Reimburse TransCanada and “buy-out” their mid-stream interest
- \$75,600.0 – Fund state’s full 25% share of remaining pre-FEED

## Receipt Authority (\$5,000.0): Statutory Designated Program Receipts (SDPR)

- Allow AGDC to be reimbursed for Alaska LNG related field work conducted on behalf of the project

# AGDC Special Session Appropriations

**TC Buyout**

\$46.9 - Cash Calls thru 2015  
 \$21.5 - Development & Carrying Costs  
 \$68.4 - Total Reimbursement & Buyout

Expectation Before 2016 WP&B	W/New Pre- FEED Scope & Budget Change
------------------------------------	--

TC Buyout	\$ 68.4	\$ 68.4
Pick-Up Remaining Cash Calls	\$ 29.6	\$ 29.6
Allowance for Mid-Stream Scope Changes	\$ 8.8	\$ 31.0
	\$ 38.4	\$ 60.6
	\$ 106.8	\$ 129.0
Allowance for DownStream Scope Changes	\$ -	\$ 15.0
	\$ 106.8	\$ 144.0

**Cash Calls 2016 to Pre-FEED  
Conclusion**

\$31 - Go Forward Midstream  
(Pipe/GTP)

\$15 - Go Forward  
Downstream (LNG)

30% contingency on \$29.6 pick-up

# Pre-FEED Scope & Budget Changes

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Pre-FEED scope and schedule will increase by \$182 million to \$694 million:

- State's total share is \$173 million -- \$66 million liquefaction plant, \$107 million mid-stream (GTP and pipe)
- Advancing work into pre-FEED is important to have the best information available to complete internal review and make FEED decision
- Project is maturing through the stage-gate development process
- Moving some activities from FEED to Pre-FEED to facilitate better design and decision making

# Pre-FEED Scope & Budget Changes

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Scope changes are designed to improve project economics, permitting outcomes and the quality of information available for FEED evaluation:

- Component level optimization to lower capital costs and improve project economics (\$57 million)
- Increase scope of geotechnical and geohazard work at GTP and LNG sites (\$29 million)
- Increase regulatory and pre-bid work on FEED contracting; complete weather delayed off-shore field work (\$66 million)
- Bring 48” pipe deliverables up to 42” level of development (\$30 million)



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# Alaska Stand Alone Pipeline (ASAP) Project Status



# ASAP Project Status

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## Alaska Stand Alone Pipeline (ASAP)

- State's back-up plan in the event Alaska LNG doesn't progress
- AGDC concluded FEED in Dec 2014; Construction ready – Class 3 estimate of \$10 billion (+/- 20%)
- Commercial activities – tariff filing and open season - on hold pending outcome of AKLNG project
- Progressing U.S. Army Corps Supplemental EIS process to secure federal permits and right-of-way

# In-State Pipeline Fund Status

## In-State Natural Gas Pipeline Fund Capitalization (HB 4) \$(000)

**Original Appropriation** \$355.0

### Spending by Major Category To Date

AGDC: Corporate Operating & ASAP Project Development	(\$135.0)
Legislative Reappropriation to Public Education Fund (2015 Session)	(\$157.0)
DNR: North Slope Gas Commercialization Component FY16	(\$9.0)
Estimated Outflow as of Oct 2015	(\$301.0)
<b>Current Balance</b>	<b>\$54.0</b>
Maintain ASAP Project Viability & Readiness	(\$12.0)
AGDC: Contractual & FY16 Operating Component	(\$10.0)
Estimated Available Start of FY17 Budget Cycle	<b>\$32.0</b>

# Questions?

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**Joe Dubler**

*VP, Commercial Operations*

**Frank Richards**

*VP, Engineering & Program Development*

Alaska Gasline Development Corporation (AGDC)

*3201 C Street, Suite 200*

*Anchorage, Alaska 99503*

*(907) 330-6300*

**6. Friday**  
**October 30, 2015**

# Alaska LNG™

Fueling Alaska's Future



30 October 2015

## Project Update

# Alaska LNG – Project Overview

*An integrated liquefied natural gas export project providing access to gas for Alaskans*

### Gas Treatment Plant (GTP)

- 3.3 BCFD peak winter rate
- Three trains with compression, dehydration and chilling for gas conditioning (remove impurities)
- CO<sub>2</sub> removed and compressed for injection at PBU



Gas Treatment Plant

### LNG Storage & Marine Terminal

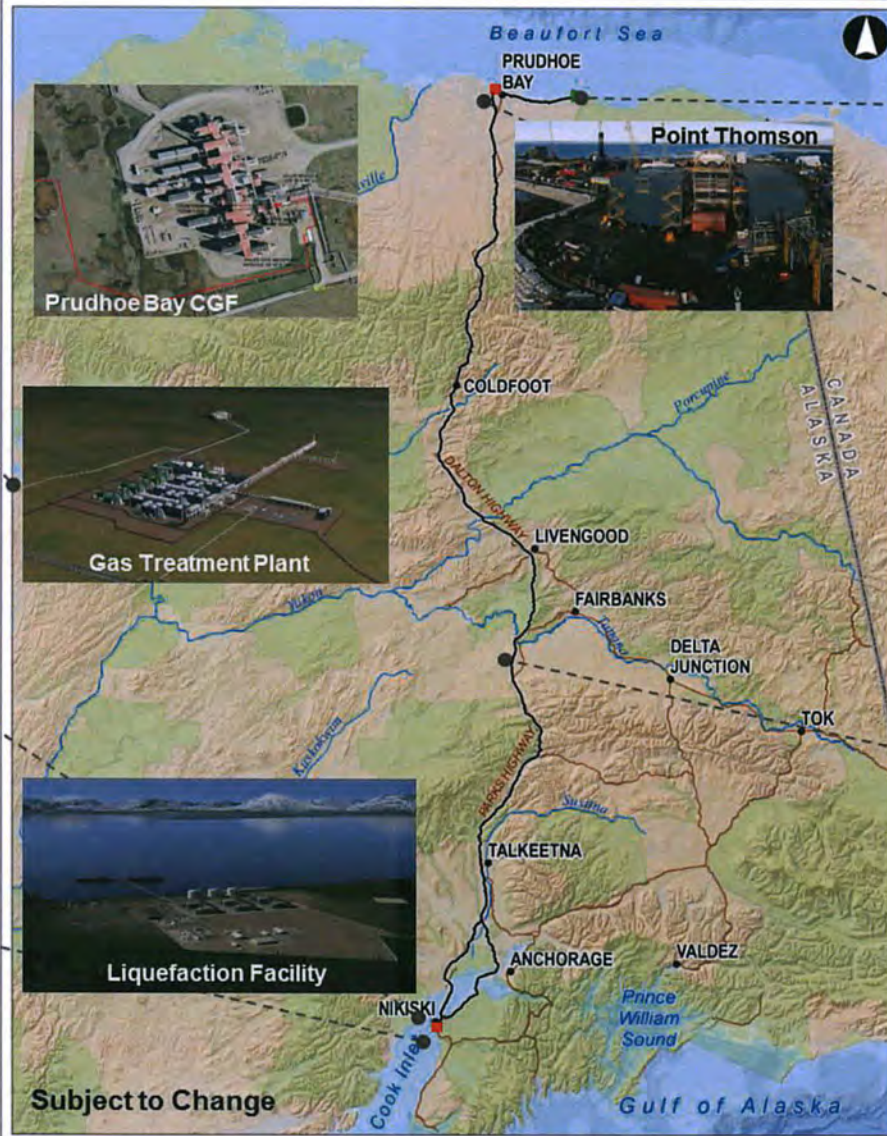
- LNG storage tanks
- Two jetties to accommodate 15-20 LNG carriers per month



Liquefaction Facility

### Liquefaction Facility

- Natural gas is cooled to -260 degrees to condense the volume 600 times
- 3 trains dehydrate, chill and liquefy gas to produce up to 20 million tons of LNG each year



### Point Thomson Gas Expansion\*

- New wells
- New gas processing facilities

### Prudhoe Bay Tie-In\*

- Gas delivery to new gas treatment plant (GTP)
- Integration with existing CGF
- Injection of CO<sub>2</sub> from GTP

### Gas Pipeline

- 800+ mile 42" diameter gas pipeline from gas treatment plant to liquefaction facility
- 3.3 BCFD capacity
- 8 compressor stations
- ~ 5 in-state off-take points

\* Prudhoe Bay and Point Thomson Modifications/New Facilities are managed by Prudhoe Bay Unit and Point Thomson Unit Operators, respectively, and are closely coordinated with the Alaska LNG Project.

Artists renditions of LNG and GTP

# Alaska LNG – Project Overview

Alaska LNG™

## Safety, Health and Environment Report:

- ✦ Building culture of caring – 1 minor vehicle incident, 3 first aid, 2 near miss

## Executive Summary: **\$303M Through Sep 15**

- ✦ Spend: ~~\$243M~~ on pre-FEED th **83% Through Aug 15**
- ✦ Initial design scope ~~~75%~~ complete, 2015 field work ~~~50%~~ complete
- ✦ Finalizing project design/execution basis (cost and schedule estimate: **100% Through Sep 15**)
- ✦ Ongoing collaboration with regulators at local, State and Federal levels
- ✦ Community open-house sessions continuing with FERC participation
- ✦ Progressing w **Submitted** SoA request for a 48" pipeline system
- ✦ Developing ~~2016~~ Work Program and Budget

## Key Messages:

- ✦ Alaska LNG is an integrated LNG project – **plants plus pipeline**
  - Regulated under FERC Section 3; allows design integration
  - Integrated design includes ~ 5 off-take points for in-state supply
- ✦ Focus on **lowest cost of supply** to compete in a global market
- ✦ **Alignment, risk and cost reduction (ARC)** remain key to success



Gas Treatment Plant (GTP)



Pipeline Compressor Station



LNG Plant

- Fully integrated project team
  - All companies represented at all levels – “best player plays”
  - Leadership team in place (~~27~~ roles, over 800 years experience)
  - Leverage skills to meet common goal of delivering Alaska LNG
- Teams “co-located” to ‘take work to the people’
  - Integrate teams into contractors’ offices for key work scopes
  - All offices include representatives from each company
- Building project organizations
  - Over ~~100~~ full time employee positions filled
  - ~~3~~ offices: Anchorage, Calgary and Houston
  - Expect several hundred contractors for each project
  - Working to award contracts, start contractors in 4Q 14
  - Strong focus on Alaskan content and engaging Alaskan resources

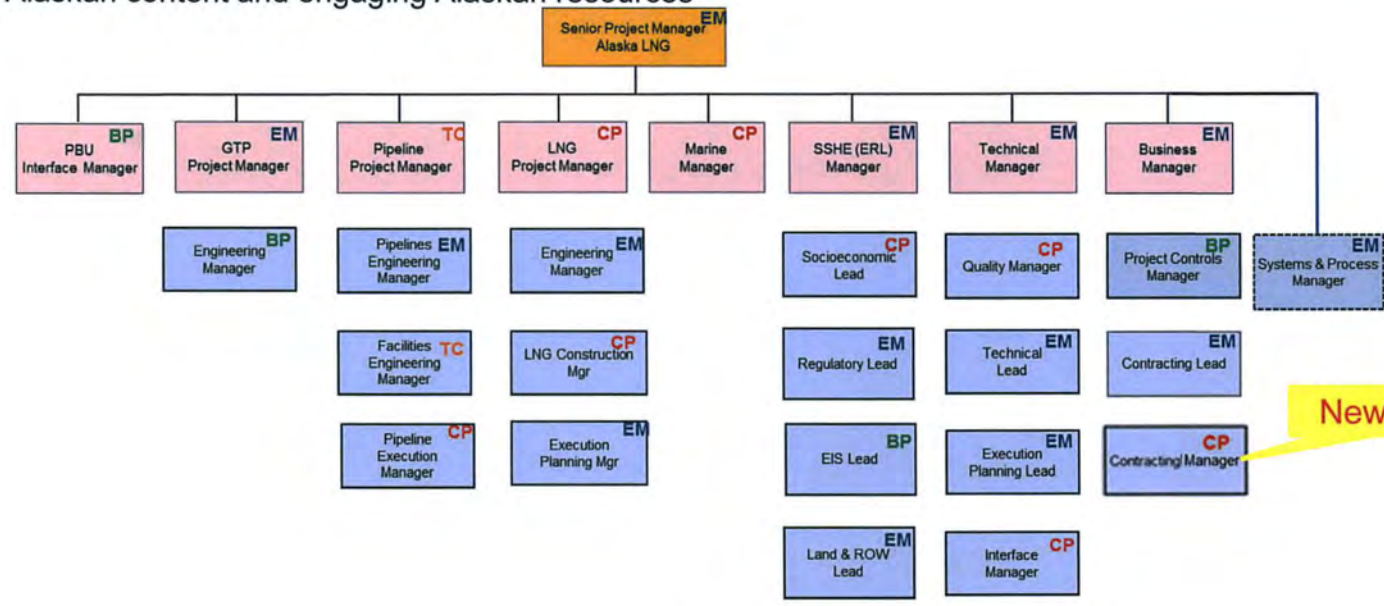
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135

4 with Denver

Awarded

Alaska LNG Project Leadership Team



New Role

## AKLNG Project Team ---- Pre-FEED Project Scope (under JVA)

JVA Project Team Scope

- Integrated Project Design Basis
- Train sizes and configuration
- Finalize Plot Plans
- Driver-compressor selection
- Air emissions and modeling
- Finalize Process Design
- Generate data for Resource Reports
- Finalize Pipeline Size and Route
- Cost & Schedule Deliverables
- FEED Execution Plan
- Regulatory/Permitting Plan
- ITT and FEED Contracting Plan

## Other Activities being executed by Co-Venturers & State of Alaska

Commercial Work by CoVs

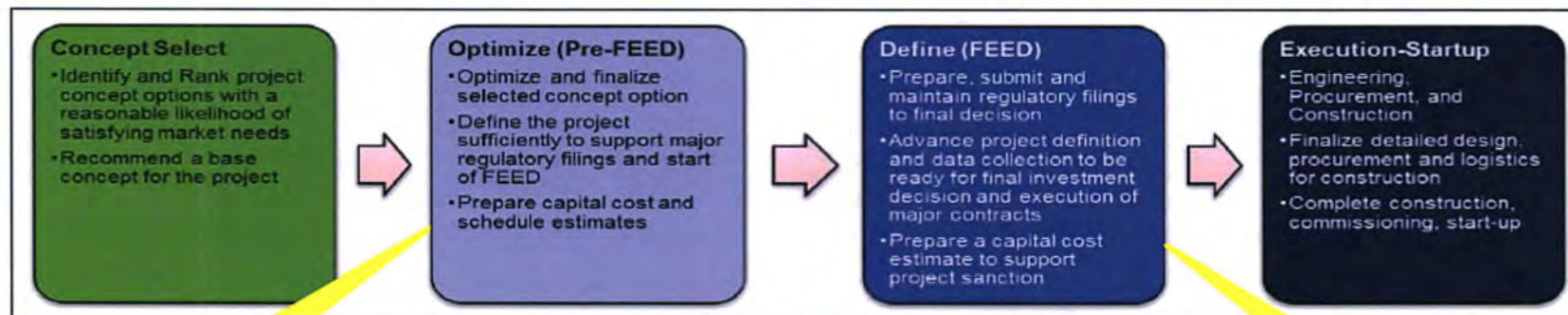
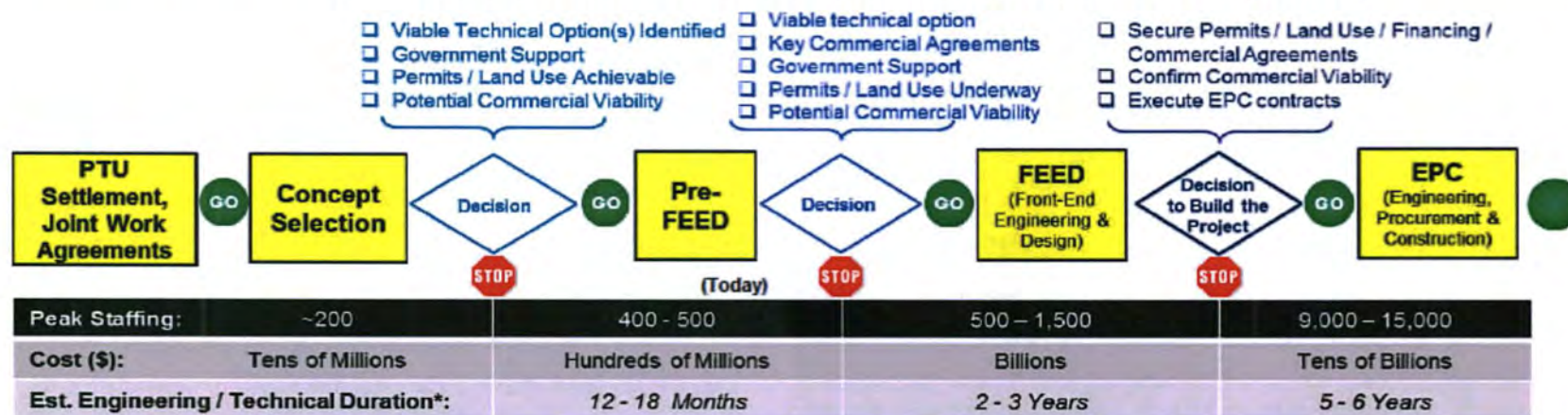
- SoA - Gas Fiscals, PILT, RIK
- Governance for FEED and beyond
- Long Term Organization, including roles and responsibilities
- FERC Filings
- Commercial / Fiscal / Regulatory Agreements
- Gas supply / balancing
- Upstream Agreements
- Others.....

### Keys to Success (ARC)

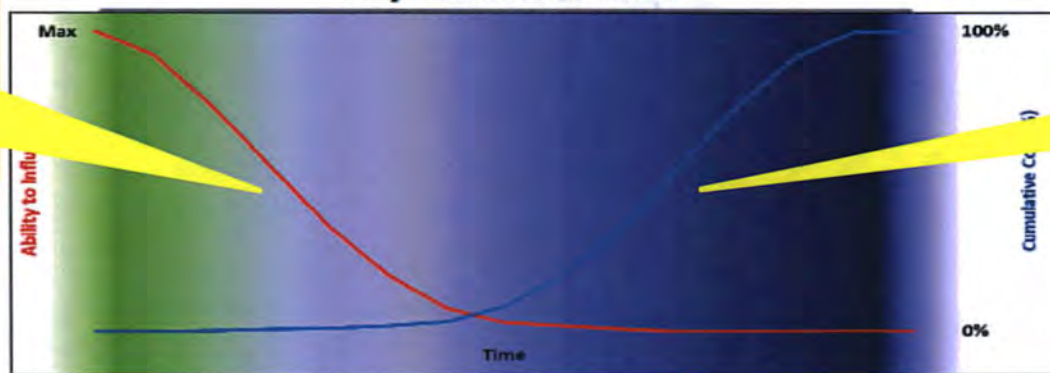
- Alignment
- Risk reduction - reducing the range of uncertainty (perceived risks)
- Cost reduction and predictability

# Project Development Phases

## Alaska LNG – Phased/Gated Project Management Process (Oct 12)



Project Influence Curve



On Schedule to complete Pre-FEED by MY16, FEED decision by MY17, consistent with HOA

Key is to prepare for project success in FEED / EPC to minimize Cost of Supply

# Alaska LNG by-the-numbers

Alaska LNG™

## Technical and ~~Financial~~ \$303M Through Sep 15

- \* ~~\$243M~~ + on pre-FEED through August 15
- \* 570+ acres purchased in Niliiki ~~Area~~ 135
- \* ~~130~~+ full-time personnel on Alaska LNG Project
- \* 200+ people in the field (80 scientists)
- \* 950+ acres of topographic survey
- \* 15,500+ acres of cultural surveys
- \* 148,000+ feet of shallow seismic completed
- \* 250 boreholes drilled
- \* 100+ environmental site assessments completed
- \* 2,000+ helicopter flying hours, 87,000+ miles driven
- \* 1,100+ field check points set/confirmed

## Regulatory

- \* 2 DoE conditional export licenses (FTA / non-FTA)
- \* 10,000+ pages of regulatory filings

## Engagement

- \* 90+ community outreach events
- \* 100s of Alaska entities involved in logistics and labor studies
- \* ~700 Alaska businesses – information sessions
- \* 40+ meetings with Alaska Native regional and village corporations and tribal entities



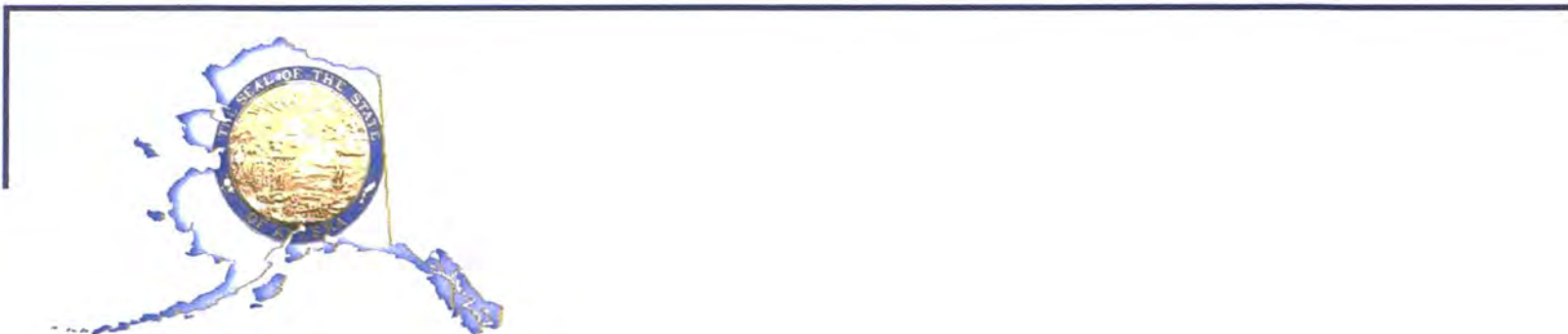
# Alaska LNG

Fueling Alaska's Future

AK-LNG.COM

Questions

**7. Dept. of Law  
SB 138 (2014)**



# **Senate Bill 138 & AKLNG Project Overview**

**October 2015**

**By Department of Law & Department of Natural Resources**

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# SENATE BILL 138

- Passed April 2014
  - Provides Authority for the AKLNG Project
    - **AGDC:** Infrastructure
    - **DNR & DOR:** Gas
    - **Legislature:** Contract Approval
  - Provides New Provisions for Tax as Gas (TAG)
  - Amends Oil & Gas Production Tax Statutes
  - Created Municipal Advisory Gas Project Review Board
  - Requires Reports to Legislature
-

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## Provides Authority for AKLNG Project

# AGDC

### SECTIONS 7-21

- Amended AGDC's Statutory Purpose, Powers & Duties, Funds to allow AGDC to hold an ownership interest in an Alaska liquefied natural gas project
  - **AS 31.25.005** – AGDC may develop and have primary responsibility for developing an Alaska liquefied natural gas project
  - **AS 31.25.080(a)** – AGDC may acquire ownership interest in pipeline, gas treatment, liquefaction
  - **AS 31.25.110** – Alaska liquefied natural gas project fund

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## Provides Authority for AKLNG Project

# DNR

### SECTIONS 24-25, 28

- Give DNR commissioner authority to negotiate commercial agreements, market RIK/TAG, & modify leases
  - **AS 38.05.020(b)(11)** – In consultation with DOR, participate in negotiation of agreements that include balancing, marketing, disposition of natural gas, and offtake
  - **AS 38.05.020(b)(14)**– In consultation with DOR, take custody of tax delivered to the state as gas (TAG) and manage project services and disposition and sale of TAG
  - **AS 38.05.180(hh)-(ii)** – DNR commissioner may make certain modifications to AKLNG Project leases for initial project term

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## Provides Authority for AKLNG Project

# DOR

### SECTIONS 24-25, 40-41

- Expand the authority of commissioner of DOR
  - **AS 38.05.020(b)(11)** – In consultation with DOR, participate in negotiation of agreements that include balancing, marketing, disposition of natural gas, and offtake
  - **AS 38.05.020(b)(14)**– In consultation with DOR, take custody of tax delivered to the state as gas (TAG) and manage project services and disposition and sale of TAG
  - **AS 43.05.010(17)** – DOR commissioner directs the disposition of revenues received from TAG

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## Provides Authority for AKLNG Project

# LEGISLATURE

### SECTION 24

- Gives Legislature final approval of contracts over 2 years
  - **AS 38.05.020(b)(11)**– Any agreement or contract negotiated under this paragraph to which the State is a party is not effective unless the legislature authorizes the governor to execute it

### SECTION 77

- Legislature also receives quarterly AKLNG Project briefings

# TAG & Taxes

### SECTIONS 42-69

- Relate to tax as gas (TAG) in the production tax, and conforming amendments in corporate income tax and oil and gas and pipeline property tax
  - None of these sections address AKLNG Project authority in the midstream or liquefaction
  - Administration is either in compliance with, or no action is required for, each of these sections

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# Municipal Advisory Gas Project Review Board

## MAGPR Board

### SECTION 74

- Requests that governor establish an advisory planning group to advise governor on municipal involvement in a North Slope natural gas project
  - MAGPR Board assembled by AO 269 on March 25, 2014
  - Chaired by Commissioner of Revenue
  - Prepare MAGPR Annual Report
  - Meets regularly using transparent collaborative public process to
    - Discuss AKLNG Project property tax issues
    - Recommend possible options to address & mitigate impacts of new infrastructure associated with AKLNG Project
  - Currently discussing property tax structure, amounts & allocation
    - Tentative proposal \$880M Impact Fee, \$15.7B Flow Rate Property Tax
  - Next MAGPR Board meeting will take place after special session
  - Information available at <http://dor.Alaska.gov/MAGboard>

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## Requires Reports to Legislature

# Required Reports

### SECTIONS 73, 76

- In-State Gas Report & Financing Report
  - **Section 73** – DNR in consultation with AGDC to provide report and recommendations on in-state gas and costs, benefits, and risks associated with a pipeline larger than 42 inches, due on or before date FTSA submitted to legislature for approval
    - **STATUS:** drafting; final on or before date FTSA submitted
  - **Section 76** – DOR to provide report on financing options, including options for municipalities, residents, or regional corporations to invest in the Project, due when first contract submitted to the legislature.
    - **STATUS:** interim report provided; final with first contract

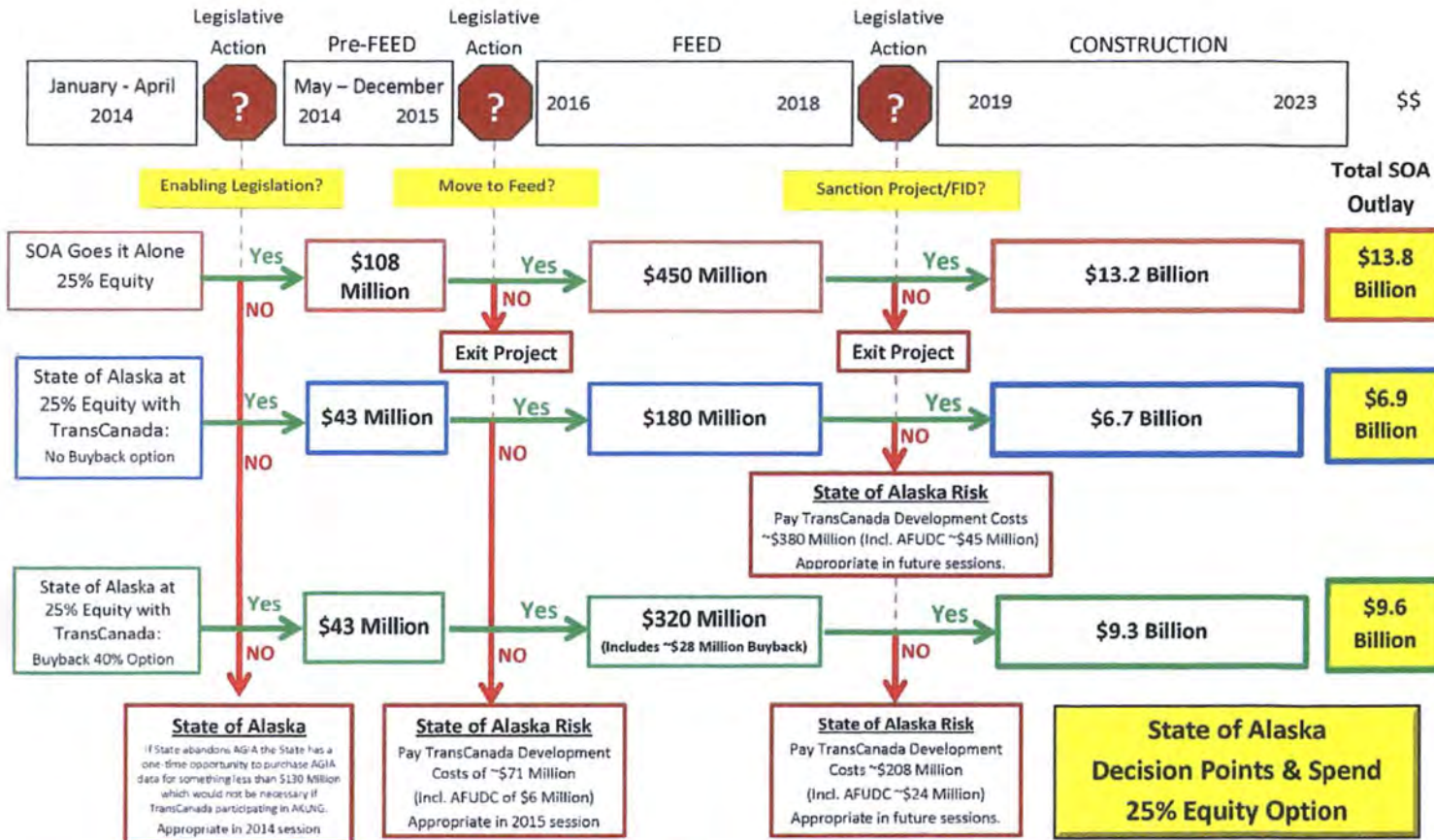
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# HEADS OF AGREEMENT

- **PARTIES:** State, AGDC, Producers, TC
- **KEY PROVISIONS:**
  - **ARTICLE 4:** Pre-FEED technical work to take between 18 and 24 months, with FEED decision expected within 36 months
  - **ARTICLE 5:** State equity participation & a State Gas Share
  - **ARTICLE 6 & Appendix A:** Pro-expansion principles
  - **ARTICLE 6.5:** At least five in-state off take points for domestic gas needs
  - **ARTICLE 8:** subject to the State being satisfied with project-enabling contracts, including satisfactory arrangements for disposition of the State Gas Share, the State/DNR will elect RIK

# AKLNG PROJECT STATUS

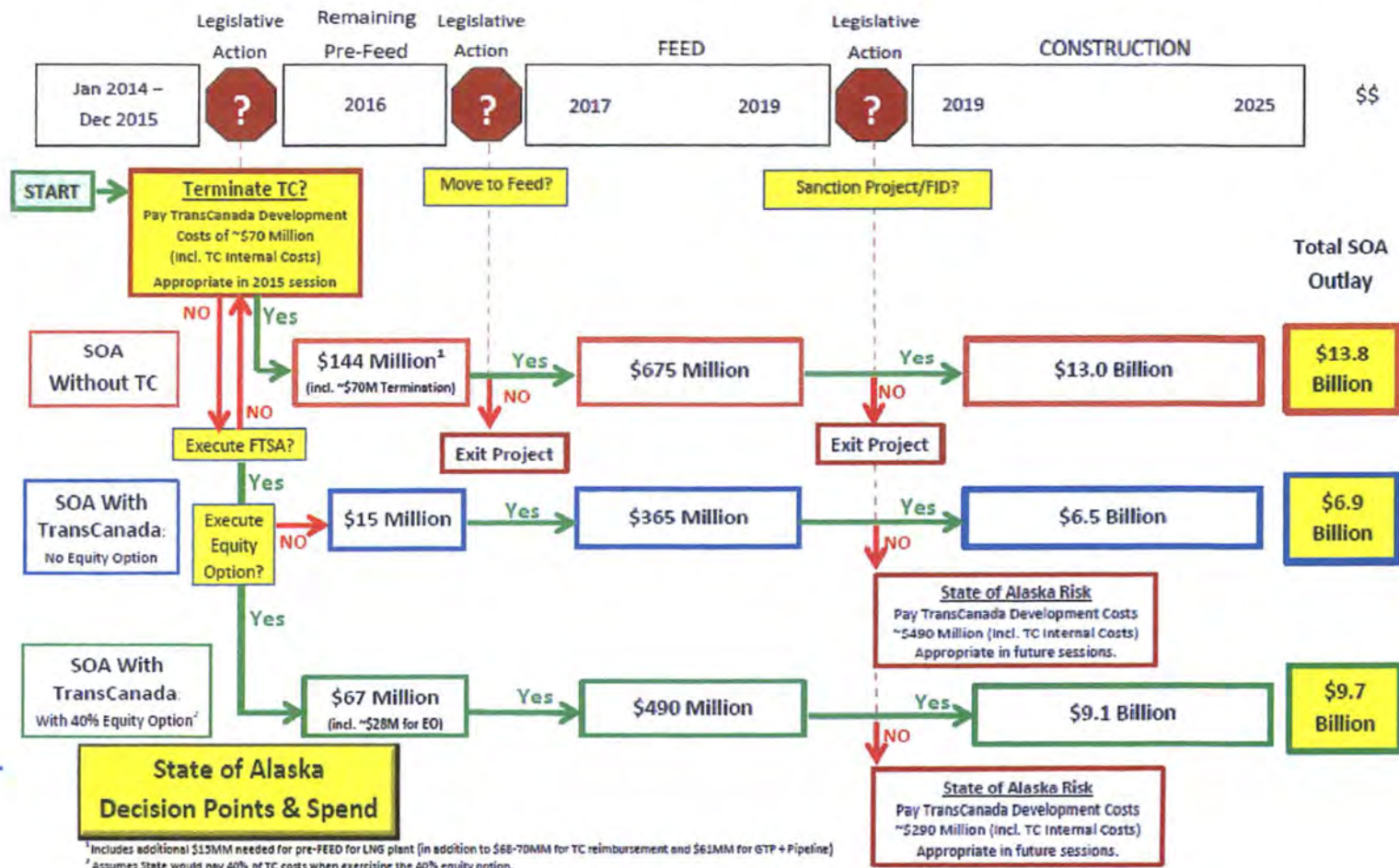
- Provided to Legislature in 2014



ExxonMobil/ConocoPhillips/BP's combined share of the total project cost is approximately \$41.2 Billion, which equals 75% of the total project costs.

# AKLNG PROJECT STATUS

- Revised** : Technical work delivery dates have changed, “Legislative Action” on commercial agreements not yet needed, but “SOA Without TC” numbers consistent with 2014 numbers



# AKLNG COMMERCIAL STATUS

Active negotiations among the AKLNG Parties are currently underway on the following commercial agreements. As these negotiations includes proprietary and confidential terms and conditions, additional details on these contracts and agreements will be provided as negotiations are completed.

- Gas supply/balancing Agreement
- Governance Agreement
- Expansion and Access Agreement
- Fiscal Agreement
- Withdrawal Agreement
- Gas Sales by Withdrawing Parties Agreement

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# STATE AKLNG TIMELINE

## KEY STEPS TO FEED

1. **Withdrawal Agreement, Gas Balancing, Gas Sales Agreement by December**
2. **Lease Modifications**
3. **RIK-relevant Commercial Agreements**
4. **RIK/RIV Decision**
5. **Finalize Other Agreements**
6. **Executable Agreements to Legislature for Approval**
7. **Constitutional Amendment to Legislature for Inclusion on Ballot**
8. **Governor Executes Approved Agreements**
9. **November 8, 2016 Public Vote on Amendment**
10. **FEED**

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# STATE AKLNG TIMELINE

## 12/2015

- Withdrawal, Gas Balancing, Gas Sales Agreements

## 1Q2016

- Lease Modifications
- RIK-related contracts completed
- RIK/RIV decision process begins

## 2Q2016

- RIK/RIV Finding
- Contracts & Amendment to Legislature
- Legislature Approves

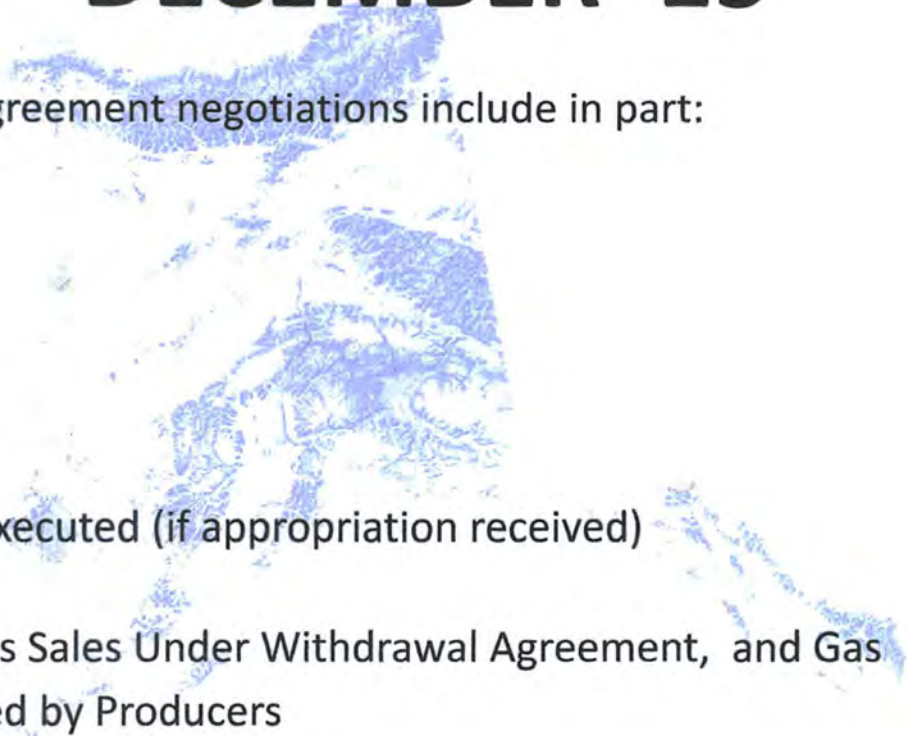
## 3-4Q2016

- Pre-FEED deliverables reviewed
- Nov. 8, 2016 Vote

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## STATE AKLNG TIMELINE

### OCTOBER – DECEMBER '15

- Ongoing key commercial agreement negotiations include in part:
    - Gas Supply & Balancing
    - Governance
    - Expansion & Access
    - Marketing Agreements
    - Fiscal
  - TransCanada termination executed (if appropriation received)
  - Withdrawal Agreement, Gas Sales Under Withdrawal Agreement, and Gas Balancing Agreement agreed by Producers
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## STATE AKLNG TIMELINE

### JANUARY – MARCH '16

- Ongoing key commercial agreement negotiations
- RIK-relevant agreements reflecting satisfactory terms finalized and submitted to DNR
- DNR's RIK/RIV decision process initiated (target 60 days)
- All AKLNG agreements needed for FEED in executable form

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## STATE AKLNG TIMELINE

### APRIL – JUNE '16

- Finalize DNR RIK/RIV determination & finding (subject to submission of RIK-relevant contracts to DNR 60 days earlier)
  - Agreements submitted to Legislature
  - Legislature approves agreements
  - Legislature approves constitutional amendment
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## STATE AKLNG TIMELINE

### JULY – DECEMBER '16

- All Pre-FEED deliverables reviewed by Parties and FEED recommendation with appropriate documents is prepared
- **November 8, 2016:** General election including constitutional amendment

# CONCLUSION

- Administration is complying with Senate Bill 138
- State hopes to provide Legislature with agreements and constitutional amendment in 2016

# SENATE BILL 138 Work to Date Sectional Review

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## **Section 1-6 (AS 29.45.080 and 29.45.090, Municipal property tax limitations)**

Sections 1-6 are amendments to the statutes on municipal taxation.

*Status: In Compliance.*

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## **Section 7 (AS 31.25.005, Purpose of the Alaska Gasline Development Corporation)**

Section 7 of SB 138 amended AS 31.25.005, related to the purpose of the Alaska Gasline Development Corporation (AGDC), to add new subsections (1) - (2) to direct the AGDC to develop and have primary responsibility for developing natural gas pipelines, an Alaska liquefied natural gas project, and other transportation mechanisms to deliver gas in-state for the maximum benefit of the people of the state, and to provide economic benefits and revenue to the state.

Subsection (3) expanded the AGDC's purpose to include assisting the commissioners of natural resources and revenue to maximize the value of natural gas royalty and tax values. Subsection (5) expanded the AGDC's purpose to include advancement of an Alaska liquefied natural gas project, including infrastructure related to liquefaction and commercial support; fees for services provided to the state may not be greater than the cost of the service to the AGDC.

*Status: In Compliance. The AGDC's purpose was expanded in SB 138. The corporation now holds the state's 25% equity interest in the liquefaction component of the Alaska Liquefied Natural Gas Project (AKLNG Project) and as a signatory to the Joint Venture Agreement (JVA) participates in integrated project governance and decision making. The AGDC is the technical AKLNG Project lead for the state.*

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## **Section 8 (AS 31.25.010, Structure)**

Section 8 conformed AS 31.25.010, the structure of the AGDC related to dissolution, to include a reference to the purpose section in AS 31.25.005 and an Alaska liquefied natural gas project.

*Status: In Compliance. The AGDC continues to act in the best interests of the state.*

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## **Section 9 (AS 31.25.020(a), Governing body)**

Section 9 amended AS 31.25.020(a), the composition of the AGDC board of directors, to remove a provision which would have allowed the governor to appoint the commissioner of natural resources and the commissioner of revenue to the AGDC board after a project under AS 43.90 (the Alaska Gasline Inducement Act) has been abandoned or the commissioners are no longer signatories on a valid contract under AS 43.90. With this amendment, the commissioner of natural resources and the commissioner of revenue may not be appointed to the AGDC board.

*Status: In Compliance. The AGDC has a full seven member board of directors. Governor Walker designated Commissioner Drygas, Commissioner Hladick, Hugh Short, Joey Merrick and Rick Halford.*

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**Section 10 (AS 31.25.040, Administration of affairs; program directors)**

Section 10 amended AS 31.25.040 to add new subsections to direct the AGDC board, to the maximum extent practicable, to maximize efficient use of state resources, and establish separation with respect to the missions and information for an in-state natural gas pipeline and an Alaska liquefied natural gas project. The AGDC board may appoint separate program directors for an Alaska liquefied natural gas project and an in-state natural gas pipeline. A program director reports to the executive director of the corporation.

***Status: In Compliance.** The AGDC continues to prudently and efficiently use the resources it has received to advance the AKLNG Project and to maintain the readiness for the Alaska Stand Alone Pipeline (ASAP) project. The AGDC has established appropriate internal protocols to ensure no project specific confidential information is compromised. The AGDC acquired in-house liquefaction expertise with the hiring of Fritz Krusen as Vice President of Alaska LNG. Mr. Krusen serves as the corporation's technical project lead and is the AGDC's representative on the Project Steering Committee (PSC).*

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**Sections 11-12 (AS 31.25.050, Legal counsel)**

Sections 11 and 12 amended AS 31.25.050 to add conforming language and a new subsection that requires the attorney general to be legal counsel for the AGDC for legal services related to development of contracts and agreements by the AGDC that relate to an Alaska liquefied natural gas project. The attorney general is to consult with the AGDC when procuring outside counsel for legal services for the AGDC related to an Alaska liquefied natural gas project. The AGDC retains the authority to obtain legal counsel to advise the corporation in legal matters and represent it in litigation.

***Status: In Compliance.** The Attorney General serves as the corporation's legal counsel for AKLNG Project related matters, including the selection of outside counsel.*

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**Sections 13-15 (AS 31.25.080, Powers and duties)**

Section 13 amended AS 31.25.080(a), the powers and duties of the AGDC, to add references to an Alaska liquefied natural gas project where needed. New paragraph (23) added, for an Alaska liquefied natural gas project only, authority to acquire an ownership interest in the Alaska liquefied natural gas project components (pipeline facilities, treatment and liquefaction) or in an entity or joint venture with an ownership or other interest in an Alaska liquefied natural gas project. This power is limited to the entity of the AGDC pursuing an Alaska liquefied natural gas project. New paragraph (24) allows the AGDC, after consultation with the commissioners of revenue and natural resources, to enter contracts for services related to an Alaska liquefied natural gas project.

Section 14 was a conforming amendment to AS 31.25.080(e) to explicitly reference the in-state natural gas pipeline open season currently in the AGDC statutes.

Section 15 added a new subsection to AS 31.25.080 to direct that an entity or subsidiary of the corporation pursuing the in-state natural gas pipeline may not pursue an Alaska liquefied natural gas project (AS 31.25.080(a)(23)).

***Status: In Compliance.** The AGDC holds the state's 25% equity interest in the liquefaction component of the AKLNG Project and as a signatory to the Joint Venture Agreement (JVA) participates in integrated*

project governance. The AGDC is the technical project lead for the state. If the legislature supports the proposal to buy-out TransCanada's mid-stream interests, the AGDC would assume the state's full 25% ownership in the project in the mid-stream. The AGDC is working collaboratively with the Department of Natural Resources (DNR) and the Department of Revenue (DOR) on other project enabling agreements including those related to marketing, expansion, third-party access, domestic gas supply and in-state off-take.

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**Section 16 (AS 31.25.090, Confidentiality; interagency cooperation)**

Section 16 amended AS 31.25.090 by adding a new subsection, regarding confidential information held by the AGDC, to expressly direct that the commissioners of revenue and natural resources shall have access to contract information related to an Alaska liquefied natural gas project.

*Status: In Compliance.* The AGDC's Board of Directors has issued a proposed set of regulations dealing with confidentiality. The initial comment period ended on October 21st. Comments and questions are now under internal review.

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**Sections 17-18 (AS 31.25.100, In-state natural gas pipeline fund & AS 31.25.110, Alaska liquefied natural gas project fund)**

Section 17 amended AS 31.25.100 to direct that money appropriated to the in-state natural gas pipeline fund may be used for the in-state natural gas pipeline and for purposes related to transportation mechanisms in the state, including delivery of propane.

Section 18 establishes AS 31.25.110, the Alaska liquefied natural gas project fund in the AGDC. If money is appropriated to advance an Alaska liquefied natural gas project, the corporation shall create an account in the fund for that purpose. The money may be used without further appropriation for purposes related to an Alaska liquefied natural gas project and for the purpose of transferring revenues related to equity interests, contracts and other activities to the appropriate fund of the state as determined by the commissioner of revenue in consultation with the commissioner of natural resources.

*Status: In Compliance.* The AGDC has established internal accounting procedures for the Alaska liquefied natural gas project fund. The corporation has established a cost allocation methodology (85% In-State Fund/15% Alaska Liquefied Natural Gas Project Fund) to allocate corporate overhead costs.

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**Section 19 (AS 31.25.120, Creation of subsidiaries)**

Section 19 related to subsidiaries created under AS 31.25.120, removes a reference to acquiring the state's royalty share of natural gas yet leaves the broad authority to acquire gas from the North Slope. The AGDC may transfer assets between any subsidiaries it creates under this subsection, except that money for the in-state natural gas pipeline and an Alaska liquefied natural gas project may not be transferred. A reference, which may have been read to limit subsidiary formation to not for profit subsidiaries, was removed.

*Status: In Compliance.* The AGDC's Board of Directors authorized the corporation to form two subsidiary corporations, an in-state gas aggregator and an asset holding company. It is envisioned that the AGDC would aggregate in-state gas demand, primarily for small communities that are not currently on gas or that don't have an existing public utility. AGDC could pool that demand, perhaps assist in

*setting up local distribution entities and serve as an intermediary between gas owners and small in-state buyers. The asset holding company was created as a potential vehicle for holding TransCanada's AKLNG Project interests if they are in fact transferred to the AGDC.*

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**Section 20 (AS 31.25.140(c), Exemption from the State Procurement Code; application of the Executive Budget Act; corporation finances)**

Section 20 makes a conforming amendment in AS 31.25.140(c) on budgetary reporting to the legislature to reference the Alaska liquefied natural gas project fund, AS 31.25.110.

*Status: In Compliance.*

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**Section 21 (AS 31.25.390 AGDC Definitions)**

Section 21 amended AS 31.25.390 to add a definition of the Alaska liquefied natural gas project and includes an explanation of gas pipeline, gas treatment plant, liquefied natural gas plant, marine terminal, Point Thomson and Prudhoe Bay unit gas transmission lines.

*Status: In Compliance. No action necessary.*

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**Section 22 (AS 36.30.850(b), Exemption from Procurement Code)**

Section 22 added two new paragraphs (47) and (48) to AS 36.30.850(b), related to exceptions to the application of the state procurement code. Paragraph (47) exempts contracts for professional and technical services by the DNR to support the development of agreements and contracts under AS 38.05.020(b)(10) and (11). Paragraph (48) exempts contracts of the LAW, with client participation, for legal services related to an Alaska liquefied natural gas project, except that to the extent practicable the LAW shall use the procurement process for small procurements (AS 36.30.320) with participation of the client.

*Status: In Compliance.*

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**Section 23 (AS 37.05.610, Alaska Affordable Energy Fund)**

Section 23 added AS 37.05.610, an Alaska affordable energy fund as a special non-dedicated account in the general fund to develop infrastructure to deliver energy to areas in the state not expected to have direct access to a North Slope natural gas pipeline. The fund will receive 20 percent of the money received from the state's royalty gas transported in an Alaska liquefied natural gas project (net of royalty payments to the Alaska permanent fund).

*Status: In Progress, to be done prior to when gas sales revenue starts flowing. The Alaska Energy Authority (AEA) is working on standards for projects that could be funded from this source.*

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**Section 24 (AS 38.05.020, Authority and duties of the DNR commissioner)**

Section 24 amended the authority of the DNR commissioner by adding new paragraphs (10) – (12) to AS 38.05.020(b). The commissioner may enter into commercial agreements of not more than two years duration for project services related to the North Slope natural gas project. In consultation with the commissioner of revenue, the commissioner may participate in negotiations associated with a North

Slope natural gas project, including agreements that include balancing, marketing, disposition of natural gas, and offtake contracts associated with a North Slope natural gas project.

A contract or agreement negotiated in which the state is a party would not be effective against the state without legislative authorization for the governor to execute the contract. Paragraph (12) permits the DNR commissioner to enter into confidentiality agreements related to contract negotiations and implementation. Confidential information obtained under paragraph (12) may be shared with members of the legislature, including their respective agents and contractors on request, under confidentiality agreements either in committees held in executive session or individually. The terms of a proposed final contract, subject to approval by the legislature, would not be confidential and must be made available to the public at least 90 days before the proposed effective date for the terms.

Paragraph (13) directs that the DNR commissioner consult with the AGDC in the development of agreements or contracts for project services related to a gas treatment plant, pipeline, liquefaction facility, marine terminal or transportation services.

***Status: In Compliance.** The DNR commissioner and commissioner of revenue have delegated authority to their deputy commissioners to negotiate agreements for the AKLNG Project, including gas balancing, marketing, disposition and offtake agreements. This section provides the authority for a majority of the work currently being done on the AKLNG Project by DNR and DOR.*

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**Section 25 (AS 38.05.020, Authority and duties of the DNR commissioner)**

Section 25 added a new paragraph (14) to AS 38.05.020(b) to allow the DNR commissioner, in consultation with the commissioner of revenue, to take custody of gas delivered to the state, to manage project services and the disposition of gas delivered to the state under AS 43.55.014(b)(tax as gas).

***Status: In Compliance.** The DNR, in consultation with the DOR, is the entity that will hold title to the state's share of royalty and tax gas, if the state elects to take its royalty in kind.*

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**Section 26 (AS 38.05.023, Terms related to a North Slope natural gas project)**

Section 26 added AS 38.05.023, related to terms in an agreement or contract related to a North Slope natural gas project. Subsection (a) details a requirement, to be included in a contract under AS 38.05.020(b)(11) in which the state is a party, regarding the conditions for state access to data. Subsection (b) provides that a proposed agreement or contract associated with a North Slope natural gas project may not include a provision that changes a property tax on property that was previously taxable under AS 43.56 (the oil and gas and pipeline property tax).

Subsection (c) provides that an agreement or contract under AS 38.05.020(b)(11) to which the state is a party must require allocation of infrastructure costs between the state and other parties based on the difference between life-cycle costs if the infrastructure was only for public use; the proposed agreement or contract must limit the costs the state pays for infrastructure based on the proportion of public to private use and the state's share of participation in the project.

Subsection (d) provides that an agreement or contract under AS 38.05.020(b)(11) to which the state is a party must include principles based on commercially reasonable terms for delivering natural gas to

public utilities in the state where demand for natural gas by the utilities exceeds the amount of the state's royalty and natural gas delivered to the state as payment for tax and available in a North Slope natural gas project.

*Status: In Progress, but complying. The state is still in negotiations on these agreements.*

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**Section 27 (AS 38.05.180(i), Oil and gas and gas only leasing)**

Section 27 clarified AS 38.05.180(i) with a conforming amendment that the exploration incentive credit may be applied against the oil and gas production tax levied under AS 43.55.011.

*Status: In Compliance. No action necessary.*

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**Section 28 (AS 38.05.180, Oil and gas and gas only leasing)**

Section 28 added new subsections (hh) and (ii) to the Alaska Land Act, AS 38.05.180, which deals with oil and gas leasing, to permit the DNR commissioner to propose modifications to existing leases that: (1) relate to switching between taking royalty gas in kind or in value to ensure that the lessee, state or other person bear proportionate costs for transportation, and to assure the state's actions do not unreasonably interfere with the long-term marketing; (2) provide a method to establish a fair market value for each component of the state's royalty gas; and (3) modify royalty provisions, including net profit provisions, modifications may not result in less than the value the state would have received before a modification.

The DNR commissioner must make written determinations relating to the best interests of the state, including whether the modifications will improve the likelihood of a successful North Slope natural gas project for which sufficient commitment has been shown. The commissioner must consider whether the lessee has offered to dispose of, sell or market the royalty gas and gas taken as tax on the same or substantially similar terms as the lessee or an affiliate sells, disposes of or markets the lessee's gas. An explicit reference to gas delivered to the state as payment for production tax is added to the DNR commissioner lease modification provision.

*Status: In Progress, but complying. The DNR is in the process of negotiating lease modifications.*

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**Sections 29 – 32 (AS 38.05.183, Sale of royalty)**

Sections 29 - 32 amended AS 38.05.183, related to sales of royalty oil or gas, by adding references to gas delivered to the state under AS 43.55.014(b), the levy of production tax on gas to be paid in gas for certain North Slope leases.

*Status: In Compliance. No action necessary.*

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**Section 33 (AS 38.05.965, Definitions)**

Section 33 added definitions to AS 38.05.965 for "initial project term," "North Slope natural gas project;" and "project services." North Slope natural gas project means a project to produce or transport natural gas from state oil and gas leases on the North Slope in a gaseous state from the North Slope.

*Status: In Compliance. No action necessary.*

**Sections 34 -36 (AS 38.34.020, Expedited construction and operation or expansion of an Alaska Gasline Development Corporation project)**

Sections 34 through 36 amended AS 38.34 related to review by state agencies or entities to expedite review or action of a project under AS 31.25 (AGDC statutes) and to direct that state agencies may not include project provisions that the in-state gasline project coordinator determines would prevent or significantly impair a project under AS 31.25 (AGDC statutes). The revisor of statutes renumbered AS 38.34.020(a) of Section 34 of Senate Bill 138 to AS 31.25.007.

*Status: In Compliance. The DNR facilitates project timing and construction.*

---

**Sections 37 - 38 (AS 40.25.100, Disposition of tax information)**

Sections 37 and 38 amended AS 40.25.100(a) related to the confidentiality of tax information to clearly establish as confidential information related to contract negotiations for a North Slope natural gas project. Section 35 references new subsection (k) in AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the gas production tax from modified North Slope leases in gas and the amount of gas subject to that election.

*Status: In Compliance. Taxpayers have yet to make an election to pay the production tax in gas.*

---

**Section 39 (AS 40.25.120, Public records; exceptions; certified copies)**

Section 39 amended AS 40.25.120(a) to establish an exception in public records for information confidential under the new provisions of AS 38.05.020(b) (related to contract negotiations for a North Slope natural gas project).

*Status: In Compliance.*

---

**Sections 40 - 41 (AS 43.05.010, Duties of commissioner of revenue)**

Sections 40 and 41 expanded the authority of the commissioner of revenue by adding new paragraphs (16) and (17) in AS 43.05.010. Effective immediately, paragraph (16) provides that the commissioner may consult with the DNR commissioner on negotiations associated with a North Slope natural gas project. Section 41 amends AS 43.05.010 by adding paragraph (17) to provide that the commissioner direct the disposition of revenues received from gas delivered to the state under AS 43.55.014(b) by entering into agreements with the DNR commissioner.

*Status: In Compliance. The DOR works collaboratively with the DNR on the AKLNG Project.*

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**Section 42 (AS 43.05.230, Disclosure of tax returns and reports)**

Section 42 added new subsection (k) to AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the gas production tax in gas and the amount of gas subject to that election.

*Status: In Compliance. No action necessary at this time because taxpayers have yet to make an election to pay the production tax in gas.*

---

**Section 43 (AS 43.20.144(d), Corporate income tax sales factor for oil & gas producers & pipelines)**

Section 43 amended AS 43.20.144(d) to clarify that gas delivered to the state as payment of tax under an election made by AS 43.55.014 (or similar provision of other taxing jurisdiction) is excluded from the sales factor of a taxpayer subject to the Alaska Net Income Tax Act. Also, fees paid between entities within the taxpayer's consolidated business for transporting the taxpayer's gas are excluded from the sales factor.

*Status: In Compliance. No action necessary yet; taxpayers have yet to pay production tax in gas.*

---

**Section 44 (AS 43.20.144(f), Corporate income tax extraction factor for oil & gas producers & pipelines)**

Section 44 amended AS 43.20.144(f) to clarify that gas subject to an election to pay the oil and gas production tax on gas as gas under AS 43.55.014 is included in the extraction factor of a taxpayer subject to AS 43.20.144(f) in the Alaska Net Income Tax Act.

*Status: In Compliance. No action necessary yet; taxpayers have yet to pay production tax in gas.*

---

**Section 45 (AS 43.55.011(e), Oil & gas production tax levy)**

Section 45 amended AS 43.55.011(e), the levy of the oil and gas production tax, to add reference to the separate levy under AS 43.55.014 for certain North Slope gas. For oil and gas produced after January 1, 2014 and before January 1, 2022, AS 43.55.011(e)(2) would levy on producers of oil and gas produced each calendar year a flat rate tax of 35 percent of the production tax value of taxable oil and gas produced from each lease or property in the state. No change is made to current tax ceilings that apply to Cook Inlet oil and gas, gas produced outside the Cook Inlet basin, gas used in the state, and oil and gas produced from fields outside the Cook Inlet basin and south of the North Slope.

For oil and gas produced on or after January 1, 2022, AS 43.55.011(e)(3) would levy on producers of oil produced each calendar year a flat tax rate of 35 percent of the production tax value of taxable oil produced from each lease or property in the state and on producers of gas, and a flat tax rate of 13 percent of the gross value at the point of production of gas produced from each lease or property in the state. The tax on gas under an election to pay in gas is levied under AS 43.55.014.

*Status: In Compliance. No action necessary at this time because the change in taxation of gas does not occur until January 1, 2022.*

---

**Section 46 (AS 43.55.011(f), Oil & gas production tax minimum)**

Section 46 amended AS 43.55.011(f), the minimum tax amount for North Slope oil and gas, to retain the current minimum tax until January 1, 2022. On and after January 1, 2022, the minimum tax would apply to oil produced on the North Slope. A minor amendment adds the reference to the tax applying to leases or properties "that include land" to ensure that property that straddles 68 degrees North latitude will be considered north of 68 degrees North latitude for purpose of the alternate minimum tax.

*Status: In Compliance. No action necessary at this time because the limitation on the minimum tax to North Slope oil does not occur until January 1, 2022.*

---

**Section 47 (AS 43.55.014, Production tax payment in gas of tax for gas)**

Section 47 added AS 43.55.014, related to payment in gas of tax for gas. Subsection (a) allows producers to make an election, under regulations adopted by the DOR, to pay the oil and gas production tax on gas in gas for gas produced from oil and gas leases whose terms have been modified under AS 38.05.180(hh) from which the DNR commissioner has determined to take royalty gas in kind. Under subsection (b), the levy would be 13 percent of the taxable gas when and as the gas is produced. The producer would pay the tax by delivering the gas to the state at the point of production. Under subsection (c), the DNR would manage the custody and disposition of gas delivered to the state. Under subsection (d), tax deficiencies and interest and penalties on any tax deficiency would be accounted for in an amount of gas or an amount of money. If in money, the assessment is the product of the number of units by which the producer's delivery of gas to the state was deficient, multiplied by the gross value at the point of production for each unit of the producer's gas, other than gas not subject to tax, or delivered to the state under this section. Also, this subsection accounts for an overpayment of gas under AS 43.55.014. Subsection (e) clarifies that gas subject to this provision would not include gas flared, released, or allowed to escape and, under AS 43.55.020(e), as that gas is considered as gas produced from a lease or property for the purpose of AS 43.55.011 - 180. This section took effect on January 1, 2015 to be applied to gas produced from certain North Slope leases on and after January 1, 2022.

*Status: In Compliance. No action necessary at this time because leases have not been modified yet and taxpayers have yet to make an election to pay the production tax in gas.*

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**Sections 48 - 50 (AS 43.55.019, Oil or gas producer education credit)**

Sections 48 through 50 include conforming amendments to the oil and gas producer education credit, AS 43.55.019, to clarify that the credit can be applied to tax liability only under AS 43.55.011(e). The credit is expanded to include expenditures related to nonprofit regional training centers, apprenticeship programs and programs approved by the United State Department of Veteran's Affairs and the Alaska Commission on Postsecondary Education. These sections are effective immediately.

*Status: In Compliance. A taxpayer may apply the credit.*

---

**Section 51 (AS 43.55.020(a), Payment of tax in monthly installments)**

Section 51 amended AS 43.55.020(a), monthly installment payments of estimated tax, to add provisions for payment of tax after January 1, 2022 and to clarify the tax rates that apply to oil and gas produced after a certain date. Monthly installment payments for oil and gas produced on and after January 1, 2022 are in new subsection (a)(7).

*Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022.*

---

**Sections 52 - 53 (AS 43.55.020, Interest on payment of tax in monthly installments)**

Sections 52 and 53 are conforming changes to AS 43.55.020, monthly installment payments. Subsection (g) is amended to account for new tax provisions for oil and gas produced on and after January 1, 2022.

A similar conforming change is made in AS 43.55.020(h) to account for interest on overpayments of installment payments.

*Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.*

---

**Sections 54 - 55 (AS 43.55.020, Payment of tax)**

Sections 54 and 55 amended AS 43.55.020(l) and add subsection (m), related to making settlements by a producer with private landowner royalty owner, to account for making a settlement with the royalty owner for gas taxable before January 1, 2022 and under new AS 43.55.014.

*Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.*

---

**Section 56 (AS 43.55.030(a), Filing of statements)**

Section 56 amended AS 43.55.030(a), annual statements by producers and explorers, to require reporting of the amount of gas produced from a lease or property for which tax is levied under AS 43.55.014 and the amount of gas delivered to the state under AS 43.55.014.

*Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022 and taxpayers have yet to pay production tax as gas.*

---

**Section 57 (AS 43.55.160(a) Determination of production tax value of oil and gas)**

Section 57 amended AS 43.55.160(a), calculation of annual production tax values, to clarify and conform to the levy of tax under AS 43.55.011(e)(2) for oil and gas produced before January 1, 2022.

*Status: In Compliance. No action necessary because there was no change in the substance of the current determination.*

---

**Section 58 (AS 43.55.160(e), Determination of production tax value of oil & gas)**

Section 58 amended AS 43.55.160(e), related to determination of excess lease expenditures for the purpose of calculating a carried-forward loss credit, to account for annual production tax values for oil produced on and after January 1, 2022.

*Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.*

---

**Section 59 (AS 43.55.160(f), Determination of production tax value of oil & gas)**

Section 59 amended AS 43.55.160(f), a 20 percent gross value reduction for certain oil and gas produced north of 68 degrees North latitude, so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

*Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.*

---

**Section 60 (AS 43.55.160(g), Determination of production tax value of oil & gas)**

Section 60 amended AS 43.55.160(g), a 10 percent gross value reduction for certain oil and gas produced from a unit north of 68 degrees North latitude made up solely of leases that have a royalty share of more

than 12.5 percent in amount or value of the production removed or sold from the lease so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

*Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022.*

---

**Section 61 (AS 43.55.160, Determination of production tax value of oil & gas)**

Section 61 amended AS 43.55.160, calculation of annual production tax values, to add a new subsection (h) for calculation of annual production tax values for oil produced on and after January 1, 2022. On and after January 1, 2022, gas would be taxed at a percentage of gross value. Accordingly, there would be no need to calculate a production tax value (gross value at point of production less lease expenditures) for gas. Producers would still calculate a production tax value of oil taxable under AS 43.55.011(e) for the segments set out in AS 43.55.160(h). This section was effective January 1, 2015.

*Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022.*

---

**Section 62 (AS 43.55.165, Lease expenditures)**

Section 62 makes a conforming amendment to AS 43.55.165, lease expenditures, to exclude as a deduction from lease expenditures the tax levied under AS 43.55.014 (tax paid as gas).

*Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022 and taxpayers have yet to pay production tax as gas.*

---

**Sections 63 - 65 (AS 43.55.165(e), Lease expenditures – Definitions)**

Sections 63 through 65 amend, for purposes of the oil and gas production tax, the definitions of "gas processing plants" and "point of production" for gas to be upstream of either the first point where it is accurately measured, the inlet of a pipeline transporting the gas to a gas treatment plant, or the inlet of any gas pipeline system transporting gas to market. The gas point of production is after mechanical separation. Section 63 adds a definition of "gas processing plant".

*Status: In Compliance. No action necessary.*

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**Section 66 (AS 43.56.010(c) Oil and gas property and pipelines levy of tax, limitation for municipalities)** - Section 66 amended the oil and gas property and pipelines tax levy statute, AS 43.56.010(c), to conform to the changes in the percentage factor made in section 3, AS 29.45.080(f).

*Status: In Compliance.*

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**Section 67 (AS 43.90.900 Definitions)**

Section 67 made a conforming amendment to AS 43.90.900(18), the definition of the "point of production" for purposes of the Alaska Gasline Inducement Act.

*Status: In Compliance. No action necessary.*

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**Section 68 (AS 43.98.030(c), Film production tax credit)**

Section 68 made conforming amendments to AS 43.98.030, the film production tax credit, to limit the applicability of the credit to the tax levied by AS 43.55.011.

*Status: In Compliance.* The film production tax credit in AS 43.98.030 was repealed in sec. 7 of CSSB 39 (L&C) am H (2015).

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**Section 69 (AS 43.98.050, Duties of the Alaska Competitiveness Review Board)**

Section 69 amended AS 43.98.050, related to the duties of the Alaska Competitiveness Review Board, to include written findings and recommendations to the legislature before January 15, 2017 regarding the state's tax structure, rates, and incentives for oil and gas production south of 68 degrees North latitude.

*Status: In Progress, but complying.* This active board submitted a report on North Slope competitiveness to the legislature last year. All Board activity is posted on a public website. The Board is currently working on an update of the report with more details to present to the legislature this year, but work has been temporarily slowed by board member ending terms, resignations, and unfilled appointments. The Board currently has 6 of 11 seats filled. The Board's report on Cook Inlet is due in 2017.

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**Section 70 (Legislative intent regarding AGDC)**

Section 70 amended the uncodified intent section from ch. 1(b), SLA 2013, the establishment of the AGDC, regarding intent, to the maximum extent permitted by law, to hire qualified residents, establish hiring facilities, and use, as far as practicable, job centers operated by the Department of Labor and Workforce development in the AGDC's participation in an Alaska liquefied natural gas project.

*Status: In Compliance.* AGDC is maximizing benefits to Alaskans

---

**Section 71 (AS 31.25.080 Power and duties)**

Section 71 repeals AS 31.25.080(f) as unnecessary due to new provisions in AS 31.25.080. Subsection (f) related to the ability of the AGDC to, without delaying progress on an in-state natural gas pipeline, coordinate with developers of a large-diameter natural gas pipeline related to a certain geographic area.

*Status: In Compliance.*

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**Section 72 (Department of Transportation and Public Facilities, bridge evaluation)**

Section 72 provides in uncodified law that the Department of Transportation and Public Facilities shall, in consultation with the AGDC evaluate the design and construction of a new bridge across the Yukon River that would accommodate both vehicular traffic and a gas pipeline from the Alaska liquefied natural gas project. Also the bill added a direction for the same parties to evaluate existing bridges and infrastructure to accommodate a natural gas pipeline resulting from an Alaska liquefied natural gas project to determine whether the bridge of infrastructure could be used for transportation uses, including vehicular traffic.

*Status: In Compliance.*

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**Section 73 (The DNR & the AGDC Report on In-State Gas and 48" Pipe)**

Section 73 provides in uncodified law that the DNR commissioner, in consultation with the AGDC, is to make a report, with recommendations, to the legislature on a plan and alternatives to make North Slope gas available for delivery and use in the state. The report must also address the costs, benefits, and risks associated with building a pipeline with a diameter larger than 42 inches. Also, the DNR commissioner shall recommend means of addressing risks identified in the report. The report and recommendations are required to be available to the legislature on or before the date that a firm transportation services agreement (FTSA) in a North Slope natural gas project to which the state is a party is submitted to the legislature for approval.

*Status: In Progress, but complying. The DNR is working closely with the AGDC to prepare the report, which will be provided on or before date that a FTSA is submitted to the legislature for approval.*

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**Section 74 (Municipal Advisory Gas Project Review Board)**

Section 74 requests that the governor establish an advisory planning group to advise the governor on municipal involvement in a North Slope natural gas project. The requested board is to provide reports, including recommendations, to the governor.

*Status: In Compliance. The Board submitted an annual report in December 2014. The Board routinely meets. It is drafting an annual report due in December 2015.*

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**Section 75 (AEA Plan & Recommendation)**

Section 75 added to uncodified law a direction to the AEA, in consultation with the AGDC, the Alaska Industrial Development and Export Authority (AIDEA), and the DOR, and after considering the state energy policy in AS 44.99.115, to develop plans relating to the delivery of energy - whether fossil fuel, hydro, tidal or other - to areas of the state not expected to have direct access to commercialization of North Slope gas through a North Slope natural gas pipeline. The AEA will also consider storage options, and recommendations related to means to make energy more affordable. The AEA and the DOR will consider and recommend funding possibilities. The AEA shall provide the plan and suggested legislation by January 1, 2017.

*Status: In Progress, but complying. The AEA is in consultation with the AGDC, the DOR & AIDEA developing recommendations for rural energy benefits. The plan and any suggested legislation will be provided by AEA by January 1, 2017.*

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**Section 76 (Financing Report)**

Section 76 added to uncodified law a direction that the DOR commissioner identify and report to the legislature regarding financing options for state ownership and participation in a North Slope natural gas project. An interim draft report is to be available to the legislature on the first day of the first regular legislative session of the 29th Legislature. Also, the DOR commissioner is to consider and report, including submission of proposed legislation, to the legislature on options to allow municipalities, residents, or regional corporations to invest in a North Slope natural gas pipeline. The DOR commissioner is directed to consider relevant factors in preparing the plan and report, which is to be

presented to the legislature when the DNR commissioner submits contracts to the legislature for approval under AS 38.05.020(b)(11).

**Status: In Compliance and progressing.** *Investment opportunities are part of the final financing options report due to the legislature when the first contract is submitted. Active outreach information gathering work was performed during summer and fall 2015 with regional corporations and municipalities for inclusion in final financing options report currently being prepared by Lazard. The Initial Lazard report was submitted to the legislature in February 2015. The work is in progress on analysis and in collaboration with other financial advisors to prepare the final financing options report to be submitted to legislature with first contract.*

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**Section 77 (Legislative Briefings)**

Section 77 provided that the parties to a North Slope natural gas project provide briefings to interested legislators, their staff, and consultants on the progress of the project at least once every four months before the first flow of gas. A briefing must include a written report of the amount of money the state may be liable to pay for a North Slope natural gas project if the project is terminated before the first flow of gas.

**Status: In Compliance.** *All AKLNG Project parties have participated in quarterly Legislative Briefings.*

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**Section 78 (Tax Year Applicability)**

**Status: In Compliance.** *No action necessary.*

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**Section 79 (Regulations)**

Section 79 allows the DNR and the DOR to adopt regulations to implement this Act.

**Status: In Compliance.** *No action necessary at this time.*

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**Sections 80 - 83 (Effective dates)**

**Status: In Compliance.** *No action necessary.*

**8. Saturday  
October 31, 2015  
Enalytica  
Presentation**

# TRANSCANADA'S PARTICIPATION IN AK LNG: KEY ISSUES

Presentation to Senate Finance Committee  
Juneau, Alaska > Saturday, October 31, 2015

Janak Mayer, Chairman & Chief Technologist > [janak.mayer@enalytica.com](mailto:janak.mayer@enalytica.com)  
Nikos Tsafos, President & Chief Analyst > [nikos.tsafos@enalytica.com](mailto:nikos.tsafos@enalytica.com)

<http://enalytica.com>

## VIEW FROM 2014: WHY TRANSCANADA?

- Experience** Long history work on an Alaska gas pipeline projects
  - Continuity** Leverage AGIA work and agree to dissolve AGIA partnership amicably
  - Governance** TC would help SOA negotiate terms to make infrastructure as expandable as possible
  - Expansion** TC would actively pursue new gas to be shipped through the pipe
  - Execution** TC would make a successful project more likely (on time and lowest cost)
  - Finance** TC would relieve SOA from cash calls during development phase
- Even so, the agreement came under scrutiny in several areas
- Tariff cost** Question whether TC tariff was competitive to market norms / SOA cost of debt
  - Risk/Reward** TC took on limited risk (only risk was SOA credit health)
  - Voting rights** TC held most of the control (SOA could direct TC voting only in limited areas)
  - Back-in rights** In original deal, TC retained full back-in rights (amended to provide clean off-ramp)

## WHERE WE **AGREE** WITH ADMINISTRATION AND WHERE **NOT**

Where we **agree** with administration statements

The State of Alaska (SOA) will pay TransCanada (TC) no matter what

Under failure case, terminating TC relationship now much cheaper than terminating later

SOA retains risk, but TC retains most decision making (TC's only risk is deterioration of SOA credit)

SOA credit rating will be hit regardless of whether TC is in the project or not

SOA has several financing options—no need to panic about having higher cash calls

This is the only clean off-ramp that SOA has; failure to pass this bill means harder to sever ties with TC

Not having Alaska Gasline Inducement Act (AGIA) makes a big difference in SOA calculations

Non-alignment in voting and non-visibility of information undermine original case for TC in AK LNG

Where we **differ from or wish to supplement** administration statements

The strictly financial case for severing relationship with TC is not as compelling as has been argued

Decision should focus on strategic, not financial considerations: expansion plans and AK LNG vision

# IS THE FINANCIAL UPSIDE TRULY COMPELLING?

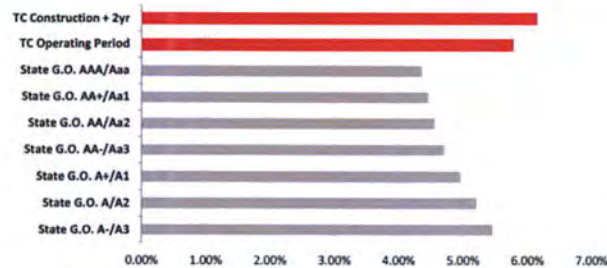
“Under all scenarios of State credit rating downgrade down to A-/A3, the State **cost of debt remains below** the TC cost of capital.”

“The State could potentially achieve up to **~\$400 million** incremental annual cash flows, based on the State’s expected lower cost of capital.”

## 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

12

## The economic benefit of replacing TC could vary based on the SOA’s credit rating

- The State could potentially achieve up to **~\$400 million incremental annual cash flows**, based on the State’s expected lower cost of capital
- The State’s cost of capital would increase with any credit downgrades
- Even if the State’s credit rating deteriorates and results in a higher cost of capital for the State, it is still expected that the State will achieve **additional annual cash flows without TC**



21

SOURCE: “TRANSCANADA’S AKLNG PARTICIPATION: FINANCING ISSUES,” OCTOBER 24, 2015; “TRANSCANADA’S AKLNG PARTICIPATION,” OCTOBER 25, 2015

## SOA COST OF DEBT LIKELY **HIGHER** THAN TODAY

Assuming that SOA issues \$13–\$15 bn in debt, it can expect **credit downgrade / higher borrowing costs**

These numbers **assume high** oil prices and revenues through 2038

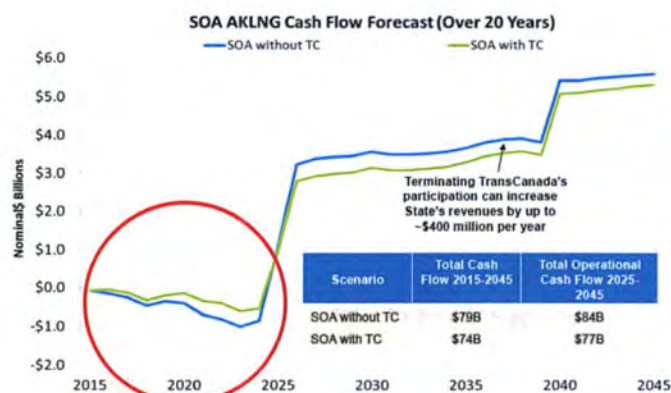
It is not hard to see a scenario where SOA cost of debt gets **much closer to TC tariff** (now 5.8% to 6.15%)

Of course, SOA has **other financing options** (e.g. project finance, tax-exempt debt, equity, etc.)

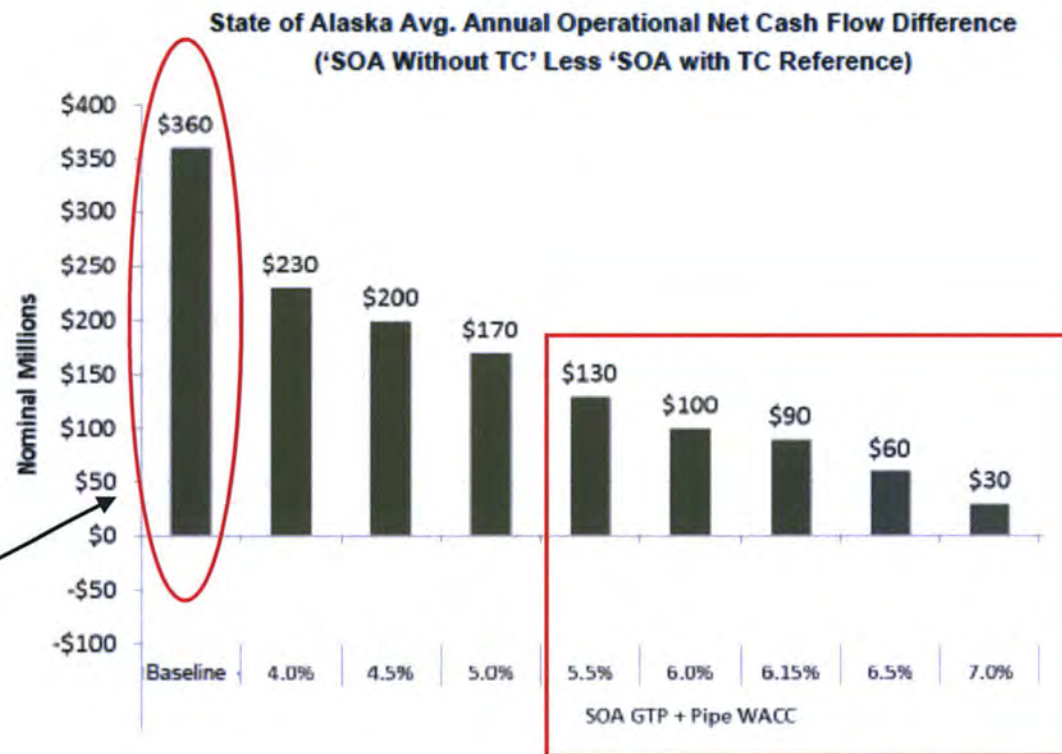
RATING (MOODYS/S&P)	DEBT SERVICE LIMIT (% OF GFUR)	INTEREST RATE ON TAXABLE BONDS	MAX NEW DEBT SOA CAN ISSUE (IN MILLIONS)
AAA/AAA	5%	4.49%	3,851
AA1/AA+	8%	4.59%	6,382
AA2/AA	10%	4.69%	8,009
AA3/AA-	12%	4.84%	9,549
A1/A+	17%	5.09%	13,361
A2/A	20%	5.34%	15,387

SOURCE: FIRST SOUTHWEST, "AKLNG DEBT SIZING (AS OF JUNE 3, 2015)"

# \$360MM ASSUMES +\$2BN UPFRONT EQUITY; NPV<sub>10</sub> ≈ 0



**\$2bn in additional outlays to generate the publicized \$360mm in annual additional revenues**



**More likely annual gains for SOA**

SOURCE: "TRANSCANADA'S AKLNG PARTICIPATION," OCTOBER 25, 2015

## TC INFLECTION POINT OPENS UP **BROADER QUESTIONS**

### How can SOA best protect its interests in AK LNG?

No AGDC secondee in 135-strong project management team

Unclear decision-making / division of labor within SOA

AK LNG can back-fill TC exit; can AGDC step up?

### How will SOA ensure expansions / a full pipeline?

AGDC plan to pursue expansions is unclear

Need not just technical but chiefly commercial expertise

### What is the optimal capitalization structure for SOA?

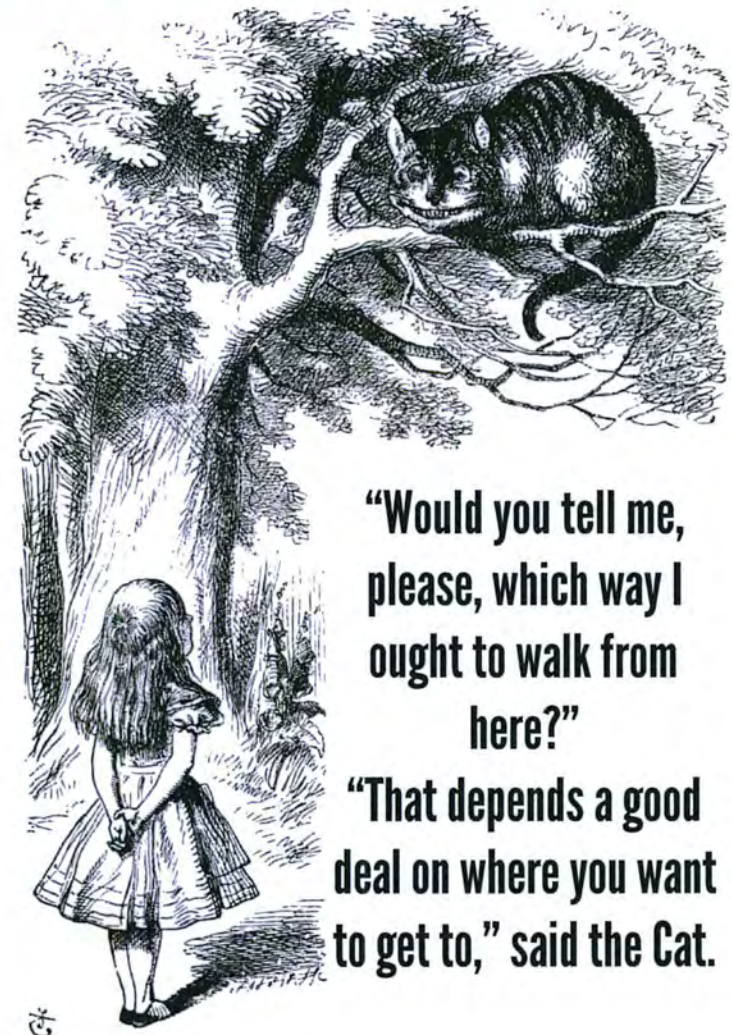
Should SOA rely so heavily on debt (e.g. 100% debt)?

What are the merits of equity and what form might it take?

### What is SOA's vision for AK LNG?

What if partners withdraw (strengthens case for TC)

How much do withdrawal agreements raise risks for SOA?



“Would you tell me, please, which way I ought to walk from here?”

“That depends a good deal on where you want to get to,” said the Cat.

SOURCE: LEWIS CARROLL, ALICE'S ADVENTURES IN WONDERLAND

## WHAT'S IN A SALES AND PURCHASE AGREEMENT (SPA)?

Most SPAs are over **100 pages** and are customarily **confidential** (with limited details released)

<b>Pricing</b>	Formula (e.g. oil, Henry Hub, netback); fixed and variable parameters; inflation
<b>Term</b>	Usually 20-year for new projects; date of first delivery; treatment of delays
<b>Volume</b>	Average contract quantity plus any flexibility ( $\pm 10-20\%$ ); make-up gas
<b>Title transfer</b>	Delivery point; destination restrictions; profit-sharing for diverted gas
<b>Logistics</b>	Delivery schedule; facility specs and approvals; measurement
<b>Gas quality</b>	Gas specs (molecular breakdown / heating value); provisions for off-spec gas
<b>Financial</b>	Invoicing process; payment terms; guarantees; currency; taxes; insurance; indices
<b>Precedents</b>	Precedent conditions; regulatory approvals; activation window
<b>Legal</b>	Jurisdiction; dispute resolution; renegotiation; force majeure; liabilities; termination

## WITHDRAWAL / SALES CARRIES **MAJOR RISKS** FOR SOA

- Economics** Buying 75% of AK LNG gas could cost \$1.4–\$7.4 bn/yr (1995-2014 Henry Hub prices)
- Liability** Right to purchase could mean obligation to buy; major contingent liability; options costly
- Pricing** Does SOA have a thorough and detailed understand of pricing / volume risk?
- Asymmetry** If producers are willing to commit to a set price, does SOA really want to buy?
- Title** If gas has an “option” attached to it, legal title become less clear
- Transfer** Where is gas transferred? In what condition (e.g. what happens to CO<sub>2</sub>)?
- Activation** Is this SPA triggered by a specified date or other conditions?
- Fiscals** What kind of fiscal certainty would producers want to offer binding agreement?
- Focus** Overly focused on failure; lower commitment; opt out rather than work issues
- Now vs. later** SOA can pursue this path later; doing so today could expose SOA to major risks

**9. DNR:  
TransCanada  
Termination Timeline  
of Events**



# **TransCanada Termination Timeline of Events October 2015**

**Department of Natural Resources**

# Overview

- This presentation will:
  - Summarize how the TransCanada (TC) termination would work under the Precedent Agreement (PA) – which would not allow the termination to occur prior to December 4, 2015
  - Summarize how the State and TC will amend the termination process under the PA to allow the termination to occur prior to December 4, 2015
    - Upon termination, TC will transfer interest in TransCanada Alaska Midstream Limited Partnership (TAMLPL) to State/Alaska Gasline Development Corporation (AGDC), so that AGDC can vote on 2016 Work Program & Budget (WP&B) by December 4, 2015

## Sequence of Events and Timing of Termination under PA as Currently Drafted

1. Appropriation approved and Governor executes the appropriation bill
2. State provides notice of termination to TransCanada (TC)
3. Within 30 days of notice of termination TC must deliver to State a final report of the Termination Amount (development costs, plus interest)
4. Within 30 days of receiving the final report from TC, State must either pay the Termination Amount or provide notice of objection to the Termination Amount and present an alternate amount

## Sequence of Events and Timing of Termination under PA as Currently Drafted

5. If the parties fail to agree on the amount within 5 business days of the State's objection, then Alternative Dispute Resolution (ADR) will apply and State must pay the Termination Amount in full within 5 business days of notice of intent to commence ADR (disputed amounts paid into escrow pending dispute resolution)
6. State pays TC Termination Amount and TC transfers TAMLP interests to State/AGDC

*Current PA process must be revised to provide for the AKLNG Project needs (e.g., approval of 2016 Work Program & Budget (WP&B))*

## Modified Termination Timeline, Assuming Appropriation is Approved

- Currently, State and TC are drafting a Purchase and Sale Agreement (PSA) for the State's acquisition of TAMLIP [Finalize by November 13]
- State and AGDC are taking steps and drafting documents designating AGDC as the State's designee under the PA (*e.g.*, legal instrument(s) to convey TAMLIP to AGDC) [Finalize by November 13]
- TC submits initial Termination Amount report, which State reviews [November 4]
- State and AKLNG Parties work together to address the continuation of TC pipeline secondees in AKLNG through the pre-FEED phase
- Appropriation approved and Governor Walker executes the appropriation bill [November 21-23]

## Modified Termination Timeline

- State provides notice of termination to TC and SOA/TC execute the Purchase and Sales Agreement (PSA) [November 24]
- TC submits an updated Termination Amount report for closing purposes [November 24]
- December 1 Closing Date: State pays TC Termination Amount, TC transfers TAMLPL interests to State/AGDC, and PA and Equity Option Agreement (EOA) terminated

*AGDC will hold participation interest in the AKLNG Project midstream (gas treatment plant/GTP and pipeline) segment and LNG Plant segment and can approve 2016 WP&B for both segments*

## Modified Termination Timeline

- TC prepares a final Termination Amount report [within 45 days of the Closing]
- State carries out post-closing audit [60-day process from the date TC submits the final Termination Amount report]
- State and TC agree upon any Termination Amount adjustments, if any, and adjustment payments are made

*Anticipated completion of audit process and true-up payment should be no later than March 2016*



**10. SB 3001**  
**Versions P and I:**  
**Work Drafts and**  
**Sectional Analyses**

ADOPTED 10/31/15

29-GS3812\P  
Martin  
10/31/15

**CS FOR SENATE BILL NO. 3001(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - THIRD SPECIAL SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:  
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act making supplemental appropriations; making appropriations to capitalize  
2 funds; and providing for an effective date."

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 \* **Section 1.** LEGISLATIVE INTENT. (a) It is the intent of the legislature that the  
5 appropriations made in secs. 2 - 4 of this Act be accounted for separately from the unrestricted  
6 general fund.

7 (b) It is the intent of the legislature that the appropriation made in sec. 5(a) of this Act  
8 be paid in an expedited manner, resulting in a successful state acquisition of the interest in the  
9 Alaska liquefied natural gas project currently held by TransCanada Alaska Development Inc.  
10 by December 1, 2015.

11 \* **Sec. 2.** DEPARTMENT OF LAW. The sum of \$10,100,000 is appropriated from the  
12 general fund to the Department of Law, civil division, oil, gas, and mining, for contractual  
13 services with law firms to assist in drafting and reviewing contracts related to the Alaska  
14 liquefied natural gas project and to provide legal and regulatory support for state participation

1 in the Alaska liquefied natural gas project for the fiscal year ending June 30, 2016.

2 \* **Sec. 3.** DEPARTMENT OF NATURAL RESOURCES. The sum of \$2,126,000 is  
3 appropriated from the general fund to the Department of Natural Resources, administration  
4 and support services, North Slope gas commercialization, for a marketing lead position, a  
5 marketing analyst position, work related to Federal Energy Regulatory Commission resource  
6 reporting reviews and drafting, facilities review for commercial aspects, commercial analysis  
7 and support, and audits associated with the termination of the agreement with TransCanada  
8 Alaska Development Inc. for the fiscal year ending June 30, 2016.

9 \* **Sec. 4.** DEPARTMENT OF REVENUE. The sum of \$1,381,000 is appropriated from the  
10 general fund to the Department of Revenue, administration and support, natural gas  
11 commercialization, for personal services for work on financial analysis, project financing,  
12 governance, and the revenue aspects of marketing and taxes; for travel; for contractual review  
13 of project financing; and for other costs related to performing work for the Alaska liquefied  
14 natural gas project for the fiscal year ending June 30, 2016.

15 \* **Sec. 5.** FUND CAPITALIZATION. (a) The sum of \$68,455,000 is appropriated from the  
16 general fund to the Alaska liquefied natural gas project fund (AS 31.25.110) to acquire the  
17 interest currently held by TransCanada Alaska Development Inc. in the Alaska liquefied  
18 natural gas project.

19 (b) The sum of \$75,600,000 is appropriated from the general fund to the Alaska  
20 liquefied natural gas project fund (AS 31.25.110) to fund the state's share of preliminary  
21 front-end engineering and design work for the Alaska liquefied natural gas project.

22 (c) The statutory designated program receipts received as reimbursement for costs of  
23 field work paid from the Alaska liquefied natural gas project fund (AS 31.25.110) during the  
24 fiscal year ending June 30, 2016, estimated to be \$2,900,000, are appropriated to the Alaska  
25 liquefied natural gas project fund (AS 31.25.110).

26 (d) The statutory designated program receipts received as reimbursement for costs of  
27 field work paid from the in-state natural gas pipeline fund (AS 31.25.100) during the fiscal  
28 year ending June 30, 2016, estimated to be \$1,300,000, are appropriated to the in-state natural  
29 gas pipeline fund (AS 31.25.100).

30 \* **Sec. 6.** LAPSE OF APPROPRIATIONS. The appropriations made in sec. 5 of this Act are  
31 for the capitalization of funds and do not lapse.

1 \* **Sec. 7. RETROACTIVITY.** If secs. 2 - 5 of this Act take effect after November 15, 2015,  
2 secs. 2 - 5 of this Act are retroactive to November 15, 2015.

3 \* **Sec. 8. CONTINGENCY.** The appropriation made in sec. 5(b) of this Act is contingent on  
4 adoption of a work plan and budget for the Alaska liquefied natural gas project for calendar  
5 year 2016 by the State of Alaska, the Alaska Gasline Development Corporation, ExxonMobil  
6 Alaska Production Inc., ConocoPhillips Alaska, Inc., and BP Exploration (Alaska) Inc. by  
7 December 31, 2015.

8 \* **Sec. 9.** This Act takes effect immediately under AS 01.10.070(c).

# ALASKA STATE LEGISLATURE

## SENATE FINANCE COMMITTEE

Senator Pete Kelly, Co-Chair  
State Capitol, Room 315  
Juneau, AK 99801-1182  
(907) 465- 3709 - Phone  
Senator.Pete.Kelly@akleg.gov



Senator Anna MacKinnon, Co-Chair  
State Capitol, Room 315  
Juneau, AK 99801-1182  
Phone - (907) 465- 3777  
Senator.Anna.MacKinnon@akleg.gov

Official Business

### Sectional Analysis CSSB 3001 Version P

- Sec. 1 Legislative Intent
- (a) that the supplemental appropriations for the Departments of Law, Natural Resources, and Revenue be accounted for separately
  - (b) that the administration carry out the TransCanada interest acquisition in an expedited manner
- Sec. 2 Supplemental appropriation request for the Department of Law for \$10,100,000 for outside legal counsel contracts and internal agency costs
- Sec. 3 Supplemental appropriation request for the Department of Natural Resources for \$2,126,000 for marketing, contractual services, and personal services
- Sec. 4 Supplemental appropriation request for the Department of Revenue for \$1,381,000 for personal services and travel and contractual services
- Sec. 5 Fund Capitalization
- (a) \$68,455,000 is appropriated from the General Fund to the Alaska Liquefied Natural Gas (AK LNG) Project Fund to acquire the interest currently held by TransCanada Alaska Development Inc.
  - (b) \$75,600,000 is appropriated from the General Fund to the Alaska Liquefied Natural Gas Project Fund for the state's share of Preliminary Front-End Engineering and Design (Pre-FEED) work for the AK LNG Project

(c) Statutory designated program receipts received for reimbursement for costs of field work from the AK LNG Project Fund are appropriated to the AK LNG Project Fund

(d) Statutory designated program receipts received for reimbursement for costs of field work from the In-State Natural Gas Pipeline Fund are appropriated to the In-State Natural Gas Pipeline Fund

Sec. 6 Lapse of Appropriations

The appropriations made in Section 5 do not lapse

Sec. 7 Retroactivity

If sections 2-5 take effect after November 15, 2015, sections 2-5 are retroactive to November 15, 2015

Sec. 8 Contingency

The appropriation made in section 5 (b) for Pre-FEED work, is contingent on adoption of a work plan and budget for the AK LNG Project by December 31, 2015

Sec. 9 Immediate effective date

# ALASKA STATE LEGISLATURE

## SENATE FINANCE COMMITTEE

Senator Pete Kelly, Co-Chair  
State Capitol, Room 315  
Juneau, AK 99801-1182  
(907) 465- 3709 - Phone  
Senator.Pete.Kelly@akleg.gov



Senator Anna MacKinnon, Co-Chair  
State Capitol, Room 315  
Juneau, AK 99801-1182  
Phone - (907) 465- 3777  
Senator.Anna.MacKinnon@akleg.gov

Official Business

### Explanation of Changes for CSSB 3001 Between Version P and I

- Section 1 (b) the company name for TransCanada was revised to reflect the appropriate entity TransCanada Alaska Midstream Partnership
- Section 2 Page 1, line 13 – the Department of Natural Resources was inserted following the word assist
- Page 2, line 2 – the following language was inserted: Money may be expended from the appropriation made in this section only for work completed during the fiscal year ending June 30, 2016
- Section 3 The amount was revised from \$2,126,000 to \$1,849,500
- Page 2, line 9 – The company name for TransCanada was revised to reflect the appropriate entity TransCanada Alaska Midstream Partnership
- Page 2, line 10 – the following language was inserted: Money may be expended from the appropriation made in this section only for work completed during the fiscal year ending June 30, 2016
- Section 4 The amount was revised from \$1,381,000 to \$1,045,500
- Page 2, line 18 – the following language was inserted: Money may be expended from the appropriation made in this section only for work completed during the fiscal year ending June 30, 2016
- Section 5 The company name for TransCanada was revised to reflect the appropriate entity TransCanada Alaska Midstream Partnership
- Section 6 No changes

Section 7 No changes

Section 8 Sections 2-4 were added to the contingency clause

State of Alaska was removed

The company names were revised to reflect the appropriate entity:

ExxonMobil Alaska LNG LLC, ConocoPhillips Alaska LNG Company,  
and BP Alaska LNG LLC

# ALASKA STATE LEGISLATURE

## SENATE FINANCE COMMITTEE

Senator Pete Kelly, Co-Chair  
State Capitol, Room 315  
Juneau, AK 99801-1182  
(907) 465- 3709 - Phone  
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State Capitol, Room 315  
Juneau, AK 99801-1182  
Phone - (907) 465- 3777  
Senator.Anna.MacKinnon@akleg.gov

Official Business

### Sectional Analysis for CSSB 3001 Version I

- Section 1 Legislative Intent
- (a) that the supplemental appropriations for the Departments of Law, Natural Resources, and Revenue be accounted for separately
  - (b) that the administration carry out the TransCanada interest acquisition in an expedited manner
- Section 2 Supplemental appropriation request for the Department of Law for \$10,100,000 for outside legal counsel contracts and internal agency costs for work conducted during FY16
- Section 3 Supplemental appropriation request for the Department of Natural Resources for \$1,849,500 for marketing, contractual services, and personal services for work conducted during FY16
- Section 4 Supplemental appropriation request for the Department of Revenue for \$1,045,500 for personal services and travel and contractual services for work conducted during FY16
- Section 5 Fund Capitalization
- (a) the amount necessary, estimated to be \$68,455,000 is appropriated from the General Fund to the Alaska Liquefied Natural Gas (AK LNG) Project Fund to acquire the interest currently held by TransCanada Alaska Midstream, L.P.
  - (b) \$75,600,000 is appropriated from the General Fund to the Alaska Liquefied Natural Gas Project Fund for the state's share of Preliminary Front-End Engineering and Design (Pre-FEED) work for the AK LNG Project

- (c) Statutory designated program receipts received for reimbursement for costs of field work from the AK LNG Project Fund are appropriated to the AK LNG Project Fund
- (d) Statutory designated program receipts received for reimbursement for costs of field work from the In-State Natural Gas Pipeline Fund are appropriated to the In-State Natural Gas Pipeline Fund

Section 6 Lapse of Appropriations

The appropriations made in Sections 5 do not lapse

Section 7 Retroactivity

If sections 2-5 take effect after November 15, 2015, sections 2-5 are retroactive to November 15, 2015

Section 8 Contingency

The appropriation made in section 2-4 and 5 (b) for Pre-FEED work, is contingent on adoption of a work program and budget for the AK LNG Project by December 31, 2015

Section 9 Immediate effective date

*Adopted 11/2/15*

29-GS3812V  
Wallace/Martin  
11/1/15

**CS FOR SENATE BILL NO. 3001(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - THIRD SPECIAL SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:  
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act making supplemental appropriations; making appropriations to capitalize**  
2 **funds; and providing for an effective date."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 \* **Section 1.** LEGISLATIVE INTENT. (a) It is the intent of the legislature that the  
5 appropriations made in secs. 2 - 4 of this Act be accounted for separately from the unrestricted  
6 general fund.

7 (b) It is the intent of the legislature that the appropriation made in sec. 5(a) of this Act  
8 be paid in an expedited manner, resulting in a successful state acquisition of the interest in the  
9 Alaska liquefied natural gas project currently held by TransCanada Alaska Midstream  
10 Limited Partnership by December 1, 2015.

11 \* **Sec. 2.** DEPARTMENT OF LAW. The sum of \$10,100,000 is appropriated from the  
12 general fund to the Department of Law, civil division, oil, gas, and mining, for contractual  
13 services with law firms to assist the Department of Natural Resources in drafting and  
14 reviewing contracts related to the Alaska liquefied natural gas project and to provide legal and

1 regulatory support for state participation in the Alaska liquefied natural gas project for the  
2 fiscal year ending June 30, 2016. Money may be expended from the appropriation made in  
3 this section only for work completed during the fiscal year ending June 30, 2016.

4 \* **Sec. 3.** DEPARTMENT OF NATURAL RESOURCES. The sum of \$1,849,500 is  
5 appropriated from the general fund to the Department of Natural Resources, administration  
6 and support services, North Slope gas commercialization, for a marketing lead position, a  
7 marketing analyst position, work related to Federal Energy Regulatory Commission resource  
8 reporting reviews and drafting, facilities review for commercial aspects, commercial analysis  
9 and support, and audits associated with the termination of the agreement with TransCanada  
10 Alaska Midstream Limited Partnership for the fiscal year ending June 30, 2016. Money may  
11 be expended from the appropriation made in this section only for work completed during the  
12 fiscal year ending June 30, 2016.

13 \* **Sec. 4.** DEPARTMENT OF REVENUE. The sum of \$1,045,500 is appropriated from the  
14 general fund to the Department of Revenue, administration and support, natural gas  
15 commercialization, for personal services for work on financial analysis, project financing,  
16 governance, and the revenue aspects of marketing and taxes; for travel; for contractual review  
17 of project financing; and for other costs related to performing work for the Alaska liquefied  
18 natural gas project for the fiscal year ending June 30, 2016. Money may be expended from the  
19 appropriation made in this section only for work completed during the fiscal year ending  
20 June 30, 2016.

21 \* **Sec. 5.** FUND CAPITALIZATION. (a) The amount necessary, estimated to be  
22 \$68,455,000, is appropriated from the general fund to the Alaska liquefied natural gas project  
23 fund (AS 31.25.110) to acquire the interest currently held by TransCanada Alaska Midstream  
24 Limited Partnership in the Alaska liquefied natural gas project.

25 (b) The sum of \$75,600,000 is appropriated from the general fund to the Alaska  
26 liquefied natural gas project fund (AS 31.25.110) to fund the state's share of preliminary  
27 front-end engineering and design work for the Alaska liquefied natural gas project.

28 (c) The statutory designated program receipts received as reimbursement for costs of  
29 field work paid from the Alaska liquefied natural gas project fund (AS 31.25.110) during the  
30 fiscal year ending June 30, 2016, estimated to be \$2,900,000, are appropriated to the Alaska  
31 liquefied natural gas project fund (AS 31.25.110).

1 (d) The statutory designated program receipts received as reimbursement for costs of  
2 field work paid from the in-state natural gas pipeline fund (AS 31.25.100) during the fiscal  
3 year ending June 30, 2016, estimated to be \$1,300,000, are appropriated to the in-state natural  
4 gas pipeline fund (AS 31.25.100).

5 \* **Sec. 6. LAPSE OF APPROPRIATIONS.** The appropriations made in sec. 5 of this Act are  
6 for the capitalization of funds and do not lapse.

7 \* **Sec. 7. RETROACTIVITY.** If secs. 2 - 5 of this Act take effect after November 15, 2015,  
8 secs. 2 - 5 of this Act are retroactive to November 15, 2015.

9 \* **Sec. 8. CONTINGENCY.** The appropriations made in secs. 2 - 4, and 5(b) of this Act are  
10 contingent on adoption of a work program and budget for the Alaska liquefied natural gas  
11 project for calendar year 2016 by the Alaska Gasline Development Corporation, ExxonMobil  
12 Alaska LNG LLC, ConocoPhillips Alaska LNG Company, and BP Alaska LNG LLC by  
13 December 31, 2015.

14 \* **Sec. 9.** This Act takes effect immediately under AS 01.10.070(c).

**SENATE FINANCE COMMITTEE REPORT**  
**First Committee of Referral**

DATE: 10/24/15

FURTHER: RULES / T. Cal

Date of 5-Day Notice: \_\_\_\_\_  
 (in accordance with Uniform Rule 23)

DATE TURNED  
 IN TO OFFICE: 11/2/15

Finance Committee considered SENATE BILL NO. 3001

SB 3001-APPROP: LNG PROJECT & FUND/AGDC/SUPP.

"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."

and recommends:

- be replaced with CS SB 3001 (FIN) [ ] Same Title [] New Title
- [ ] adopt previous CS \_\_\_\_\_ (\_\_\_\_\_) [ ] Same Title [ ] New Title
- [ ] attached amendment(s)
- [ ] adopt \_\_\_\_\_ Letter of Intent
- [ ] further referral to \_\_\_\_\_ Committee

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
EED	MVA
DEC	DNR
DFG	DPS
GOV	REV
DHS	DOT
AJS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	MICCICHE	X			
	Bishop	X			
	Duleavy				X
	Jason	X			
CO-CHAIR:	Hoffman Kelly	✓			
CO-CHAIR:	Mackinnon	✓			

**11. Documents  
Addressing Questions  
Put to the  
Administration**



unit gas transmission line, a gas pipeline, the gas treatment plant, a liquefied natural gas plant, and a marine terminal . . . .”<sup>3</sup>

AGDC’s statutory purpose therefore includes developing and advancing the AKLNG Project.

## **2. AGDC’s Powers and Duties Provide Express Authority for AGDC to Acquire TransCanada’s AKLNG Interest**

Senate Bill 138 also amended AGDC’s powers and duties to provide AGDC with authority to acquire an ownership interest in the AKLNG Project components. Paragraph 23 of AS 31.25.080(a) provides that AGDC may, “except as provided in (g) of this section, acquire an ownership or participation interest in an Alaska liquefied natural gas project, natural gas treatment facilities, natural gas pipeline facilities, liquefaction facilities, marine terminal facilities related to the infrastructure of an Alaska liquefied natural gas project . . . .”<sup>4</sup> This paragraph provides AGDC with explicit authority to acquire TransCanada’s interest in the gas treatment and pipeline facilities. This paragraph also provides AGDC with authority to hold the State of Alaska’s interest in the AKLNG Project liquefaction facilities, which AGDC has held since 2014, as was clearly intended by the legislature.

Subsection (g) of AS 31.25.080 provides that TransCanada’s interest may not be acquired by an “entity or subsidiary” of AGDC that is advancing an in-state natural gas pipeline, such as the Alaska Stand Alone Pipeline (ASAP):<sup>5</sup> “The power in (a)(23) of this section may not be exercised by an entity or subsidiary of the corporation that is advancing the development of an in-state natural gas pipeline . . . .”<sup>6</sup> This subsection does not prohibit the corporation from acquiring TransCanada’s AKLNG interest, even if AGDC continues to work on the in-state Alaska Stand Alone

---

<sup>3</sup> AS 31.25.390(7). “Gas pipeline,” “gas treatment plant,” “liquefied natural gas plant,” “marine terminal,” “Point Thomson unit gas transmission line,” and “Prudhoe Bay unit gas transmission line” are defined terms. AS 31.25.390(7)(A)-(F). The AKLNG Project components satisfy those definitions.

<sup>4</sup> AS 31.25.080(a)(23).

<sup>5</sup> See Senate Bill 138 Sectional Analysis, at 2 (noting that SB 138 “adds a new subsection to AS 31.25.080 to direct that an entity or subsidiary of the corporation pursuing the in-state natural gas pipeline may not pursue an AK LNG project (AS 31.25.080(a)(23))”).

<sup>6</sup> AS 31.25.080(g).

Pipeline (ASAP). If subsection (g) was interpreted to prohibit the corporation from acquiring an interest in components of the AKLNG Project while the corporation completed work on ASAP, AGDC would also have been prohibited from holding the interest in the liquefaction facility that they have held since 2014. Such a reading would be contrary to legislative intent.

### **3. AGDC's Liquefied Natural Gas Project Fund Can be Used to Pay for Future Expenses Associated with TransCanada's Interest**

Senate Bill 138 also established the Alaska liquefied natural gas project fund in AGDC, which can be used for any of the powers and duties discussed above. AGDC may use money appropriated to the Alaska liquefied natural gas project fund "without further appropriation . . . for purposes related to an Alaska liquefied natural gas project . . . ."<sup>7</sup> AGDC may therefore use money appropriated to this fund for future AKLNG Project cash calls and expenses associated with the TransCanada interest it acquires.

In summary, Senate Bill 138 amended AGDC's statutory purpose, powers and duties, and funds to provide AGDC with the authority and ability to acquire TransCanada's interest in the AKLNG Project gas treatment and pipeline facilities. No statutory amendments are necessary for AGDC to acquire TransCanada's interest in the AKLNG Project.

---

<sup>7</sup> AS 31.25.110.



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

**Department of Natural Resources**

COMMISSIONER'S OFFICE

550 W. 7<sup>th</sup> #1400  
Anchorage, AK 99501  
Main: 907.269.8431  
Fax: 907.269.8918

October 30, 2015

To Whom It May Concern:

The Alaska State Legislature is currently considering a bill (SB 3001) that would, among other things, appropriate funds to the Alaska Gasline Development Corporation (AGDC) to pay for the termination of TransCanada Alaska Midstream LP's (TC LP) services in the Alaska Liquefied Natural Gas Project (AKLNG Project). Under the Alaska LNG Midstream Services Precedent Agreement (Precedent Agreement), DNR is entitled to terminate TC LP's services. Upon such a termination, DNR is obligated to pay a termination amount and, once payment in full has occurred, DNR may elect to have TC LP or its assets conveyed to DNR or its designee affiliate. AGDC is an "affiliate" of DNR for purposes of the Precedent Agreement.

If the Alaska State Legislature approves the appropriation contemplated in SB 3001, the Department of Natural Resources (DNR) intends to provide a termination notice under the Precedent Agreement and to elect to receive a "partnership interest conveyance" under the Transporter Conveyance Mechanics (Schedule F) incorporated into the Precedent Agreement. DNR will then designate AGDC as its affiliate to take an assignment of the TC LP partnership interest. The Department of Law has drafted the legal instrument that will convey the TC LP partnership interest to AGDC should the Legislature approve the appropriation contemplated in SB 3001. Existing agreements between the AKLNG Project parties contemplate AGDC's acquisition of TC LP's interest in the AKLNG Project, and the Department of Law has confirmed that AGDC has legal authority to acquire that interest.

Please let me know if you have any further questions or concerns regarding this issue.

Sincerely

A handwritten signature in blue ink that reads "Mark D. Myers".

Mark Myers  
Commissioner  
State of Alaska Department of Natural Resources

STATE CAPITOL  
P.O. Box 110001  
Juneau, AK 99811-0001  
907-465-3500  
fax: 907-465-3532



550 West Seventh Avenue, Suite 1700  
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907-269-7450  
fax 907-269-7461  
www.Gov.Alaska.Gov  
Governor@Alaska.Gov

Governor Bill Walker  
STATE OF ALASKA

October 30, 2015

Dear Members of the 29<sup>th</sup> Alaska State Legislature:

In response to questions that have emerged as part of this Special Session, I wish to provide clarity on: "who's in charge?" and "where does the authority for gas marketing lie?"

This process was already in place when this administration took office, as was a vast majority of the organizational chart. While we have made minor adjustments, we expect that following the buyout of TransCanada's interest in the project we may make further changes within the confines of SB 138.

I recognize and support the Alaska Gasline Development Corporation's (AGDC) responsibilities, which are statutorily authorized in AS 31.25.080(a)(23) around ownership interests and AS 31.25.005 (1), (5) regarding infrastructure and services. A legal memo has been shared with the Legislature, and is again enclosed herein, that makes clear AGDC has the authority to acquire and hold TransCanada's interest in the AKLNG Project.

What is also clear in statute (AS 38.05.020), is the authority of the Department of Natural Resources around Gas Marketing and the State's share of royalty and tax gas. I fully support the Department of Natural Resources' and the Department of Revenue's authorities and obligations to negotiate the associated commercial agreements and dispose of the gas from an LNG export project, as identified in statute. The Department of Natural Resources currently markets the State's Royalty Oil and, in consultation with the Department of Revenue, will make the determination on how the State's Royalty and Tax Gas will be marketed.

Also attached is a letter from Commissioner Myers at the Department of Natural Resources regarding the transfer of interest from TransCanada to AGDC.

Finally I wish to clarify that as the Chief Executive and Governor, I am the person in charge of the Executive Branch responsibilities associated with the AKLNG Project.

I want to thank each of you for your hard work during this special session to advance the gasline.

Sincerely,

A handwritten signature in blue ink that reads "Bill Walker".

Bill Walker  
Governor

Enclosure: Memorandum on AGDC Authority 10-26-15  
AGDC Transfer Letter from DNR

0992788

AK Entity #: 10032715  
Date Filed: 10/01/2015  
State of Alaska, DCCED

RECEIVED

SEP 28 2015

Anchorage  
Division of Corporations, Business  
and Professional Licensing

CC 5000 Al

**ARTICLES OF INCORPORATION  
OF  
AGDC GAS AGGREGATOR CO.**

The undersigned, acting as the incorporators under the provisions of the Alaska Nonprofit Corporation Act (AS 10.20), adopt the following Articles of Incorporation for the Corporation:

**ARTICLE I  
NAME**

The name of this Corporation is AGDC GAS AGGREGATOR CO.

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**ARTICLE II  
DURATION**

The Corporation's duration will be perpetual.

**ARTICLE III  
PUBLIC CORPORATION**

(a) The Corporation shall be a corporation incorporated under the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of AS 31.25, as amended through ch. 14, SLA 2014 (collectively, "Enabling Statutes"). As such, the Corporation shall be a public corporation and government instrumentality of, but having a legal existence independent and separate from, the State of Alaska. The Corporation shall be a subsidiary of, but separate and apart from, the Alaska Gasline Development Corporation ("Sole Member"), a public corporation and government instrumentality of, but having legal existence independent of and separate from, the State of Alaska.

(b) The Corporation will have only one class of voting members consisting solely of the Sole Member. Except as otherwise stated in these articles, member rights will be set forth in the Corporation's Bylaws.

**ARTICLE IV  
PURPOSE, POWERS**

(a) The Corporation is formed for the purpose of acquiring natural gas from the North Slope, and natural gas from other regions of the state, including the state's outer continental shelf,



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and making that natural gas available to markets in the state, including the delivery of natural gas, including propane and other hydrocarbons associated with natural gas other than oil, to coastal communities in the state, or any other purpose identified in AS 31.25.120 as amended from time to time, all at the direction of the Sole Member. The Corporation will accomplish this purpose through powers set forth in (b) of this Article IV.

(b) The Corporation shall have the power to borrow money and issue bonds as evidence of that borrowing, and, as granted by the Sole Member under AS 31.25, shall have all the powers of a corporation formed under AS 10.20, as amended from time to time, to the extent not in conflict with AS 31.25, and shall have the powers and authorities as set forth in these articles, generally, and all powers as possessed by the Sole Member through AS 31.25, as amended from time to time.

#### ARTICLE V DIRECTORS

(a) The number of directors constituting the initial board of directors of the Corporation shall be the same as the Sole Member's board of directors. The board will consist of the same directors as the Sole Member's board of directors. Any person who serves as the designee of any director on the Sole Member's board of directors shall also be the designee of such director for purposes of the Corporation's board of directors. The term of a director shall be the same term as the director's term on the Sole Member's board of directors.

(b) In the event an individual serving as a director no longer serves as a director on Sole Member's Board of Directors, that director position on the Corporation's board of directors shall immediately become vacant and shall be filled with the individual replacing that director on the Sole Member's board of directors.

(c) The names and addresses of the persons who are to serve as the initial directors of the corporation are as follows:

John Burns  
PO Box 83594  
100 Cushman St, Ste. 311  
Fairbanks, AK 99701

Dave Cruz  
3852 North Clark-Wolverine Rd.  
Palmer, AK 99645

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Commissioner Heidi Drygas  
1016 West 6th Avenue, Ste. 401  
Anchorage, AK 99501

PO Box 111149  
Juneau, AK 99811

Commissioner Chris Hladick  
PO Box 110800  
Juneau, AK 99811

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Hugh Short  
Pt. Capital  
188 W. North Lights Blvd., Ste. 920  
Anchorage, AK 99503

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Rick Halford  
PO Box 771209  
Eagle River, AK 99577

Joey Merrick  
2501 Commercial Dr.  
Anchorage, AK 99501

These initial directors shall serve for the first term of the Corporation's board of directors, subject to the terms of this Article V.

(d) When voting on whether the Corporation will take an action as set forth in these articles, each director shall owe his or her primary fiduciary duty and obligation to the Corporation, including, without limitation, the Corporation's creditors, and not to the Sole Member. The Sole Member shall be deemed to have consented to this statement by virtue of approval of the establishment of the Corporation.

#### **ARTICLE VI NOT FOR PROFIT**

(a) All income and earnings of the Corporation shall be used exclusively for its corporate purposes, subject to the Corporation's responsibilities under its obligations, including but not limited to, the Obligations.

(b) Except as expressly provided in these articles or the Enabling Statutes, no part of the income or earnings of the Corporation shall inure to the benefit or profit of, nor shall any distribution of its property or assets be made to any member, director, or officer of the Corporation or private person, corporation or individual, or to any other private interest.

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Division of Corporations, Business  
and Professional Licensing

**ARTICLE VII  
PRINCIPAL OFFICE**

The principal office of the Corporation shall be located in the State of Alaska and may be in a facility leased from the Sole Member.

**ARTICLE VIII  
REGISTERED AGENT**

The initial registered agent of the corporation will be Kenneth E. Vassar, and the address of the initial registered office for the Corporation will be c/o Alaska Gasline Development Corporation, 3201 C Street, Suite 200, Anchorage, Alaska 99503.

**ARTICLE IX  
INCORPORATORS**

The names and addresses of the incorporators of the Corporation are as follows:

Kenneth E. Vassar  
3201 C Street, Suite 200, Anchorage, AK 99503

Jason Iverson  
3201 C Street, Suite 200, Anchorage, AK 99503

Lisa C. Lauterbur  
3201 C Street, Suite 200, Anchorage, AK 99503

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ARTICLE X FINAL DISTRIBUTION

Upon the winding up and dissolution of the Corporation and after paying or adequately providing for the debts and obligations of the Corporation, including debts to holders of outstanding Obligations or other indebtedness, if any, the remaining assets will be distributed to the State of Alaska. In the event that the State of Alaska is unwilling or unable to accept such a distribution, that remaining distribution will be made to the Sole Member.

IN WITNESS WHEREOF, the undersigned incorporators of the Corporation have hereunto set their hands this 28th day of September 2015.

[Signature of Lisa C. Lauterbur]
Lisa C. Lauterbur, Incorporator

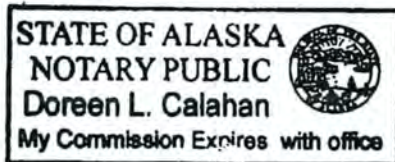
[Signature of Kenneth E. Vassar]
Kenneth E. Vassar, Incorporator

[Signature of Jason Iverson]
Jason Iverson, Incorporator

STATE OF ALASKA )
) ss:
THIRD JUDICIAL DISTRICT )

THIS CERTIFIES on this 28th day of September 2015, before me, the undersigned Notary Public in and for the State of Alaska, personally appeared Lisa C. Lauterbur, known to me and to me known to be the incorporator in the foregoing ARTICLES OF INCORPORATION; that she knows the contents of the foregoing and that each and all of said facts and matters are true and correct to the best of his information and belief.

SUBSCRIBED AND SWORN to before me this 28th day of September 2015.



[Signature of Doreen L. Calahan]
Notary Public in and for Alaska
My Commission Expires: with office

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Juneau

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STATE OF ALASKA )  
 ) ss:  
THIRD JUDICIAL DISTRICT )

OCT 01 2015

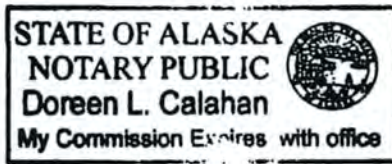
SEP 28 2015

CBPL

Division of Corporations  
Business and Professional Licensing

THIS CERTIFIES on this 28th day of September 2015, before me, the undersigned Notary Public in and for the State of Alaska, personally appeared Kenneth E. Vassar, known to me and to me known to be the incorporator in the foregoing ARTICLES OF INCORPORATION; that he knows the contents of the foregoing and that each and all of said facts and matters are true and correct to the best of his information and belief.

SUBSCRIBED AND SWORN to before me this 28th day of September 2015.

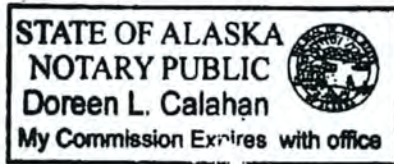


Doreen L. Calahan  
Notary Public in and for Alaska  
My Commission Expires: with office

STATE OF ALASKA )  
 ) ss:  
THIRD JUDICIAL DISTRICT )

THIS CERTIFIES on this 28th day of September 2015, before me, the undersigned Notary Public in and for the State of Alaska, personally appeared Jason Iverson, known to me and to me known to be the incorporator in the foregoing ARTICLES OF INCORPORATION; that he knows the contents of the foregoing and that each and all of said facts and matters are true and correct to the best of his information and belief.

SUBSCRIBED AND SWORN to before me this 28th day of September 2015.



Doreen L. Calahan  
Notary Public in and for Alaska  
My Commission Expires: with office

STATE CAPITOL  
P.O. Box 110001  
Juneau, AK 99811-0001  
907-465-3500  
fax: 907-465-3532



550 West Seventh Avenue, Suite 1700  
Anchorage, AK 99501  
907-269-7450  
fax 907-269-7461  
www.Gov.Alaska.Gov  
Governor@Alaska.Gov

Governor Bill Walker  
STATE OF ALASKA

October 14, 2015

State AKLNG Team:

To ensure a coordinated State voice, I have asked the Attorney General to manage all written communications with the legislature until the conclusion of the special session. Effective immediately, please send any written correspondence, presentations, or other materials to the Attorney General for approval before they are shared outside of the State AKLNG Team.

When providing communications for approval, please include "SPECIAL SESSION REVIEW" in the subject line of your email. In addition, please copy Darwin Peterson in the Legislative Office and Nancy Korting in the Attorney General's office. The Attorney General will make every effort to review materials promptly.

Finally, all members of the State AKLNG Team who are expected to testify before the Legislature during the special session should plan to be in Juneau no later than Wednesday, October 21. We will use this time prior to the start of the special session for team planning and preparation.

Thank you all for your efforts to make this a successful special session. I appreciate your hard work.

Sincerely,

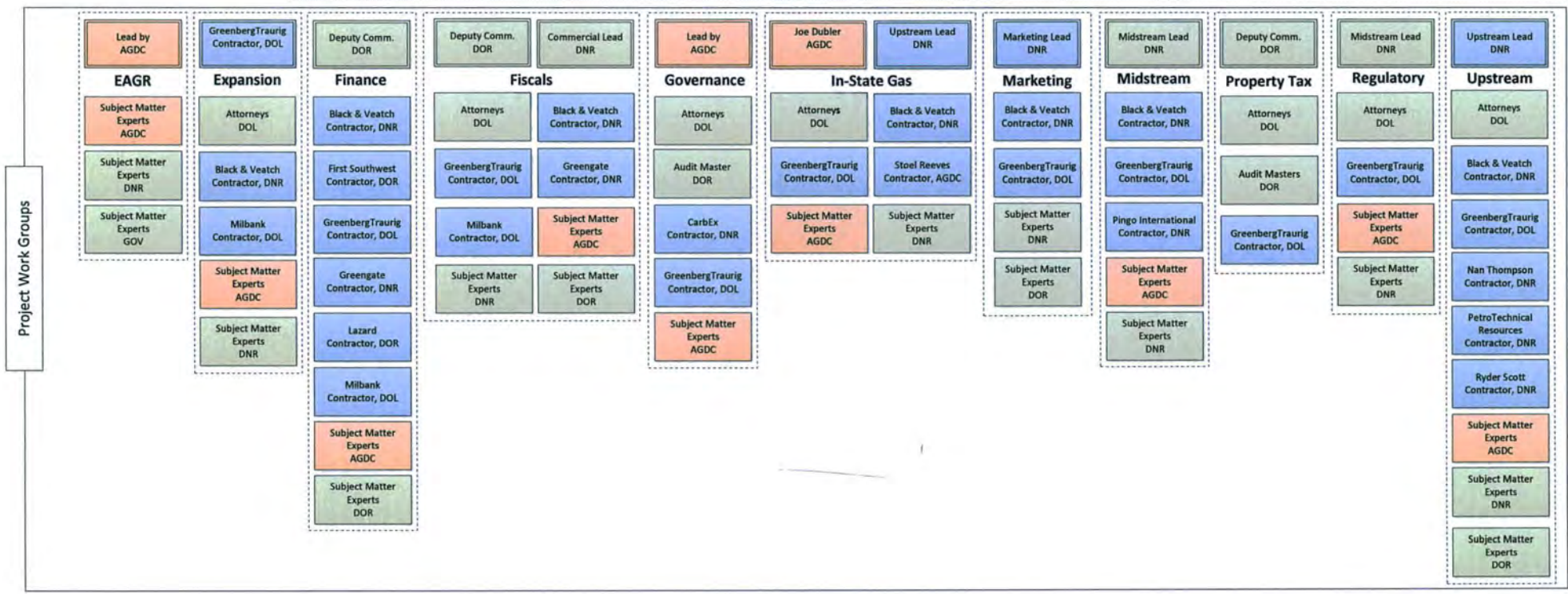
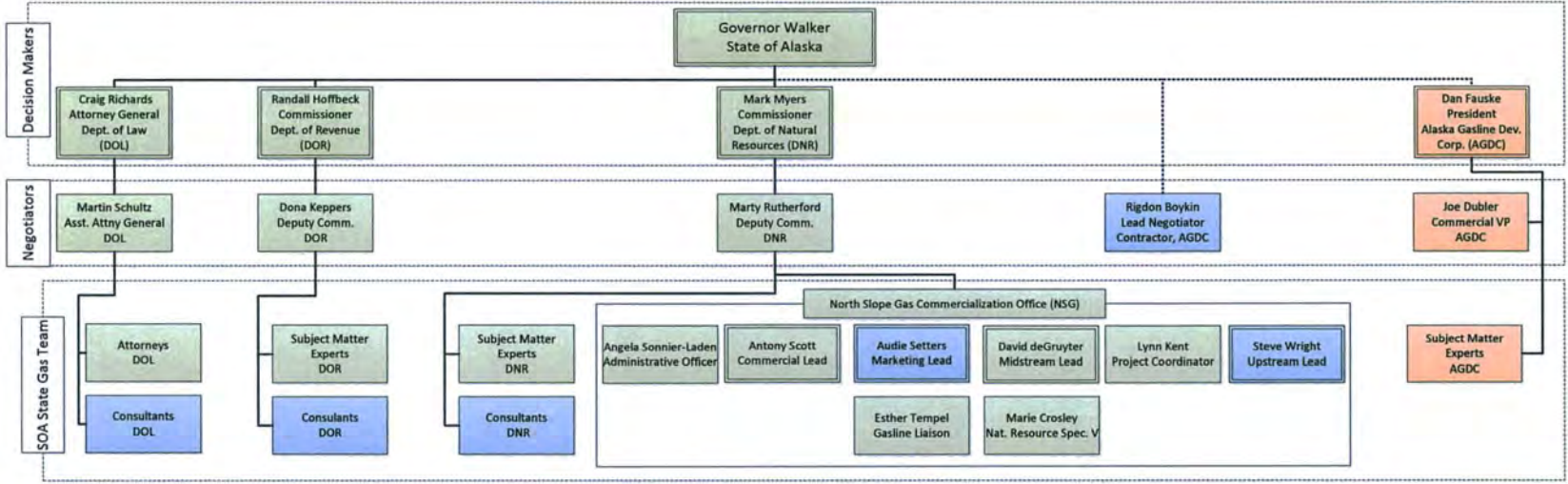
A handwritten signature in black ink that reads "Bill Walker".

Bill Walker  
Governor

10/27/15 9am

**State of Alaska  
AKLNG Integrated  
State Gas Team  
10.26.15**

**Color Key:**  
Green = State Employees  
Blue = Contractors/Consultants  
Orange = AGDC





THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

**Office of the Governor**

OFFICE OF MANAGEMENT AND BUDGET  
Pat Pitney, Director

Court Plaza Building  
240 Main Street, Suite 802  
Juneau, Alaska 99811-0020  
Main: 907.465.4660  
Fax: 907.465.2090

October 23, 2015

The Honorable Pete Kelly  
Co-Chair, Senate Finance Committee  
Alaska State Legislature  
State Capitol, Room 518  
Juneau, AK 99801-1182

The Honorable Anna MacKinnon  
Co-Chair, Senate Finance Committee  
Alaska State Legislature  
State Capitol, Room 516  
Juneau, AK 99801-1182

Dear Co-Chair Kelly and Co-Chair MacKinnon,

Thank you for the opportunity to answer the Committee's questions about the Governor's budget philosophy before the Senate Finance committee on October 5, 2015. The following is in response to questions posed by the committee during the hearing for distribution to the members.

*1. What is the daily "burn rate" on our savings accounts? Given a price of \$50 per barrel of oil scenario, what date will our savings accounts be depleted?*

Based on \$50/bbl oil, the expected FY16 CBR draw is about \$3.2 billion, which is equivalent to spending about \$8.8 million daily ( $\$3.2 \text{ billion} / 365 = \$8.76 \text{ million per day}$ ).

If the price of oil stays at \$50/bbl, we estimate savings account will be depleted by early September, 2018.

NOTE: Division of Finance and the Department of Revenue do cash projections, "burn rates", projected daily spending, and cash transfers from savings (CBR) to the GF based on actuals. There are often timing and other differences to budget. Our response provides a mathematical calculation of the daily budget spend and the anticipated CBR depletion date. This is important in case a different number on the daily "burn rate" is provided and there is confusion.

*2. Will your administration introduce legislation this session that will utilize the Permanent Fund to help balance future budget shortfalls?*

The Administration is in the process of developing an overall plan and will be introducing legislation.

*3. Has the administration reevaluated its revenue forecast given the current price of oil? What is the current budget deficit projected at current oil prices?*

Based on \$50/bbl, FY16 budget deficit is projected at \$3.2 billion. The table below shows the projected deficit at various oil prices.

<b>Oil Price (per barrel)</b>	<b>FY16 Projected Deficit (\$billion)</b>
\$75	\$2.5
\$70	\$2.6
\$66 (official Spring Forecast)	\$2.7
\$65	\$2.8
\$60	\$2.9
\$55	\$3.1
\$50	\$3.2
\$45	\$3.3
\$40	\$3.4

*4. What price per barrel are you using to budget for FY 2017 and what shortfall will it create?*

The Fall Revenue Forecast will be released soon. It will likely reduce oil price projections from the spring. We are using \$45 - \$60 as our range in the budget development process.

5. Provide an update on current bargaining agreements and their financial impact on future budgets. In addition, what impact did the unallocated reduction, used to pay for FY16 salary increases, have on the rest of the budget?

An update on current bargaining agreements is summarized in the table below.

<b>Contracts currently in negotiations (expired June 30, 2015)</b>	
Labor, Trades and Crafts (LTC)	State's last proposal contained a zero COLA for each of the three years
Teacher's Education Association of Mt. Edgecumbe (TEAME)	State's last proposal contained a zero COLA for each of the three years
Marine Engineers Beneficial Association (MEBA)	Expired July 1, 2014. MEBA has not sent the contract to its members for a ratification vote. A zero COLA is in effect until the contract is ratified.
<b>Contracts that will be negotiated this fall (expire June 30, 2016)</b>	
Alaska State Employees Association (ASEA)-representing the General Government Unit (GGU)	ASEA has sent a request to begin negotiations at the end of October
Alaska Public Employees Association (APEA)-representing the Supervisory Unit (SU)	
Confidential Employees Association (CEA)	
<b>Contracts currently under agreement</b>	
Public Safety Employees Association (PSEA)	Expires June 30, 2017 2% COLA due for FY17
Alaska Vocational Technical Center Teachers' Association (AVTECTA)	Expires June 30, 2017 1% COLA due for FY17
Masters, Mates and Pilots (MM&P)	Expires June 30, 2017 2% COLA due for FY17
Inland Boatmen's Union of the Pacific (IBU)	Expires June 30, 2017 2% COLA due for FY17
Alaska Correctional Officers Association (ACOA)	Expires June 30, 2018 1% COLA due for FY17; 2.25% COLA due for FY18

The executive branch absorbed the entire \$29.8 million unallocated reduction, thus the legislative and judicial branches were held harmless. Each agency has gone through and identified individual reductions to accommodate the reduction. The unallocated reduction on the budget means a \$29.8 million reduction on top of the \$340 million cut in the agency operations.

FY2016 Enacted Department Summary  
 Unallocated Reduction

	UGF		COLA by Dept.	Dist of Unalloc.	FY2016 w Dist of Unalloc.	% UGF FY15 Mgt Plan to FY16 w Unalloc.
	FY2015 Management Plan	FY2016 CCHB2001 From Leg Finance				
<b>Non-Formula</b>						
Administration	86,030.2	76,383.9	994.6	-1,216.6	75,167.3	-12.6%
Commerce	40,454.3	27,707.3	339.1	-1,100.0	26,607.3	-34.2%
Corrections	297,654.4	281,178.0	2,450.1	-3,891.5	277,286.5	-6.8%
Educ & Early Devel	57,419.6	42,363.3	329.8	-674.8	41,688.5	-27.4%
Environ Conservation	22,472.1	20,468.5	375.2	-375.2	20,093.3	-10.6%
Fish and Game	79,387.8	66,443.3	1,347.9	-1,347.9	65,095.4	-18.0%
Governor	33,609.5	23,538.9	388.9	-388.9	23,150.0	-31.1%
Health & Social Svcs	388,277.2	368,277.9	4,666.5	-5,864.3	362,413.6	-6.7%
Labor & Workforce	33,448.0	26,249.6	235.3	-418.1	25,831.5	-22.8%
Law	61,275.3	53,973.3	927.7	-927.7	53,045.6	-13.4%
Alaska Aerospace Corp	6,084.3	100.2		-100.2		-100.0%
Military & Veterans Affairs (Except AAC)	18,105.3	16,765.8	274.2	-274.2	16,491.6	-8.9%
Natural Resources	88,072.8	71,464.3	1,062.0	-1,138.3	70,326.0	-20.2%
Public Safety	171,553.2	163,274.3	1,457.7	-2,600.6	160,673.7	-6.3%
Revenue	33,831.4	29,515.2	532.2	-532.2	28,983.0	-14.3%
Transportation	278,604.6	247,963.9	1,393.9	-3,949.5	244,014.4	-12.4%
	27,000.0	-29,800.0				-100.0%
<b>Executive Agencies Non-Formula</b>	<b>1,723,280.0</b>	<b>1,485,867.7</b>	<b>16,775.1</b>	<b>-24,800.0</b>	<b>1,490,867.7</b>	<b>-13.5%</b>
University of Alaska	370,599.7	355,787.0	10,073.0	-5,000.0	350,787.0	-5.3%
Judiciary	111,866.3	110,402.9	2,279.5		110,402.9	-1.3%
Legislature	77,622.0	73,397.9	1,171.3		73,397.9	-5.4%
				<b>-29,800.0</b>		

6. Update the committee on any privatization activities the administration is pursuing at this time and the potential savings they may achieve.

Health & Social Services

DHSS is currently discussing the privatization option and feasibility for the Alaska Pioneer Homes and the Alaska Psychiatric Institute (API). They are intending on having a Request for Letters of Interest prior to the start of session.

Pioneer Homes (6)

Anchorage	Ketchikan
Fairbanks	Palmer
Juneau	Sitka

Labor and Workforce Development

Given the reduced federal funding available to support physical Job Centers, the Department is going to look for opportunities where private, non-profit, or local governments can take over providing Job Center services in their communities. For example, as of July Job Center services in Barrow are being offered through the North Slope Borough Mayor's Job Program. The Department is also developing a partnership with the library in Mt. View to better reach the individuals in that community without creating another Job Center, which is not financially feasible.

Under the federally-funded Workforce Innovation and Opportunity Act, the Vocational Rehabilitation program must provide more pre-employment and training services to disabled youth transitioning from high school, and we are doing this through private and non-profit community service providers.

The Department is also participating in the cross-department review of collections, and this will likely result in the privatization of collection activities (mostly from overpaid unemployment benefits).

Department of Administration and the Shared Services Model

In May we held an all-department retreat to consider cross-departmental efficiency initiatives. Eleven initiatives were adopted which are shown below.

**Initiative**

**Train and implement process improvement principles statewide**  
**Travel process revamp**  
**Renegotiate Procurement / Lease Contracts for 10-20% Savings Statewide**  
**Implement IRIS**  
**Smart Justice**  
**Unified facility maintenance management**  
**Central collections office for agency fines, debts and attachments**  
**Re-examine charge back system between departments**  
**Streamline billing for Law**  
**Minimize the number of prisoner transports through better use of technology**  
**Statewide IT consolidation; call centers, disaster recovery, helpdesk staff, data storage**

In September, the Department of Administration entered into a contract with a public sector shared services consultant.

- Several of the 11 initiatives are candidates for Shared Services
  - Travel process
  - Implement IRIS (fiscal, accounts payable, procurement)
  - Unified facility maintenance
  - Centralized collections (see next page for details)
  - Charge back system

- IT consolidation

Shared services targets administrative or support functions performed by multiple departments in a silo-ed and non-standard way.

- Standardizes the function
- Incrementally takes down the silos, and consolidates the function into a shared services organization
- Improves the function; eliminates unnecessary processes
- Ultimately automates the function
- Establishes daily performance metrics for the function

Shared services does not generally privatize the function.

- We are evaluating outsourcing for state debts not currently being collected.
  - In Ohio, the shared services organization outsourced uncollected debt.
  - New cash flow from uncollected debt was used to defray the rates of the shared services organization.

Shared services can reduce costs

- 30% cost-reduction estimates

Shared services can improve quality

- In Ohio, if performance metrics are met, bonus pay; if not met, termination in 60 days

Shared services can reduce delay

- In Ohio, reduction of accounts payable from 56 days to 1.7 days

#### Collections

- Collections for FY2015: about \$39.2 million
- Total unpaid balance: about \$398 million
- Number of accounts: about 387,400
- Current number of employees: 30

These totals include debts owed to the State and victim restitution which may be owed to a third party. Note that a significant portion of the unpaid balance is not viably collectible. Most of the accounts are debts ordered in criminal cases and many debtors may be in jail or simply do not have any money. For example, one debtor owes over \$17 million in restitution for shooting the pipeline.

#### *7. Has your administration taken any additional budget reductions since the end of the second special session?*

There have been no other budget reductions besides the allocation of the \$29.8 million unallocated reduction.

#### *8. What is the administration's best guess estimate on an FY16 Supplemental?*

There are four supplemental requests known at this time. However, it is early in the fiscal year and difficult to know how many more to expect. Two are identified in the Department of

Health and Social Services, Office of Children's Services, and Division of Juvenile Justice; TransCanada buyout and related gas line costs; and an organizational grant for Big Lake per AS 29.05.180 to the Department of Commerce, Community and Economic Development.

*9. Is the Administration going to pursue Pension Obligation Bonds the session? If so, please provide information on their impact to the operating budget and the unfunded liability.*

The Administration has not made a decision on whether Pension Obligation Bonds (POB) will be a part of FY17 budget request. Decisions on POB will require a significant level of due diligence and assessment of market timing.

The Department of Revenue is analyzing the savings possibilities through an issuance of POB. Depending on the size of the issue we would expect annual budget savings of \$20 million or more.

POB is a state supported taxable issuance of debt. It can save the state money over the long term if the investment return on the bond proceeds exceeds the debt service costs

Current estimate of debt costs is 5.3% and current investment return assumption is 8.0%.

POB may make sense, for instance, where the state is already paying for unfunded pension liabilities (past service costs). For example, the State pays the majority of TRS past service costs through GF funded state assistance in the operating budget. TRS state assistance will be approximately \$131 million in FY17 increasing to \$332 million by FY39. POB debt service on remaining TRS unfunded liability (\$2.3B) would be approximately \$153 million fixed for 30 years.

Funding up TRS could help system deal with liquidity demands as benefit cash flow increases in this closed plan.

Also, it can provide additional security for constitutionally secured promise in low oil price environment.

The Alaska Pension Obligation Bond Corporation was legislatively established in 2008, and authorized to issue up to \$5B in pension obligation bonds.

Currently a variety of PERS/TRS approaches under consideration and the risk is real because investment proceeds at some point will earn less than 8.0% in a particular year. The current 25 year pension system return is 7.97%.

*10. Please update the committee on the impact of the recently adopted expansion of the Medicaid Program.*  
*a. Has the Xerox system been certified by the Federal Government? If not, when?*

As of September 27, 2015, there were 1,775 individuals enrolled in the new Medicaid expansion group. Four hundred thirty-seven of these were formerly on the 100% state funded program Chronic and Acute Medical Assistance (CAMA) so their medical costs have shifted to 100% federal funding.

The number of Medicaid applications received in September doubled compared with July or August. The new electronic method of applying for Medicaid is seeing results. Twenty-seven percent of the September applications were electronic compared with fifteen percent in July and eighteen percent in August.

Due to the lapse of time involved for providers to bill Medicaid, we have not yet begun to calculate actual expenditures. (This is not a Xerox issue, rather a timing issue.)

The Department plans to apply for system certification in December. We expect CMS to come on-site the first quarter of next calendar year.

*11. Will the Administration be requesting additional money for the AKLNG project, including a proposal to buy out TransCanada?*

A request for additional funding for the AKLNG project, including a proposal to buy out TransCanada, will be proposed during the special session.

12. *Does the Administration anticipate implementing a hiring freeze in the future?*

We do not anticipate implementing a hiring freeze because every business unit has different needs. Instead of a hiring freeze, each agency is scrutinizing every vacancy and not filling positions that become vacant when viable. Formal guidance will be provided for this process. Though we are facing extremely challenging times, people still retire or move to other jobs. When this occurs, every effort is used to take advantage of the vacancy for savings; however some positions must be replaced.

Also, in these challenging times, flexibility to restructure is necessary to increase efficiencies. This may require elimination of some positions, while creating the need for other, yet fewer, positions. In order to reduce the overall workforce, it may be necessary to hire workers with a different set of skills. We do not want to impede any department efficiency, streamlining, or cost reduction efforts with additional administrative requirements.

Other Cost Saving Measures being used by Departments

The table below shows which departments are currently using furloughs to realize savings. These were imposed by the agencies.

	# of Positions	# of Days	Savings
DNR	45	5	\$117,800
Law	278	22	\$238,800
DOA	197	2-4	\$206,000
HSS	Has not yet decided how to implement		

Please let me know if you have additional questions.

Sincerely,



Pat Pitney  
Director

cc: David Teal, Director, Legislative Finance

## Laura Pierre

---

**From:** Peterson, Darwin R (GOV) <darwin.peterson@alaska.gov>  
**Sent:** Saturday, October 31, 2015 9:20 AM  
**To:** Sen. Anna MacKinnon  
**Cc:** Laura Pierre  
**Subject:** Response to Question from Senator MacKinnon

Dear Senator MacKinnon,

In response to the question you posed to me in Senate Finance during the hearing on October 30<sup>th</sup>, I offer the following response:

When the Governor stated that SB 138 was fundamentally flawed, he was speaking primarily about the issue of project certainty. He has spoken many times about the need for adequate provisions to ensure a partner who withdraws from the project will still commit the gas they control, and has expressed his concern that the timeline of the project could be limited by the slowest and most reluctant partner.

The letters he received last week from the producer partners helped alleviate these concerns, enough so that he removed the Reserves Tax bill from the special session call. However, he remains aware that we need continued attention to project timelines and deadlines, with adequate protections for the state in the event one or more partners seeks to slow the process. He believes this can be done via negotiations within the framework of SB 138, and therefore sees no reason to seek specific statutory amendments at this time.

Regards,  
Darwin Peterson