THE STATE of ALASKA
GOVERNOR BILL WALKER

Department of Natural Resources
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October 21, 2015

The Honorable Speaker Chenault
State Capitol, Room 208
Juneau, Alaska 99801

Dear Speaker Chenault; Representative Hawker; Representative Nageak; and Representative Talerico:

This letter is in response to your questions addressed to Governor Walker dated June 4, 2015.

1. **A detailed break-down of the $108 million request, including an itemized accounting of the work product to be purchased and interest due TransCanada.**

The break-down of the $108 million request is as follows:

TC Costs Incurred[1]	**~$67 million**
Interest owed to TC	**~$3 million**
Remaining Pre-FEED Costs[2]	**~$38 million**
Total	**$108 million**

[1]TC costs include AKLNG midstream costs, TC internal costs (AFUDC + Management Fees) and a credit of ~$4 million for SOA payment to TC for AGIA reimbursement
[2]Provided by AGDC based on current approved WP&B for AKLNG and includes an additional 30% contingency

Upon termination of the TransCanada precedent agreement, the State will obtain all of TransCanada's interest in the AKLNG Project, including rights to any AKLNG and related work product that TransCanada currently has. The State, through AGDC, will essentially step into the shoes of TransCanada, and thus would have the same rights to AKLNG and related work product that TransCanada has now.

2. **The date you anticipate terminating the TransCanada contract; the associated costs to reimburse TransCanada; and the estimated cost to proceed on our own based on the date.**

The contract is expected to be terminated on or before December 31, 2015 and the costs to reimburse TransCanada for its expenses and interest to date is $70MM as shown in the response to Question 1 above. In addition, AGDC estimates $38MM as its share of the remaining pre-FEED work on the midstream, including contingency.

The overall costs to proceed with and without TransCanada excluding the $108MM associated with termination of TransCanada are shown below:

PROJECT STAGE:	PRE-FEED	FEED	FID	CONSTRUCTION
TIMELINE:	2014-2016	2016-2018		2019-2026
Percent of Spend:	~1%	~5-6%		~93-94%
STATE INVESTMENT				
SOA without TC[1]:	~$130M	~$625M		~$13.1B
SOA with TC:	~$65M	~$315M		~$6.5B

[1]Note that the State without TC Pre-FEED cost estimate of $130MM is a theoretical number (for comparison purposes) that shows what the State's total pre-FEED costs would have been if TC had not been in the AKLNG Project from the start. Given TC's current participation in the AKLNG project, the State's midstream costs for completing Pre-FEED with termination of the TC relationship is $108MM as described in the response to Question 1. After termination of the TC relationship, the State's costs without TC for FEED and Construction are expected to be as shown above (i.e., $625MM and $13.1B).

3. **Detailed analysis supporting the administration's decision to exercise our right to buy out TransCanada and to assume a full 25% equity stake in the AK LNG project.**

See Black & Veatch's report *TransCanada Participation Decision.* In addition, the administration will be providing a *TransCanada Termination Primer*.

4. **Department of Revenue analysis of the short and long-term impacts on the state's finances, and the anticipated means for funding the state's future commitments to the project.**

Please see the attached Treasury Division's analysis of the short term impacts and means for funding. Any payment to TransCanada will require an appropriation from the Legislature. The Legislature could appropriate from existing funds (e.g. General Fund, Constitutional Budget Reserve Fund) or authorize the State to complete a bond issue for this purpose. Based on the Treasury Division's analysis, drawing upon the CBRF to fund the TransCanada reimbursement and the Midstream Pre-FEED and FEED costs will accelerate the depletion of the CBRF by approximately 3 months. The analysis shows that using proceeds from a bond issuance would and funding debt service from the CBRF would have minimal impact on the projected depletion date of the CBRF, with the anticipation that debt service costs of approximately $271 million would be rolled into the financing of the costs of the project at FID.

The long term impacts on the State's finances are pending determination of the financing plan by the legislature. The financing alternatives will be included in the Lazard report when submitted.

5. **Given the state's current revenue challenges, what impacts might this decision have on the state's credit rating and future bonding capacity?**

According to the States financial advisor, First Southwest, the decision to drop TransCanada as a partner will not, in and of itself, result in a downgrade in the State's rating. The decision to drop TransCanada does not increase the costs to the State to finance the Project. Rather, the costs will go down if TransCanada is no longer a partner. While the timing of the State's expenditures may be altered, we do not believe that these changes will be significant in the eyes of the rating agencies.

6. **Our partners, before progressing to FEED, will need to know the state has the ability to fund its FEED commitment, which will be significantly higher if TransCanada is no longer a partner in the venture. How will the administration make this assurance? What is your plan for financing the roughly $14 billion state share?**

Lazard and First Southwest are the State's financial advisor. Preliminary analysis indicates that the State has a number of viable financing alternatives for funding the State's equity interest in the Project. These financing alternatives include general obligation and annual appropriation bonds, bank financing, Certificates of Participation, or combinations of the four. Lazard is also analyzing project finance alternatives, subject to the limitations of Alaska Constitution Article 9, Section 7 prohibiting dedication of State revenues.

According to the State's financial advisor, First Southwest, financing costs will not increase as a result of dropping TransCanada as a partner. In fact, financing costs will decrease if TransCanada is no longer a partner. The preliminary Lazard analysis outlines several viable prospects to finance the State share of the Project. Any one of the financing options suggested by Lazard would result in the State fully financing its share of the project.

7. **If the state exercises its right to terminate the TransCanada contract, please provide assurances that all data TransCanada has acquired since the Memorandum of Understanding (MOU) was executed, and other relevant data the company acquired during AGIA, will be available to the state to advance a North Slope natural gas project.**

Upon termination of the TransCanada precedent agreement, the State will obtain all of TransCanada's interest in the AKLNG Project, including rights to any AKLNG and related work product that TransCanada currently has. The State, through AGDC, will essentially step into the shoes of TransCanada, and thus would have the same rights to AKLNG and related work product that TransCanada has now. With respect to work product generated prior to the termination of the AGIA license (i.e., during AGIA), the AGIA Termination Agreement entered into between the State and TransCanada in June 2014 gave the State the right to use all AGIA work product of value to the AKLNG Project. Thus, the State either has or will have (upon termination of the precedent agreement) the right to use all relevant data TransCanada has acquired since the Memorandum of Understanding (MOU) was executed (in December 2013), and other relevant data the company acquired during AGIA.

8. **AGDC is currently representing the state in the downstream aspects of the AK LNG project (LNG facility) and TransCanada is representing the state in the mid-stream (pipeline and gas treatment plant). Does the state, through AGDC, have the technical skills and resources necessary to step into TransCanada's role, and to protect the state's interests without causing unnecessary project delays? Will AGDC or DNR assume TransCanada's role in the project going forward?**

A consequence of terminating the State's relationship with TransCanada would be the need for the AKLNG project to replace the technical expertise that TransCanada provides to the Project. The AKLNG Project and the Project producer partners have worldwide experience and the resources to fill the technical lead role on the pipeline, which is currently played by TransCanada.

Additionally, the Alaska Gasline Development Corporation (AGDC), which holds the State's 25% equity interest in the LNG plant for the Project, has pipeline Pre-FEED and FEED experience gained during the development of the Alaska Stand Alone Pipeline (ASAP). AGDC has practical knowledge and experience with the proposed right-of-way (RoW) for AKLNG and already has all SOA land RoWs in hand. The Federal land RoWs are expected to be granted in mid-2016. Additionally, AGDC has already taken over the role of coordinating filings by the AKLNG Parties in the permitting for the Project, an effort that was previously led by TransCanada.

AGDC will assume State's equity interest in the midstream that is currently held by TransCanada.

9. Finally, please provide an update of your previously announced, 45-day AK LNG project review, including:

Date the review began: The review of the AKLNG process started after the second special session adjourned.

Members of review team, fees and funding source: The review was a collective work effort of the Governor's Office and the Departments of Natural Resources, Revenue and Law. The costs included personnel time within each agencies' budget and contractor time.

Review schedule: The Governor's team met continuously throughout the AKLNG review process.

Expected deliverables: On September 24, the Governor's Office released the "Summary Report on the Review of the Alaska LNG Project Process", which identified the structural and commercial challenges that exist in the current SB 138 framework and Alaska LNG Project.

Sincerely,

Mark Myers
Commissioner, Department of Natural Resources

cc: Senator Kevin Myer, Senate President
Senator Cathy Giessel, Chair, Senate Resources
Darwin Peterson, Director, Governor's Legislative Office