

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 30, 2015

Dear Members of the 29th 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

unit gas transmission line, a gas pipeline, the gas treatment plant, a liquefied natural gas plant, and a marine terminal”³

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”⁴ 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):⁵ “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”⁶ 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

³ 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.

⁴ AS 31.25.080(a)(23).

⁵ 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))”).

⁶ 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”⁷ 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.

⁷ AS 31.25.110.



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

COMMISSIONER'S OFFICE

550 W. 7th #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