THE STATE
of ALASKA
GOVERNOR BILL WALKER

Department of Revenue
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February 28, 2017

The Honorable Anna MacKinnon and the Honorable Lyman Hoffman
Alaska State Senators
Co-chairs, Senate Finance Committee
State Capitol Rooms 516 and 518
Juneau, AK 99801

Dear Co-Chairs MacKinnon and Hoffman:

The purpose of this letter is to provide responses to the Senate Finance Committee questions posed to Keith Meyer, President of the Alaska Gasline Development Corporation (AGDC), on February 14, 2017 relating to the Alaska Liquefied Natural Gas (Alaska LNG) Project work products within the scope of the Department of Revenue (DOR). SB 138 established two major deliverables for the DOR: a final financing options report and a negotiated payment in lieu of taxes (PILT) through the Municipal Advisory Gas Project Review Board (MAGPRB) for consideration by the Alaska Legislature.

SB 138 Requirements:

SB 138, Section 76 provides in pertinent part:

> (a) The commissioner of revenue shall identify and report to the legislature on a range of financing options for State acquisition of an ownership interest and participation in a North Slope natural gas project. The report shall include a description of the risk associated with each option and the effect of each option on the bonding capacity and bond rating of the State. In this subsection, "North Slope natural gas project" has the meaning given in AS38.05.965, as amended by sec. 33 of this Act.
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> (b) The commissioner shall make an interim draft of the report described in (a) of this section available to the legislature on the first day of the First Regular Session of the Twenty-Ninth Alaska State Legislature, and a final report at the time the commissioner of natural resources submits the first agreement or contract to the legislature for approval under AS 38.05.020(b)(11), enacted by sec. 24 of this Act.

> (c) At the time the commissioner of natural resources submits the first agreement or contract to the legislature for approval under AS 38.05.020(b)(11), enacted by sec. 24 of this Act, the commissioner of revenue shall present a plan and suggest legislation to allow a municipality, regional corporation, or resident of the State to participate as a co-owner in a North Slope natural gas pipeline. . . .

Pursuant to Section 76, the DOR procured Lazard Freres to provide an analysis of State funding options for Front End Engineering Design (FEED) and for Final Investment Decision (FID), and options to allow a municipality, regional corporation, or residents of the State to participate as a co-owner in a North Slope natural gas pipeline. Lazard's Preliminary Report was presented to the legislature in February 2015 as required.

Background:

The former Alaska LNG Project participants (ExxonMobil, BP, ConocoPhillips, and AGDC) and the State entered into a Heads of Agreement in January 2014 to develop an Alaska LNG Project. The Heads of Agreement Stated:

> *The Producer Parties believe that State participation in key aspects of the Alaska LNG Project, including its investment and sharing of other costs, in balance with a share of gas from the Alaska LNG Project, is a significant enabler of a successful project of that size and complexity. Accordingly, the Producer Parties support State participation in the Alaska LNG Project.*

In part to implement the Heads of Agreement, the legislature adopted SB 138 (April 2014), and the Producer parties and AGDC entered into a Pre-FEED Joint Venture Agreement (June 30, 2014). In 2014, the first contract anticipated to be delivered to the legislature in a 2015 Special Session was supposed to be a Firm Transportation Services Agreement (FTSA) with TransCanada (TC). At that point, the project would continue to negotiate commercial agreements for legislative approval. However, in April 2015, the Alaska LNG Project schedule was expedited to include completed commercial agreements for the fall 2015 Special Session. Additionally, in 2015 the State exercised its purchase option with TransCanada and instead of an FTSA, presented the TC Buyout to the legislature for approval in the 2015 Special Session. The State Gas Team underwent several leadership changes during 2015 and 2016 amidst changing global energy economics. In July 2016, the State Gas Team was streamlined as project work and focus transferred to AGDC with the SB 3001 funding shift.

As of December 31, 2016, the Producer parties and AGDC terminated the Pre-FEED Joint Venture Agreement, and transitioned the Alaska LNG Project to AGDC to pursue as a State-led project. AGDC has determined to move forward with a State-led project with a yet to be determined commercial structure. AGDC has stated that it would be pursuing third party financing and did not anticipate asking the legislature for State financing of the Alaska LNG Project.

Final Financing Options Report

1. *In regard to the financing options report, the committee chair inquired as to the process for Alaskans to participate and when the legislature can expect to receive the final Lazard report from the DOR.*

   SB 138, Section 76, requires the DOR to provide a final Financing Options Report at the time the commissioner of natural resources submits the first Alaska LNG Project agreement or contract to the legislature for approval under AS 38.05.020(b)(11). With the termination of the Alaska LNG Project Pre-FEED Joint Venture Agreement on December 31, 2016, the four party integrated joint venture envisioned by SB 138 will not be moving forward, and the commissioner of natural resources will not be bringing the previously discussed set of project-enabling contracts or agreements needed to implement the four-party integrated joint venture plan to the legislature.

   Accordingly, given that the legislative trigger for the DOR to present a finalized finance report will not now occur as anticipated under SB 138, and AGDC does not currently propose for the State to finance the LNG project, the DOR would currently not anticipate delivering a final financing report to the legislature. Note that SB 138 does not include a requirement that AGDC seek the legislature's approval before AGDC enters into a contract or agreement for a North Slope project, or that AGDC provide a financing options report to the legislature. It does require AGDC to consult with the DOR commissioner before entering into contracts relating to an LNG project under SB 138, Section 13. DOR stands ready to provide such consultation to AGDC as directed by the Act at such time as AGDC determines to enter into such a contract.

   Final Status of Lazard Report:

   As the Department of Natural Resources did not bring an agreement or contract to the legislature, and the Alaska LNG Project with the Producers has been terminated, scheduled communications and analysis with Lazard ended in January 2016. The State's contract with Lazard formally ends in September 2017.

PILT - Property Taxes

2. *What is the status of the Municipal Advisory Gas Project Review Board (MAGPRB) with respect to determination of PILT and impact payments related to a State-led Alaska LNG project?*

   MAGPRB Process and Legislative Process

   SB 138, Section 74 requested the Governor establish the MAGPRB. Former Governor Parnell created the MAGPRB by Administrative Order No. 269 on March 25th, 2014. Section 74 requested the MAGPRB provide recommendations on Alaska LNG Project impacts on communities within the State including construction period impact payments for communities in proximity to the Project facilities and those not in proximity, recommend Alaska LNG Project property taxes to facilitate and mitigate impacts of the Project once in operation, and recommend legislation for consideration by the Legislature to implement the recommendations of the MAGPRB. MAGPRB meetings are publicly noticed and open to public participation, including participation by legislators. The DOR coordinates meetings and agendas with the other Board members. The Board has been systematically analyzing the property tax issues as charged under Section 74, with copies of reports and presentations posted to the Department of Revenue, MAGPRB website. Issues that legislators may want to address with the Board can be coordinated with the Commissioner of Revenue, Chair of the Board, who will add them to Board meeting agendas. The DOR will take any statutory recommendations from the Board and coordinate with the Department of Law to draft new legislation. Draft legislation will be presented to the legislature for consideration and action, if any. The MAGPR Board is a transparent collaborative public process chaired by the Commissioner of Revenue. Historical annual reports are located at*:* *http://dor.alaska.gov/MAGboard*

Status:

At the time that the Producer parties' participation in the LNG project was terminated and the project was transitioned to AGDC, the DOR and the MAGPRB had reached a preliminary understanding with the Producer parties as to the amount and process for determining appropriate PILT and impact fees to be paid by the Producer parties to the State and local governments related to the anticipated Alaska LNG Project (approximately $800,000,000 in impact payments and 20 year aggregate PILT target of $15.7B). The MAGPRB was in the process of determining an appropriate PILT/Impact Fee allocation methodology and proposed legislation to implement the same when the decision to begin transitioning to a State-led project was made. The last MAGPRB meeting was held in December 2016. At this time, PILT and impact fee related discussions with the MAGPRB are on hold as the gas line development transitions to a State-led project due to the uncertainties associated with the State-led Alaska LNG Project scope, commercial structure, and ownership structure.

The DOR anticipates that as soon as AGDC has gained more certainty regarding these project variables, ADGC will approach the DOR and the MAGPRB to begin a new collaborative public process for PILT and impact fees for the State-led project.

Requirements for DOR to resume Property Tax Discussions with MAGPRB:

1. AGDC determines scope of State-led project (e.g., 1, 2, 3 LNG trains, pipe size, cost estimate)
2. AGDC determines commercial, legal and financing structure for State-led project (e.g., what type of ownership entity?)
3. AGDC identifies new commercial structure and legal ownership with partners for purposes of determining the type of taxable entity(s) holding title to project lands and infrastructure –for purposes of modeling anticipated State and local government impacts and Total State/local government takes arising from the project (e.g.,

royalties, production taxes, business income taxes, property taxes, fiscal certainty provisions, etc.)

4. Negotiated and signed Gas Purchase Agreements to know volume and cost of gas being purchased (gas cost)
5. Negotiated and signed Gas Sale Agreements to know revenue stream of gas being sold (gas price)
6. Full project economics modeling to understand financial implications of the impact to municipalities that are directly and indirectly affected by the project and to negotiate in the best interest of the State
7. Technical and commercial information for purposes of writing narrative in the FERC Socio-Economic Impact Report
8. Re- alignment with SB 138 on agency authorities and those of AGDC

The MAGPR Board is monitoring the Alaska LNG hearings, FERC filings, and public communications and can be engaged for discussion for updates once information is available to the DOR. All historical discussion materials can be found on the MAGPR Board website: *http://dor.alaska.gov/MAGboard*

The department hopes this response adequately addresses your questions. Please do not hesitate to contact the department if you have further questions or need clarification.

Respectfully,

Randall J. Hoffbeck
Commissioner

Cc: Dona B. Keppers, Deputy Commissioner of Revenue
Elena Romerdahl, Assistant Attorney General
Phillip C. Gildan, Greenberg Traurig