THE STATE
of ALASKA
GOVERNOR BILL WALKER

Department of Revenue
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The Honorable Anna MacKinnon
Senate Finance Committee
State Capitol Room 516
Juneau AK 99801

Dear Senator MacKinnon:

"Laura Pierre's request: *It's my understanding that the Department of Revenue still has Lazard on contract – awaiting a final financing report once AKLNG agreements are delivered. It's also my understanding that we aren't expecting contracts for at least a year, maybe longer. Plus Q 1 to Q 4 below. Any information you can provide would be helpful."*

Thank you for your February 19, 2016 inquiry regarding the Lazard Freres contract. The Department of Revenue has an existing contract with Lazard Freres & Co LLC. The contract period is from September 25, 2014 through September 1, 2017 with two optional one-year renewals. The total contract amount is for $2,225,000 of which $225,000 was paid at execution and $1,000,000 was paid with delivery of the Preliminary Lazard Report during FY 2015. The balance of $1,000,000 is due with delivery of the Final Lazard Report. The final report is due when DNR Commissioner submits the first North Slope natural gas project contract to the legislature for approval under AS 38.05.020(b), which has not yet occurred.

1. Has the Department looked at terminating this contract?

   The Department has not previously looked at terminating the Lazard contract. Following the buyout of TransCanada, the Department, Lazard, and other financial consultants revised the financial assumptions used in the Interim Lazard Report and discussed the need to revisit all financial assumptions in the draft final report at the appropriate time. Prior to and after the Fall 2015 Special Session, Lazard and First Southwest performed a significant amount of work towards completion of the final report in anticipation of receiving a subset of fully termed commercial agreements in 1Q 2016. Lazard has not been able to complete its work on the final report because the commercial agreements are not finalized.

2. Is there a penalty for terminating the Lazard contract early?

   No, there is no penalty for early termination of the Lazard contract. The contract allows the State, by written notice, to terminate the contract when it is in the best interest of the State. The State is liable only for payments for services delivered and accepted before the effective date of the termination.

3. Would we have to pay out the remainder of the contract?

   The State is liable only for payments in accordance with the payment provisions of the contract for services delivered and accepted before the effective date of the termination If the State decided to terminate the contract prior to delivery of a final report, the Department would request an accounting of services that have been rendered since Lazard delivered the Interim Report and received the first half of the flat fee payment under the contract with Lazard.

4. What are the implications of terminating the contract? (What should be considered if the contract is terminated?)

   Section 76 of SB 138 requires the Commissioner of the Department of Revenue to provide a final report to the legislature regarding financing options and associated risk for state ownership and participation in a North Slope natural gas project when the first contract is submitted to the legislature for approval. Lazard is contractually bound to complete the Final Report but cannot incorporate the commercial agreements defining the project's commercial, corporate, and governance structures into the Final Report until the agreements are complete. If such agreements are not complete and available for Lazard to incorporate into the report before Lazard's contract expires in September 2017, Lazard will be unable to produce a final report that incorporates such agreements. The contract provides for two optional one-year extensions that may be applied in that situation. The terms, under which the contract would be extended would be negotiated by the parties.

Possible options to consider going forward are as follows:

1. Terminate the contract now, do not require a final report because the financial assumptions are no longer current and required commercial agreements are not yet complete, and pay for the costs incurred since the Interim Report was delivered.

2. The second option would be to hold the contract open for another year and reassess at that time. This would leave open the possibility of completing the final report. During this time, the Department would only request additional services under the contract if the input required for the Final Report became available.

Please let me know if you have additional questions or need clarification on any of the answers above.

Sincerely,

Randall J. Hoffbeck
Commissioner