



STATE OF ALASKA

SEAN PARNELL, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES & DEPARTMENT OF REVENUE

ALASKA GASLINE INDUCEMENT ACT

January 28, 2011

To: All Members of the Alaska State Legislature

Included with this letter is a report from the Department of Revenue (DOR) and Department of Natural Resources (DNR), submitted in accordance with reporting requirements under the Alaska Gasline Inducement Act ("AGIA").

AS 43.90.400(d) of AGIA requires the DOR and DNR Commissioners to submit a report to the legislature within the first 10 days of each regular session on the status of reimbursements from the AGIA reimbursement fund. The report must include a list of all disbursements made from the AGIA fund during the preceding fiscal year, a written justification for each disbursement and the projected amount of money that will be required for future disbursements during each of the next three fiscal years.

While this report is focused on information specific to AGIA fund disbursements, additional information related to the AGIA-licensed project is provided in administration's Alaska Pipeline Project Reports. These reports, along with other helpful resources are available on the AGIA website, at <http://www.gasline.alaska.gov/>.

We hope you find this information useful. If we can be of further assistance, please do not hesitate to contact us directly.

Sincerely,

Handwritten signature of Bryan Butcher in blue ink.

Bryan Butcher, Commissioner
Department of Revenue

Handwritten signature of Dan Sullivan in blue ink.

Dan Sullivan, Commissioner
Department of Natural Resources

Attachment: AGIA Fund Disbursement Report, January 28, 2011

AGIA Fund Disbursement Report
Department of Revenue and Department of Natural Resources
January 28, 2011

This report was produced by the Department of Revenue (DOR) and the Department of Natural Resources (DNR) pursuant to AS 43.90.400(d) of the Alaska Gasline Inducement Act ("AGIA" or "the Act").

AGIA was passed by the Legislature in May of 2007 to encourage construction of a natural gas pipeline from Alaska's North Slope. The Act instructed the DOR and DNR Commissioners to solicit applications for a license to receive certain inducements from the State. After review of the submitted applications, the Commissioners recommended a license be jointly issued to TransCanada Alaska Company, LLC and Foothills Pipe Lines Ltd (for purposes of this report, jointly referred to as "TC Alaska"). The recommendation was approved by the legislature on August 1, 2008 and the license was issued and signed by the Commissioners on December 5, 2008.

In exchange for commitments related to the project schedule, tariffs, and future expansions, the AGIA licensee is entitled to receive certain inducements from the State, including up to \$500 million in matching reimbursement for qualified project expenditures.

This statute requires that the commissioners of DOR and DNR, within 10 days after the convening of each regular session to "...submit to the legislature a report that lists all the disbursements from the (Alaska Gasline Inducement Act reimbursement) fund during the preceding fiscal year with a written justification for each disbursement and the projected amount of money that will be required for reimbursements in each of the next three fiscal years."

The information included in this report focuses on reimbursements issued from the AGIA reimbursement fund through December 2010, to the state's AGIA Licensee, TC Alaska. For purposes of confidentiality under AGIA, disbursements are summarized at the cost category level.

Reimbursement Process

The \$500 million in matching reimbursement is provided to TC Alaska for qualified project expenditures made during the seven year period immediately following the date that the license was awarded.

Qualified expenditures are those which have been paid by the Licensee, and are determined to be directly and reasonably related to advancing the project, with the exception of overhead, lobbying and litigation costs, civil or criminal penalties or fines, or any expenditures for assets or work product acquired or developed by the licensee before the license was issued.¹ Prior to the close of the first binding open season, reimbursements are issued at a rate of up to 50% of the qualified expenditure amount. The first binding open season concluded on July 30, 2010. After that date, reimbursements to TC Alaska cannot exceed 90% of total qualified expenditures.²

In order to receive reimbursement from the State, the Licensee must submit supporting information for all expenditures in a form prescribed by DOR. This information is submitted on a monthly basis, with Requests for Reimbursement being filed each quarter. This regular flow of information allows the department to review information on a consistent basis. As the project advances, the volume of transactions and supporting documentation continue to increase.

The monthly compilation, submission and review process is detailed, time intensive and lengthy for both TC Alaska and the State. TC Alaska must submit supporting documentation for all expenditures demonstrating that each cost has been incurred and explaining how it is directly and reasonably related to one of the four following qualified activities:

1. Pursuing firm transportation commitments in a binding open season,
2. Securing financing for the project,
3. Obtaining a certificate of public convenience and necessity from the Federal Energy Regulatory Commission, or
4. Satisfying a requirement of an agency with jurisdiction over the project.

The due diligence review and determination of the qualified expenditures is performed by DOR on a monthly basis. Regular communications and coordination between the State and TC Alaska ensure the reimbursement process continues to move forward.

A separate, high level due diligence review is performed by the state's Technical Pipeline Monitor and involves evaluating and verifying information and documentation relating to TC Alaska's claim for reimbursement. The purpose of this review is to facilitate a decision as to whether a particular claim should be paid by the State under AGIA statutes and regulations. Systematic research efforts gather critical facts and descriptive information which are relevant

¹ "Qualified Expenditures" are defined in AS 43.90.110(c) and 15 AAC 90.030

² AS 43.90.110(a)(1)(A) and (B)

to making informed decisions as to whether transactions are directly and reasonably related to qualified activities, and have been paid by TC Alaska.

Once the due diligence review is completed, reimbursement determinations are made by the AGIA License Administrator. The License Administrator may approve, deny or take exception to expenditures which do not meet the statutory or regulatory requirements for qualified expenditures, or for which there is insufficient information to make a determination. If additional information is needed, the AGIA License Administrator may request that information be submitted prior to issuing a final reimbursement determination.

On a quarterly basis, the License Administrator generates a reimbursement payment package containing detailed reports on both qualified expenditures which have been approved for reimbursement, and unreimbursed expenditures which have either been taken exception to, or set aside pending review of additional information. The Licensee responds to any requests for additional information and the review process continues.

The ultimate goals of the due diligence reviews are to provide reasonable assurance that the reimbursement being considered is for qualified expenditures and to ensure professional care is being conducted in these activities.

Once the AGIA License Administrator has issued a final reimbursement determination, the Licensee may appeal the determination to the Commissioner of Revenue for expenditures which it contends meet the definitions for qualified expenditures outlined in the statutes and regulations.

In regard to the current reimbursement process, TC Alaska submits a monthly expenditure report for State review. Every quarter it submits an invoice for a claim for reimbursement. This invoice is submitted approximately 45 to 60 days after the close of a quarter. With the increase in project activity the State's reimbursement process takes approximately 45 days to review the third month of expenditures and generate reimbursement.

As of the end of FY 2010 (June 30, 2010), TC Alaska was behind in submitting reimbursement expenditures. This was partially due to the addition of Exxon Mobil to the existing complex reimbursement process. TC Alaska and the State focused during the summer and early fall of 2010 to get the reimbursements current. The goal was met at the end of October 2010.

AGIA Reimbursement Information System

In FY 11, \$250,000 was appropriated for development of an AGIA Information Reimbursement System (AIRS). The new system will improve the system by which project expenditure data is collected, tracked, reviewed, and reported. Once complete, the new system will replace the manual Excel based reimbursement system which is currently being used in the reimbursement process.

Initial design of the reimbursement process and workflows were completed in 2009. In September 2010, work focused on the business process analysis and software requirement specifications. The detailed technical design and construction of the reimbursement information system is currently in progress. The external user interfaces of the new system were shown to TC Alaska staff in mid January 2011 and will be made available to them for user testing in February 2011. Completion of the automated system is expected in May 2011.

AGIA Fund Disbursements

At the end of FY 10, TC Alaska had been reimbursed a total of \$4,358,982 for expenditures submitted through the second quarter (2Q) of 2009. The addition of ExxonMobil to the project delayed the rate at which TC Alaska could submit expenditures. During the summer and early fall of 2010, TC Alaska and the State worked closely together to get the reimbursements submitted, reviewed and reimbursed by October 31, 2010. During this short period, fifteen months (2Q 2009 through 2Q 2010) of expenditures were processed. Timing and detail of payments can be found in **Table 1a**.

To date, the State has reimbursed TC Alaska a total of \$36,734,537, at the 50% rate for work expenditures submitted through the second quarter (2Q) of 2010. TC Alaska has submitted a total of \$92,220,644 in gross expenditures for review. Of this amount, \$13,769,788, was taken exception to and not been reimbursed. An additional \$2,499,260 is being held in reserve pending receipt of additional information. If all requested information were to be received, and all pending gross expenditures and withheld amounts were to be approved as qualified, the potential reimbursement payable to TC Alaska would be \$9,384,154.

Table 2 below provides a summary of all reimbursement requests received and reimbursed to date. Additional detail regarding TC Alaska's historical project expenditures and reimbursements to date are provided in the Financial Reports section below.

Requested Reimbursement and Reimbursement Forecast

On December 10, 2010, TC Alaska submitted its third quarter (3Q) 2010 reimbursement claims, with gross expenditures of \$22,332,070. These expenditures are currently under review, along with some exceptions from prior periods, for which additional information has been requested. The 3Q 2010 reimbursement claim contains costs reimbursable at both the 50% and 90% matching rates. The next reimbursement to the Licensee is expected in late February 2011.

TC Alaska's initial open season concluded on July 31st 2010. This marks the change in reimbursement rate from 50% to 90 %of qualified expenditures.

The Licensee's January 2011 forecast has been adjusted down by the State for potential exceptions to be taken. **Table 1** contains the adjusted reimbursement forecast summary for the remainder of FY 2011 through to FY 2014. The department anticipates the receipt, review and reimbursement of claims for 3Q 2010, 4Q 2010 and 1Q 2011 prior to the end of FY 2011. Reimbursement for the 1Q 2011 claim may fall into FY 2012 depending on resources and systems available to perform the reviews.

The forecasted reimbursement for the remainder of FY 2011 is approximately \$73M. See **Table 1a** for additional information.

Estimated Project Spending

The figures in **Table 1** are based on TC Alaska's 1Q 2011 Budget Report, received by the department in mid January. They show the projected amount of money required for reimbursement during each fiscal year until the Licensee is scheduled to obtain a FERC Certificate. The Governor's proposed budget for FY2012 includes \$160 million for reimbursement of work anticipated during the fiscal year according to the project schedule. The rate of spending could vary as the project moves forward. Rate of spending, for example, could increase substantially based on the degree to which certain project uncertainties and conditions precedent can be resolved early in the process.

Table 1³: Estimated Project Spending (\$ Thousands)

Fiscal Year*	Pre-License	2009	2010	2011	2012	2013	2014	TOTAL
Total Annual	\$5,500	\$16,095	\$100,072	\$189,612	\$194,464	\$115,424	\$90,000	\$711,166
TC/EM	\$5,500	\$11,736	\$67,696	\$62,154	\$36,948	\$16,736	\$10,396	\$211,166
State of Alaska	\$0	\$4,359	\$32,376	\$127,458	\$157,516	\$98,687	\$79,604	\$500,000
Total Cumulative	\$5,500	\$21,594	\$121,666	\$311,278	\$505,743	\$621,166	\$711,166	\$711,166
TC/EM	\$5,500	\$17,235	\$84,932	\$147,086	\$184,034	\$200,771	\$211,166	\$211,166
State of Alaska	\$0	\$4,359	\$36,735	\$164,192	\$321,708	\$420,396	\$500,000	\$500,000

* Note: Fiscal year for the State of Alaska runs from July 1 to June 30. (Example: FY10 = 7/1/09 - 6/30/10)

Annual Audit

As required under the AGIA license, the first annual audit of TC Alaska was completed by Martindale Consultants, Inc. in November 2010. The annual audit is performed on a calendar year basis. The audit covered expenditures reimbursed by the State through the calendar year that ended December 31, 2009. As of the December 31, 2009, the submission of reimbursements had been delayed and only four months of activity had been received, reviewed and reimbursed by the end of the year. The first annual audit covered reimbursements made for activity conducted from December 2008 through the first quarter of the 2009. The scope of the annual audit was to assess the adequacy of TC Alaska's internal controls and accounting process in relation to the identification and submission of qualified expenditures, to determine if the licensee was in compliance with applicable statutes and regulations, and to determine if the costs submitted for reimbursement complied with AGIA. The goal of the audit was to identify areas of improvement for the department and TC Alaska and to implement any recommendations and corrections to the reimbursement process. Between December 2008 and March 31, 2009, the auditors reviewed \$2.5M in gross expenditures to ensure eligibility under AGIA and applicable regulations. The licensee had received \$1.1M in state matching funds as of December 31, 2009.

Martindale conducted a number of interviews with personnel from both the State and TC Alaska, in order to understand the applicable laws, reimbursement process, and duties of involved individuals. Major vendor contracts and invoices were reviewed and reconciled with those examined during earlier parts of the reimbursement process. Auditors reviewed job duties to ensure they were performing qualified functions, verified hours billed were reasonable and accurate and confirmed all components of hourly labor rates qualified for reimbursement.

³ Numbers are based on TC Alaska's 1Q 2011 Budget Report. Comparative spending after 2010 reflects a change in the state's matching contribution from 50/50 to 90/10, following the close of the Open Season on July 31, 2010.

In response to the audit, the Licensee had already begun work to improve controls and accounting processes and many were resolved before the audit concluded.

TC Alaska and the State resolved the issues highlighted during the audit process and continue to work through technical issues as they arise.

The calendar year 2010 annual audit will cover \$90 million in gross expenditures submitted for review and \$35M in reimbursements of qualified expenditures made through the year ended December 31, 2010. Non qualifying gross expenditures spent by the Licensee are not submitted for reimbursement. The reimbursements to be audited cover expenditure activity from 2Q 2009 through 2Q 2010 and were reimbursed at the 50% rate. As the project has advanced, the transaction volume and dollar values have increased significantly. As a result, the annual audit will require more time and auditors to perform the work.

Financial Reports

Table 1a: AGIA Reimbursement Request Summary and Forecast

Table 2: AGIA Reimbursement Request Summary – By Project Region

Table 3: Summary Costs by Cost Category

Table 1a

AGIA Reimbursement Summary

FY 2010 Actuals, FY 2011 to FY 2014 Forecast

AS 43.90

Year	Quarter	Reimbursed Qualified Expenditures	Date Paid
2009	1Q Total	\$1,095,786	12/17/09
2008	4Q Total	\$40,230	2/26/10
2009	2Q Total	\$3,222,966	2/26/10
Total Paid for FY 2010		\$4,358,982	
2009	1Q Exceptions	\$136,338	9/28/10
2009	2Q Exceptions	\$715,282	9/28/10
2009	3Q Total	\$4,095,425	9/7/10
2009	4Q Total	\$13,789,355	10/4/10
2010	1Q Total	\$7,190,984	10/20/10
2010	2Q Total	\$6,448,166	10/26/10
Total Paid FY 2011		\$32,375,555	

Grand Total Paid to Date \$36,734,537

Reimbursement Forecast Summary	
FY 2011	\$73,000,000
FY 2012	\$170,000,000
FY 2013	\$118,000,000
FY 2014	\$102,265,463
Total	\$463,265,463

Total Inducement \$500,000,000

Table 2

AGIA Reimbursement Request Summary - By Project Region

Inception to Date as of 12/5/08 - 12/31/10

Year	Quart	Month	Project Region	Total Claimed Gross Expenditures	Total Gross Exceptions	Total Approved Gross Qualified Expenditures	Total Qualified Expenditures Available for Reimbursement at 50%	Less Qualified Reimbursement Held in Reserve	Reimbursed Qualified Expenditures
2010	2 Q	April	Alaska	\$3,261,194	(\$147,862)	\$3,113,332	\$1,556,666	(\$152,659)	\$1,404,007
			British Columbia	\$424,474	(\$35,825)	\$388,649	\$194,325	(\$36,669)	\$157,655
			Southern Yukon	\$2,211,974	(\$498,364)	\$1,713,610	\$856,805	(\$32,369)	\$824,436
		subtotal	\$5,897,642	(\$682,050)	\$5,215,592	\$2,607,796	(\$221,697)	\$2,386,099	
	May	Alaska	\$4,173,034	(\$1,742,899)	\$2,430,135	\$1,215,068	(\$137,495)	\$1,077,573	
		British Columbia	\$409,861	(\$87,642)	\$322,219	\$161,109	(\$29,701)	\$131,408	
		Southern Yukon	\$1,713,525	(\$189,591)	\$1,523,934	\$761,967	(\$26,156)	\$735,811	
	subtotal	\$6,296,420	(\$2,020,132)	\$4,276,288	\$2,138,144	(\$193,352)	\$1,944,792		
	June	Alaska	\$4,422,194	(\$1,828,143)	\$2,594,051	\$1,297,026	(\$159,008)	\$1,138,017	
		British Columbia	\$372,563	(\$12,330)	\$360,233	\$180,117	(\$34,240)	\$145,877	
		Southern Yukon	\$2,155,859	(\$432,400)	\$1,723,458	\$861,729	(\$28,348)	\$833,381	
	subtotal	\$6,950,616	(\$2,272,873)	\$4,677,742	\$2,338,871	(\$221,596)	\$2,117,275		
2 Q Total				\$19,144,678	(\$4,975,056)	\$14,169,622	\$7,084,811	(\$636,645)	\$6,448,166
1 Q	1 Q	January	\$5,028,647	(\$761,806)	\$4,266,841	\$2,133,420	(\$200,246)	\$1,933,174	
		February	\$6,821,311	(\$703,299)	\$6,118,011	\$3,059,006	(\$205,985)	\$2,853,021	
		March	\$6,906,542	(\$1,644,557)	\$5,261,985	\$2,630,993	(\$226,203)	\$2,404,789	
	1 Q Total	\$18,756,500	(\$3,109,662)	\$15,646,838	\$7,823,419	(\$632,435)	\$7,190,984		
2010 Total				\$37,901,178	(\$8,084,718)	\$29,816,460	\$14,908,230	(\$1,269,080)	\$13,639,150
2009				\$54,235,016	(\$5,681,080)	\$48,561,077	\$24,278,195	(\$1,230,180)	\$23,055,156
2008				\$84,450	(\$3,989)	\$80,460	\$40,230	\$0	\$40,230
Total Since Inception Date				\$92,220,644	(\$13,769,788)	\$78,457,998	\$39,226,655	(\$2,499,260)	\$36,734,517

Table 3
AGIA Reimbursements by CBS Cost Category
Inception to Date 12/5/08 - 12/31/10

CBS Categories	Inception to Date
General Expenses	\$ 545,172
Pipeline Related	\$ 20,716,088
Gas Treatment Plant Related	\$ 10,508,139
Environmental, Regulatory, Land	\$ 1,619,235
Law and Other 3rd Party	\$ 3,345,903
Total	\$ 36,734,537

The reimbursements are broadly categorized into five major classifications based on information provided by TC Alaska.

