Senate Bill 138 & AKLNG Project Overview

October 2015

By Department of Law & Department of Natural Resources

SENATE BILL 138

- Passed April 2014
- Provides Authority for the AKLNG Project
  - **AGDC**: Infrastructure
  - **DNR & DOR**: Gas
  - **Legislature**: Contract Approval
- Provides New Provisions for Tax as Gas (TAG)
- Amends Oil & Gas Production Tax Statutes
- Created Municipal Advisory Gas Project Review Board
- Requires Reports to Legislature

Provides Authority for AKLNG Project

AGDC

SECTIONS 7-21

- Amended AGDC's Statutory Purpose, Powers & Duties, Funds to allow AGDC to hold an ownership interest in an Alaska liquefied natural gas project

  - **AS 31.25.005 –** AGDC shall develop and have primary responsibility for developing an Alaska liquefied natural gas project

  - **AS 31.25.080(a)** – AGDC may acquire ownership interest in pipeline, gas treatment, liquefaction

  - **AS 31.25.110** – Alaska liquefied natural gas project fund

Provides Authority for AKLNG Project

DNR

SECTIONS 24-25, 28

- Give DNR commissioner authority to negotiate commercial agreements, market RIK/TAG, & modify leases

  - **AS 38.05.020(b)(11) –** In consultation with DOR, participate in negotiation of agreements that include balancing, marketing, disposition of natural gas, and offtake

  - **AS 38.05.020(b)(14)–** In consultation with DOR, take custody of tax delivered to the state as gas (TAG) and manage project services and disposition and sale of TAG

  - **AS 38.05.180(hh)-(ii)** – DNR commissioner may make certain modifications to AKLNG Project leases for initial project term

Provides Authority for AKLNG Project

DOR

SECTIONS 24-25, 40-41

- Expand the authority of commissioner of DOR
  - **AS 38.05.020(b)(11) –** In consultation with DOR, participate in negotiation of agreements that include balancing, marketing, disposition of natural gas, and offtake
  - **AS 38.05.020(b)(14)–** In consultation with DOR, take custody of tax delivered to the state as gas (TAG) and manage project services and disposition and sale of TAG
  - **AS 43.05.010(17)** – DOR commissioner directs the disposition of revenues received from TAG

Provides Authority for AKLNG Project

LEGISLATURE

SECTION 24

- Gives Legislature final approval of contracts over 2 years
    - **AS 38.05.020(b)(11)**– Any agreement or contract negotiated under this paragraph to which the State is a party is not effective unless the legislature authorizes the governor to execute it

SECTION 77

- Legislature also receives quarterly AKLNG Project briefings

TAG & Taxes

SECTIONS 42-69

- Relate to tax as gas (TAG) in the production tax, and conforming amendments in corporate income tax and oil and gas and pipeline property tax
    - None of these sections address AKLNG Project authority in the midstream or liquefaction
    - Administration is either in compliance with, or no action is required for, each of these sections

Municipal Advisory Gas Project Review Board

MAGPR Board

SECTION 74

- Requests that governor establish an advisory planning group to advise governor on municipal involvement in a North Slope natural gas project
  - MAGPR Board assembled by AO 269 on March 25, 2014
  - Chaired by Commissioner of Revenue
  - Prepare MAGPR Annual Report
  - Meets regularly using transparent collaborative public process to
    - Discuss AKLNG Project property tax issues
    - Recommend possible options to address &mitigate impacts of new infrastructure associated with AKLNG Project
  - Currently discussing property tax structure, amounts & allocation
    - Tentative proposal $800M Impact Fee, $15.7B Flow Rate Property Tax
  - Next MAGPR Board meeting will take place after special session
  - Information available at *http:dor.Alaska.gov/MAGboard*

Requires Reports to Legislature

Required Reports

SECTIONS 73, 76

- In-State Gas Report & Financing Report

  - **Section 73** – DNR in consultation with AGDC to provide report and recommendations on in-state gas and costs, benefits, and risks associated with a pipeline larger than 42 inches, due on or before date FTSA submitted to legislature for approval

    - **STATUS:** drafting; final on or before date FTSA submitted

  - **Section 76** – DOR to provide report on financing options, including options for municipalities, residents, or regional corporations to invest in the Project, due when first contract submitted to the legislature.

    - **STATUS:** interim report provided; final with first contract

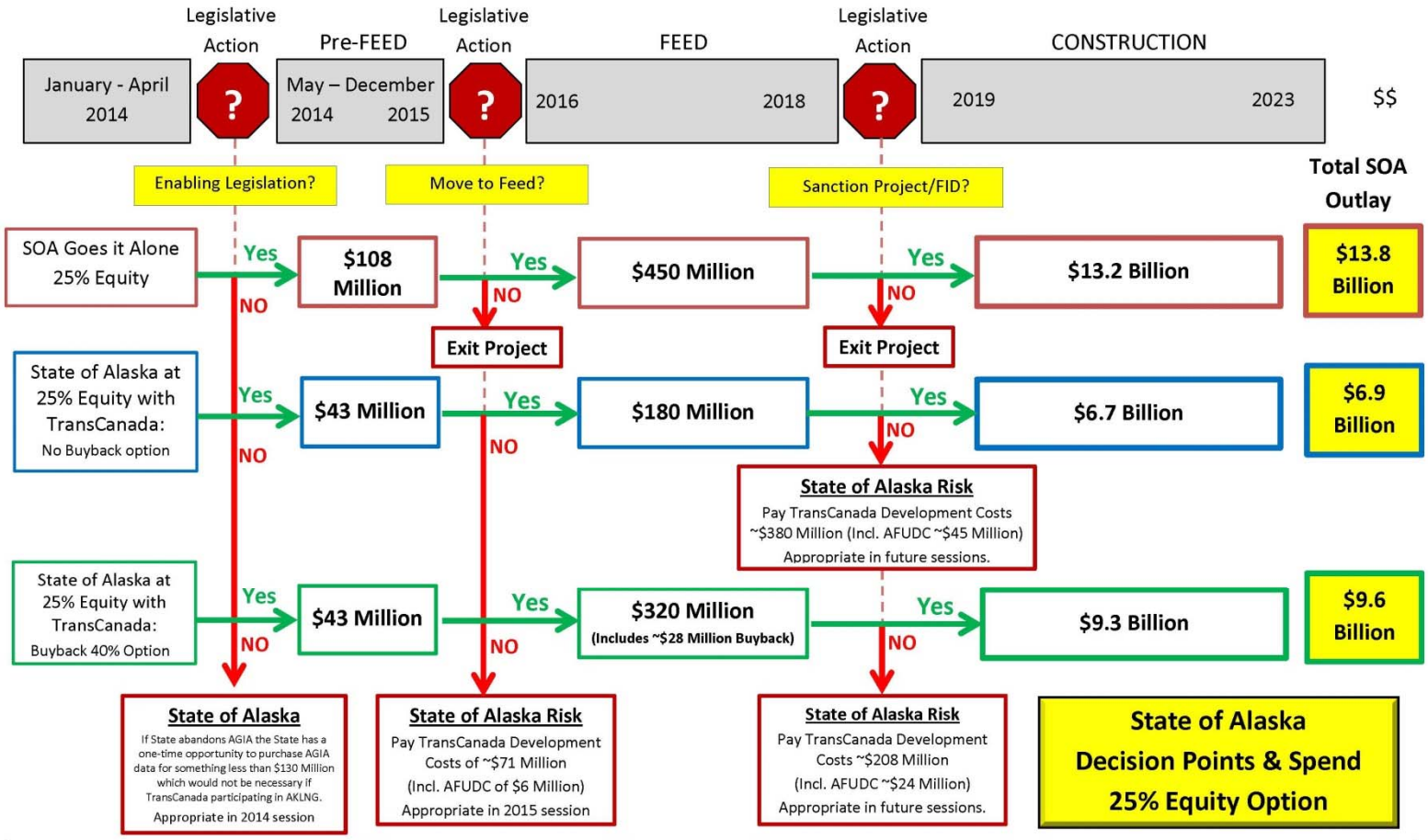
HEADS OF AGREEMENT

- **PARTIES**: State, AGDC, Producers, TC

- **KEY PROVISIONS:**
  - **ARTICLE 4:** Pre-FEED technical work to take between 18 and 24 months, with FEED decision expected within 36 months
  - **ARTICLE 5:** State equity participation & a State Gas Share
  - **ARTICLE 6 & Appendix A:** Pro-expansion principles
  - **ARTICLE 6.5:** At least five in-state off take points for domestic gas needs
  - **ARTICLE 8:** subject to the State being satisfied with project-enabling contracts, including satisfactory arrangements for disposition of the State Gas Share, the State/DNR will elect RIK

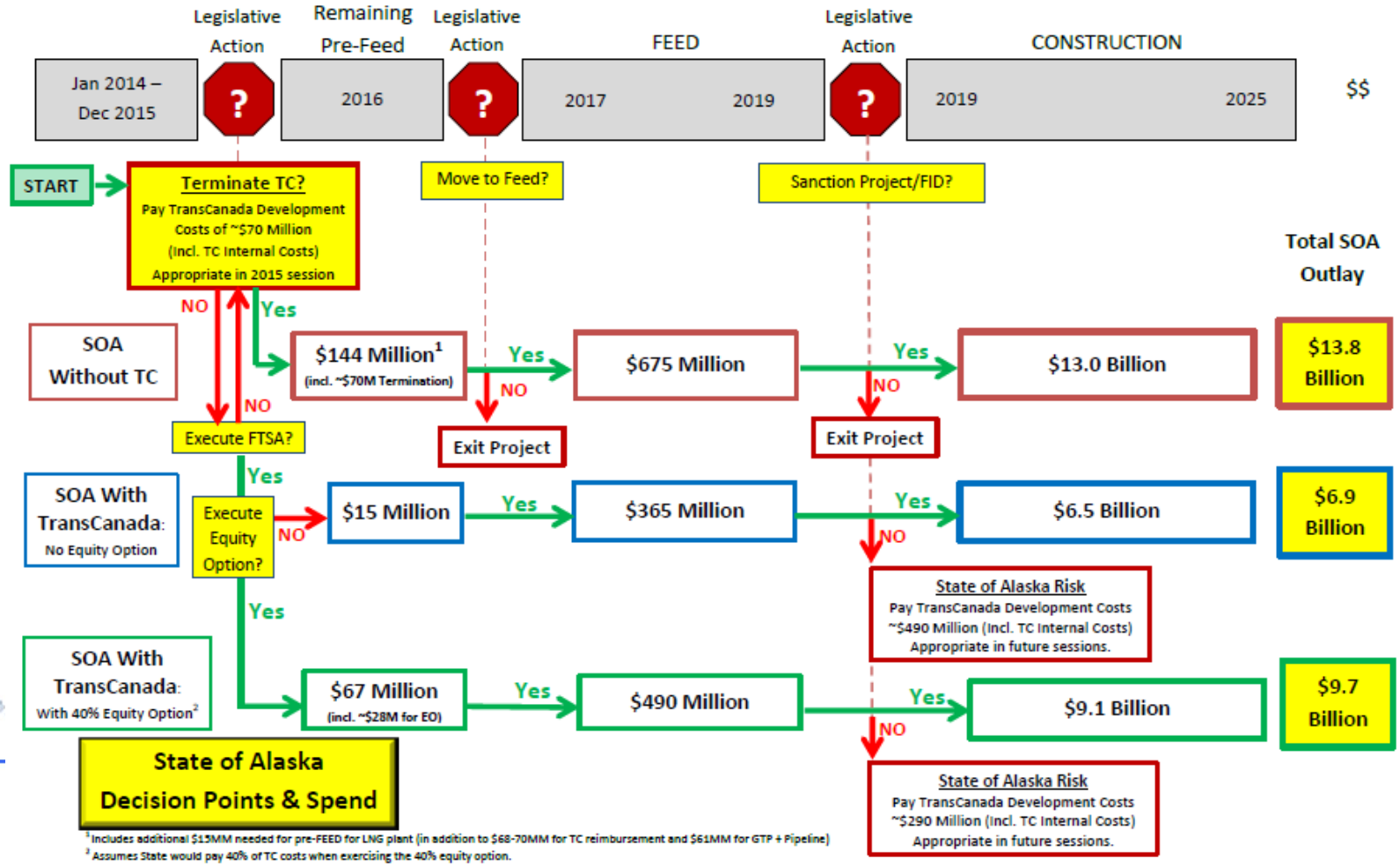
AKLNG PROJECT STATUS

- Provided to Legislature in 2014



AKLNG PROJECT STATUS

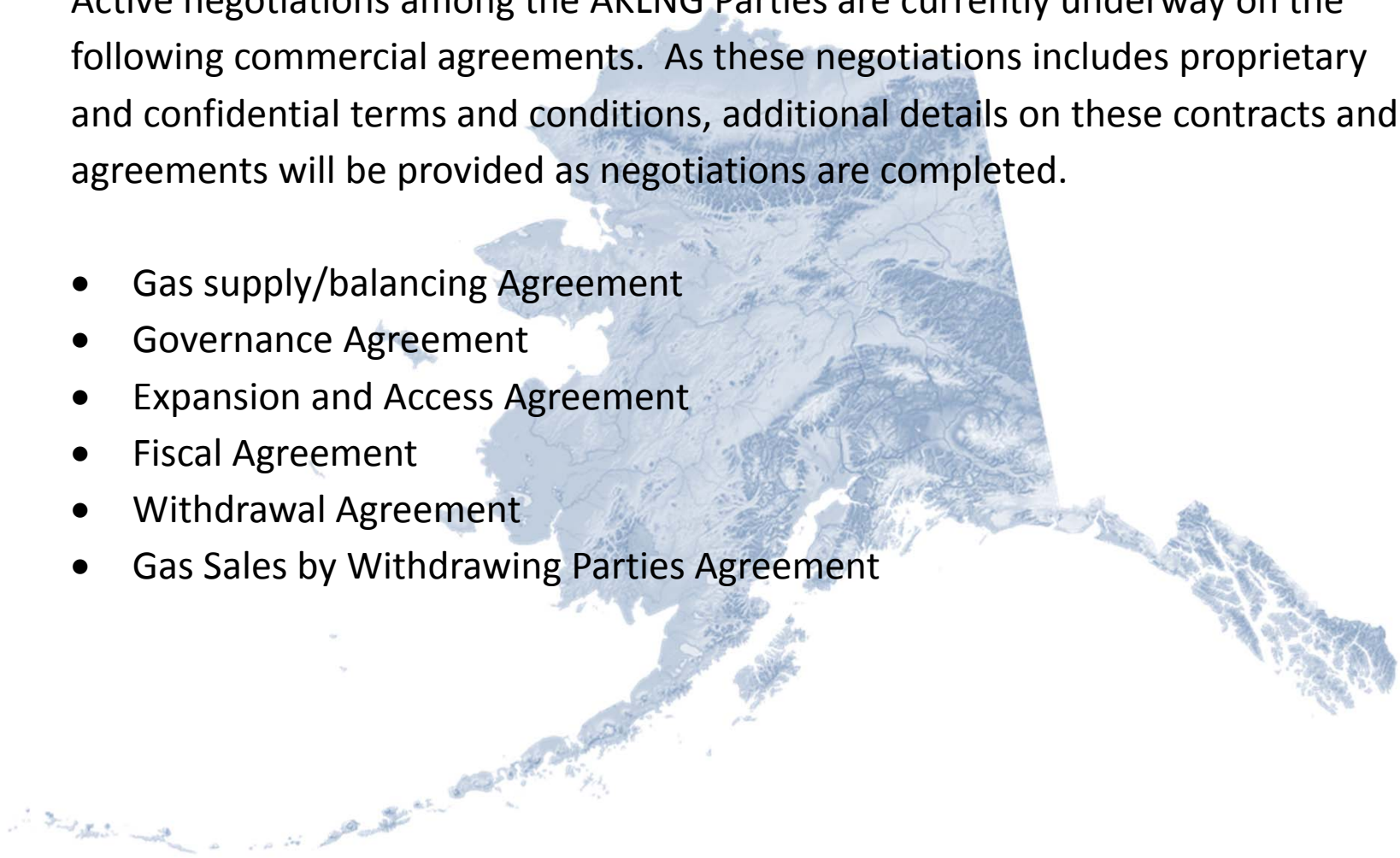
- **Revised :** Technical work delivery dates have changed, “Legislative Action” on commercial agreements not yet needed, but “SOA Without TC” numbers consistent with 2014 numbers



AKLNG COMMERCIAL STATUS

Active negotiations among the AKLNG Parties are currently underway on the following commercial agreements. As these negotiations includes proprietary and confidential terms and conditions, additional details on these contracts and agreements will be provided as negotiations are completed.

- Gas supply/balancing Agreement
- Governance Agreement
- Expansion and Access Agreement
- Fiscal Agreement
- Withdrawal Agreement
- Gas Sales by Withdrawing Parties Agreement

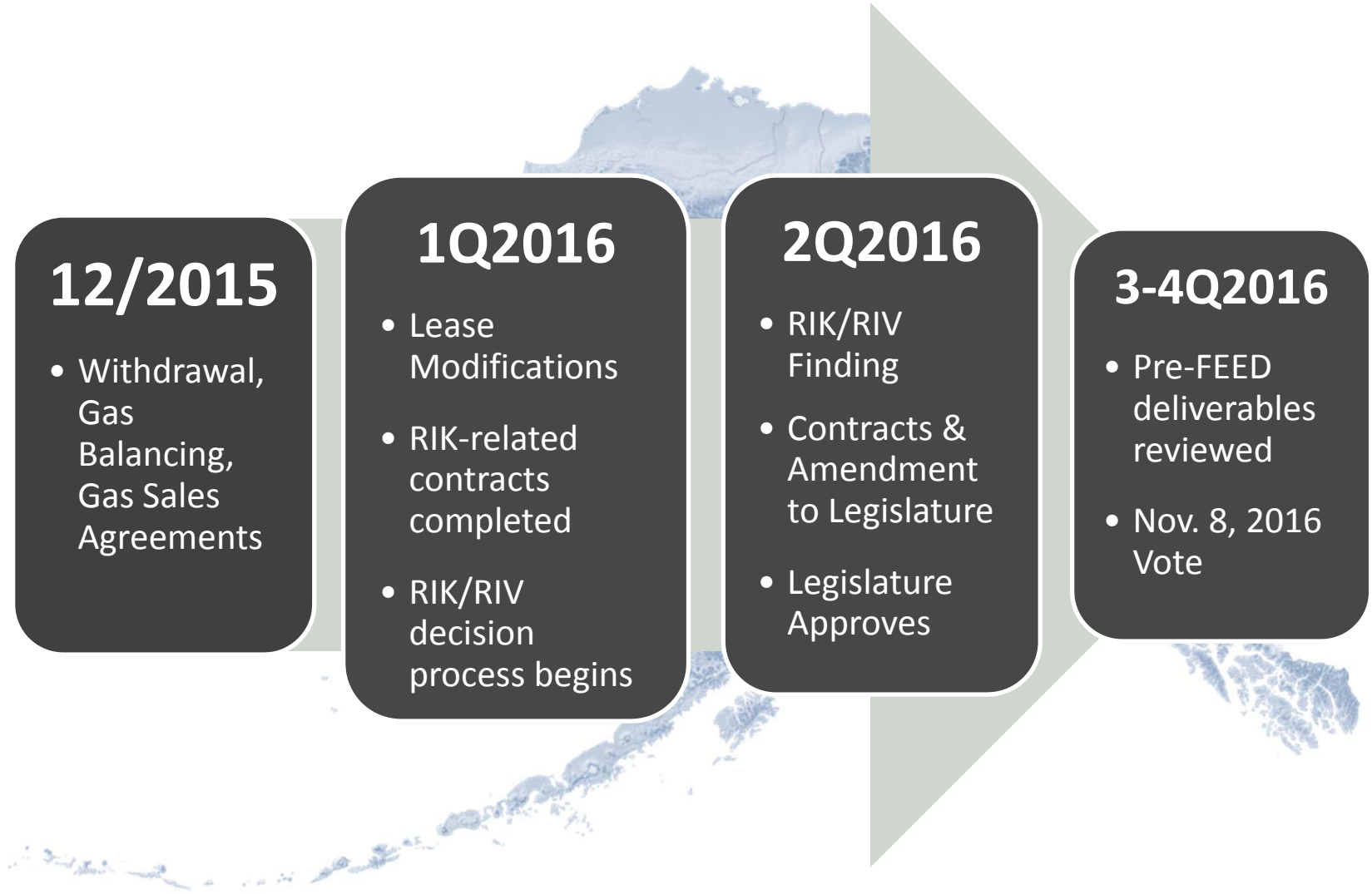


STATE AKLNG TIMELINE

KEY STEPS TO FEED

1. Withdrawal Agreement, Gas Balancing, Gas Sales Agreement by December
2. Lease Modifications
3. RIK-relevant Commercial Agreements
4. RIK/RIV Decision
5. Finalize Other Agreements
6. Executable Agreements to Legislature for Approval
7. Constitutional Amendment to Legislature for Inclusion on Ballot
8. Governor Executes Approved Agreements
9. November 8, 2016 Public Vote on Amendment
10. FEED

STATE AKLNG TIMELINE



STATE AKLNG TIMELINE

OCTOBER – DECEMBER '15

- Ongoing key commercial agreement negotiations include in part:
  - Gas Supply & Balancing
  - Governance
  - Expansion & Access
  - Marketing Agreements
  - Fiscal
- TransCanada termination executed (if appropriation received)
- Withdrawal Agreement, Gas Sales Under Withdrawal Agreement, and Gas Balancing Agreement agreed by Producers

STATE AKLNG TIMELINE

JANUARY – MARCH ‘16

- Ongoing key commercial agreement negotiations
- RIK-relevant agreements reflecting satisfactory terms finalized and submitted to DNR
- DNR’s RIK/RIV decision process initiated (target 60 days)
- All AKLNG agreements needed for FEED in executable form

STATE AKLNG TIMELINE

APRIL – JUNE ‘16

- Finalize DNR RIK/RIV determination & finding (subject to submission of RIK-relevant contracts to DNR 60 days earlier)
- Agreements submitted to Legislature
- Legislature approves agreements
- Legislature approves constitutional amendment

STATE AKLNG TIMELINE

JULY – DECEMBER ‘16

- All Pre-FEED deliverables reviewed by Parties and FEED recommendation with appropriate documents is prepared

- **November 8, 2016:** General election including constitutional amendment

CONCLUSION

- Administration is complying with Senate Bill 138
- State hopes to provide Legislature with agreements and constitutional amendment in 2016