THE STATE of ALASKA
GOVERNOR BILL WALKER

Department of Natural Resources
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June 16, 2015

The Honorable Cathy Giessel
Chair of the Senate Resources Committee
Alaska State Capitol
Juneau, Alaska 99801-1182

The Honorable Benjamin Nageak and Dave Talerico
Co-Chairs of the House Resources Committee
Alaska State Capitol
Juneau, Alaska 99801-1182

Dear Senator Giessel and Representatives Nageak and Talerico:

The Department of Natural Resources (DNR) in consultation with the Department of Revenue (DOR) submits the following written report in accordance with Section 77 of Senate Bill 138 (SB138), Chapter 14 SLA 14. This report provides an update to the amount of money the state may be obligated to pay TransCanada for the work they are undertaking on the State's behalf through the Precedent Agreement (PA).

Since the previous report provided on January 29, 2015, and amended on February 17, 2015, the Alaska LNG Project has continued to progress technical work relating to the pre Front End Engineering and Design (pre-FEED) phase of the project. Key work that was accomplished during 1Q15 included advancement of National Environmental Policy Act (NEPA) Pre-File activities and development of Resource Reports for submission to the Federal Energy Regulatory Commission (FERC). Additionally, TransCanada has led the Alaska LNG Project's evaluation of the integrated design basis for the midstream component including: pipeline materials for each section of the 800 mile route and the capacity and capability of multiple steel mills. TransCanada has also led project efforts to conduct tests on pipe ordered from various mills.

Negotiations for certain commercial agreements continued in 1Q15 including on operating model for the Front-End Engineering and Design (FEED) phase, upstream gas supply and balancing discussions with the State and other AKLNG parties. Negotiations with the State are also ongoing related to the firm transportation services agreement (FTSA) for the gas treatment plant and the pipeline.

Estimated Project Spending to Date

TransCanada has reported to the State actual spends for January 1, 2014 through March 31, 2015, totaling approximately \$25.7 million, broken down as follows:

a. A total of \$25.1 million on a cash basis, which amounts to an additional \$11.7 million expended for work related to the Alaska LNG Project in 1Q15. This amount accounts for the reported \$0.4 million increase in Concept Selection costs, which occurred between January and June 2014 and accounting was finalized in 1Q15.

b. A carrying cost of $0.6 million, of which $0.3 million was expended in 1Q15.

Total Reimbursable Costs to TransCanada through March 31, 2015			
	CSA (Jan. 1- Jun 30, 2014)	**PRE-FEED (July 1, 2014-March 31, 2015)**	**TOTAL**
AKLNG Cash Calls and TC Development Costs	$10.0	$19.1	$29.1
Less: AGIA Reimbursement	($4.0)		($4.0)
Carrying Cost			$0.6
TOTAL			**$25.7**

Projected Total Project Spending

The projected total project spending has not changed since DNR provided the committee with an updated projection in February. TransCanada is still expected to incur approximately $100 million associated with its work on the Alaska LNG Project, not including $8 million in carrying costs[1], through pre-FEED.

The projected numbers are as follows from January 1, 2014 through mid-June 2016:

a. Alaska LNG Project cash calls made on the State's behalf: **~$77 million;**

b. Development costs, i.e. TC internal costs for pre-FEED period: ~**$18 million;**

c. Concept Selection costs prior to entrance of pre-FEED (from January 1 to June 30, 2014), net of AGIA reimbursements: **$6 million (previously reported at $5.6 million);** and

d. Carrying Costs: **$8 million.**

The total projected amount that the State of Alaska would be responsible for through pre-FEED is still estimated to be about $108 million[2], which includes the $25.7 million spent from January 1, 2014 to March 31, 2015.

If we can be of further assistance, please do not hesitate to contact us directly.

Sincerely,

Audie Setters
General Manager, State of Alaska Gas Team

CC: Mark Myers, Commissioner, Department of Natural Resources
Marty Rutherford, Deputy Commissioner, Department of Natural Resources
Randy Hoffbeck, Commissioner, Department of Revenue
Dona Keppers, Deputy Commissioner, Department of Revenue

[1] Carrying costs are also referred to as "Allowance for Funds Used During Construction/AFUDC"

[2] The costs as reported above add together to equal $109 million; however, the error is due to a reporting of forecasted numbers for Pre-FEED spending rounded up to the nearest million rather than down.

Dan Fauske, President, Alaska Gasline Development Corporation
Darwin Peterson, Legislative Director, Office of the Governor
Marcia Davis, Deputy Chief of Staff, Office of the Governor