THE STATE of ALASKA

GOVERNOR SEAN PARNELL

Department of Natural Resources

Office of the Commissioner

550 West 7th Avenue, Suite 1400
Anchorage, Alaska, 99501-3650
Phone: 907.269.8431
Fax: 907.269.8918

September 29, 2014

The Honorable Charlie Huggins
Senate President
Alaska State Capitol
Juneau, Alaska 99801-1182

The Honorable Mike Chenault
Speaker of the House
Alaska State Capitol
Juneau, Alaska 99801-1182

Dear Senator Huggins and Representative Chenault:

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.

The uncodified law of the State of Alaska requires that before the first flow of gas in a North Slope natural gas project, the project parties must provide a legislative briefing and update on the project progress at least once every 4 months. At the same time, the DNR Commissioner must submit a report to the legislature on the amount of money the state may be obligated to pay a third party under an agreement or contract under AS 38.05.020(b)(10) or (11) if a North Slope natural gas project is terminated before the first flow of gas in the project.

The report is focused on information specific to development costs that TransCanada is undertaking on the State's behalf through the Precedent Agreement (PA). The PA was signed on June 9, 2014 and has a term of no more than two years. It is expected the PA will last through the pre-Front End Engineering & Design (pre-FEED) phase of the Alaska LNG Project. No other agreements have been entered into under either AS 38.05.020(b)(10) or (11) at this time.

Since the passage of Senate Bill 138 by the Alaska State Legislature, Governor Parnell signed the project enabling legislation into law on May 8, 2014. Subsequently, the North Slope Producers (ExxonMobil, BP, and ConocoPhillips), TransCanada Alaska, and the Alaska Gasline Development Corporation (AGDC) entered into a Joint Venture Agreement to ramp up the pre-Front End Engineering and Design (pre-FEED) phase. On July 18, 2014, an application was submitted to the U.S. Department of Energy to export up to 20 million metric tons per year of liquefied natural gas (LNG) for a period of 30 years to both countries with free trade agreements and non-free trade agreements for the benefit of the State, ExxonMobil, BP and ConocoPhillips as the anticipated gas resource owners. On September 5, 2014, ExxonMobil, BP, ConocoPhillips, TransCanada and AGDC submitted a formal request to the Federal Energy Regulatory Commission (FERC) to begin the pre-file process, which triggers FERC's National Environmental Policy Act permitting process.

Projected Project Spending

The State of Alaska and TransCanada terminated the Alaska Gasline Inducement Act (AGIA) license on June 9, 2014 and transitioned into the Pre-FEED stage of the Alaska LNG Project. During the Pre-FEED stage of the Alaska LNG Project (and the PA), TransCanada estimates that it will incur approximately $98 million in development costs and cash calls over the next two years (mid-2016) to include:

a. Alaska LNG Project cash calls made on the State's behalf: $75 million

b. Transporter Costs: $15 million ± $3 million contingency

c. Carrying Costs: $8 million

TransCanada estimates the contingency on transporter costs is needed to cover any potential unknown costs given the high degree of uncertainty at this early stage in the Pre-FEED process. TransCanada has based the transporter costs on the burn rate experienced during the AGIA ramp up activity and include:

- $8 million to cover negotiations and finalization of key agreements as the State's midstream representative in the AKLNG project and as a party to the Pre-FEED joint venture agreement (JVA).
- $3 million for staff and travel to cover bilateral agreements between TransCanada and the State of Alaska.
- Regulatory affairs: $2 million
- General administrative costs: $2 million

Estimated Project Spending to Date

TransCanada has thus far spent $2.1 million. TransCanada has put forth $1.1 million on the state's behalf since July 1, 2014 as part of the Alaska LNG Project cash calls and has spent $1 million on internal costs related to the project from July 1 through August 31, 2014.

We hope that you find this information useful. Continued coordination efforts with TransCanada will take place to further refine and expand the information provided in future reports to include high-level narrative of activities and forecast information. If we can be of further assistance, please do not hesitate to contact us directly.

Sincerely,

Joseph R. Balash, Commissioner
Department of Natural Resources

CC: Alaska State Legislature Members
Angela M. Rodell, Commissioner, Department of Revenue
Heather Brakes, Legislative Director, Office of the Governor