State of Alaska

Bill Walker, Governor

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FY2016 Supplemental Request for State Agencies - $13.6 Million

Background – Roles and Responsibilities

The AKLNG state gas team consists of representatives from the Department of Natural Resources (DNR), Department of Revenue (DOR), Department of Law (DOL), and Office of the Governor (GOV), as well as subject matter experts from other state agencies and external consultants. The AKLNG state gas team is primarily responsible for:

- negotiating critical commercial agreements for the Alaska LNG Project with the Producer parties (ExxonMobil, BP, and ConocoPhillips);
- developing a plan to market and dispose of the State's share of project gas for in-state use and LNG exports;
- evaluating, and if it's in the best interest of the State, modify existing lease structures to accommodate the State taking tax-as-gas and royalty in-kind;
- negotiating Property Tax for the Payment in Lieu of Taxes (PILT) and Impact Payments during construction;
- assuring the project allows for adequate expansion for new discovery and alternative gas supplies; and
- assuring the pipeline is adequately designed to provide supply to meet in-state gas demand (demand is determined by the Alaska Gasline Development Corporation).

In addition to the state agencies, the Alaska Gasline Development Corporation (AGDC) is a party to the Alaska LNG Project and deals with specific project and infrastructure issues.

FY2016 AKLNG State Gas Team Supplemental Request Summary

The coming months are critical for the Alaska LNG Project. The AKLNG state gas team continues to work diligently in crafting agreements to move the project forward and begin to plan for the next phase of the project, specifically in marketing the State's share of gas.

Under SB 138, the DNR Commissioner was given the authority to participate in negotiation of contracts for marketing of the state's gas and in consultation with the DOR Commissioner take custody of gas delivered to the state under AS 43.55.014(b) and manage project services and disposition and sale of that gas. The need for a marketing organization within DNR is an important step in preparing for successful sale of gas under the Alaska LNG Project or an alternative project. Gas sales contracts typically need to be negotiated before a LNG project can proceed into construction. With assistance provided by expert consultants Black & Veatch on staffing needs and market rates for key personnel, the DNR North Slope Gas Commercialization (NSG) is requesting funds to begin developing a gas marketing organization required to attract the necessary expertise to compete with global marketing organizations. Further detail on the marketing structure is provided later in this document.

The DNR NSG did not receive the full $13,186.7 requested for FY2016. The project workload has increased significantly over the past several months in preparation for a special session and the currently appropriated FY2016 budget for the NSG is insufficient to cover projected expenses and the need to begin ramp up of a marketing effort. We expect the workload to remain steady through the remainder of FY2016 and therefore are submitting a supplemental budget during the fall special session.

Should the AKLNG state gas team not receive supplemental funding, important project work will come to a halt. Instead of moving the project forward, critical DOL and DNR contracts would not be able to continue and many subject matter experts from the DNR and DOR would be laid off. Further, the State will be unable to compete with international gas marketers. It is important the DNR begin to develop the capability during the second half of FY2016 to be fully positioned to sign sales agreements which will underpin a Final Investment Decision in 2018 or 2019 to proceed to construction.

Department of Natural Resource's NSG LNG Supplemental Request

The FY2016 projected supplemental request for DNR is estimated at **$2,126,000.**

New DNR NSG Marketing Structure

Please note the Marketing Lead is not a new position, it is a current vacant position but an increase in salary will be required to attract a candidate with the level of global LNG marketing experience required to help the State build a successful gas marketing organization to remain competitive. Projections are for December 1, 2015 – June 30, 2016.

Position	Description	FY16 Projected (salary + benefits)
Marketing Lead	Existing Position – additional funding for level of expertise required	$480,000
Marketing Analyst	New Position Request – manage marketing portfolio & risk under direction of Lead	$166,000
	TOTAL	**$646,000**

Additional DNR FY16 NSG Contractual Services

DNR was given procurement exemptions under SB 138 section 22. DNR's exemption is specific to contracts for professional and technical services to support the development of agreements and contracts under AS 38.05.020(b)(10) and (11) to help facilitate coordination of contract work for a large integrated project such as this. It is anticipated that an additional **$1,479,800** will be required in contractual services.

Budget Item	FY16 Allocated	FY16 Projection	FY16 Supplemental Request
DNR Contractual Services	$7,115.0	$8,015.0	$900.0
Other DNR Agency AKLNG Expenses	$0.0	$579.8	$579.8
TOTAL	**$7,115.0**	**$8,594.8**	**$1,479.8**

Below is a list of existing contracts. Some may need to be extended and additional contracts are currently being negotiated or have been identified for work related to FERC resource reporting reviews and drafting, facilities review for commercial aspects, commercial analysis and support, and audits associated with termination of TransCanada.

FY16 Existing Contracts:

Contractor	Contract Admin	Contract Period	FY16 Projected
Audie Setters	DNR	Sept 2014 – October 2015	$170,000
Black & Veatch	DNR	Sept. 2014 – June 2016	$2,200,000
Greengate LLC	DNR	July – September 2015	$300,000
Nan Thompson	DNR	July – September 2015	$200,000
Pingo	DNR	January 2015 – July 2016	$240,000
Simon Lisiecki	DNR	May 2015 – June 2016	$100,000

Contractor	Contract Admin	Contract Period	FY16 Projected
Steve Swaffield	DNR	Aug 2014 – Dec 2015	$120,000
Steve Wright	DNR	Aug 2014 – June 2016	$336,000
		Subtotal	**$3,666,000**

Other FY16 DNR AKLNG Project Related Personal Services – RSA to DNR
An additional **$580,000** will cover the significant workload associated with the AKLNG Project placed on other Divisions, primarily the Division of Oil and Gas as outlined in the table below:

Position	Description	FY16 Projected (salary + benefits)
Deputy Commissioner	Project support – 50 percent of time	$129,217
Petroleum Reservoir Engineer – DOG	Upstream Team support – 10 percent of time	$25,174
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	$25,194
Petroleum Reservoir Engineer – DOG	Upstream Team support – 10 percent of time	$21,575
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	$24,750
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	$25,194
Petroleum Geologist – DOG	Upstream Team support – 10 percent of time	$25,194
Commercial Analyst – DOG	Upstream Commercial support – 80 percent of time	$158,890
Commercial Analyst – DOG	Upstream Commercial support – 90 percent of time	$144,656
	TOTAL	**$579,844**

Department of Revenue's LNG Supplemental Request

The supplemental budget request for Revenue includes both operating and capital budget requests. The total projected supplemental request for this project from Revenue is estimated at **$1,381,000** for the remainder of FY2016**.**

FY16 DOR AKLNG Project Related Personal Services
The personal services funding will support Revenue's work on fiscals, project financing, governance, and the revenue aspects of marketing and taxes.

Position	Description	FY16 Projected (salary + benefits)
Deputy Commissioner	Focuses on fiscals, finance, governance and tax deliverables – 90 percent of time	$214,934
Audit Master	Focuses on upstream deliverables - 90 percent of time	$192,505
Audit Master	Focuses on property tax, some upstream deliverables - 75 percent of time	$179,111
Commercial Analyst	Focuses on fiscals, finance, and property tax deliverables - 50 percent of time	$86,906
Chief Economist	Focuses on marketing and finance deliverables - 10 percent of time	$18,695
Petroleum Economist	Focuses on revenue aspects of marketing deliverables - 10 percent of time	$13,216
Petroleum Economist	Focuses on property tax deliverables - 25 percent of time	$36,062
State Investment Officer	Focuses on finance deliverables - 5 percent of time	$18,632
State Investment Officer	Focuses on finance deliverables - 5 percent of time	$18,632
State Investment Officer	Focuses on finance deliverables - 5 percent of time	$14,744
	TOTAL	**$793,437**

FY16 DOR Travel and Contractual Services

Revenue is also requesting **$87,000** for travel expenses and other related expenses related to performing work services for AKLNG. Revenue is also requesting **$500,000** for contractual costs to fund AKLNG Project "Bankability" review of project financing.

Department of Law's LNG Supplemental Request

FY16 Law Contractual Services

The supplemental budget request for Law includes a **$10,100,000** operating budget requests for contractual services with other law firms to assist in drafting, negotiating and reviewing AKLNG contracts with the producers, to provide legal and regulatory support for state participation in the project. Currently under contract are Greenberg Traurig and Milbank, Tweed, Hadley & McCloy.

Budget Item	**FY16 Allocated**	**FY16 Projection**	**Difference**
Milbank	2,300.0	10,000.0	7,700.0
Greenberg Traurig	2,000.0	4,400.0	2,400.0
Jones Day	100.0	100.0	0.0
DOL Internal costs	200.0	200.0	0.0
TOTAL	**$4,600.0**	**$14,700.0**	**-$10,100.0**

*Law's allocation includes $3 million from DNR, and $700.0 from the FY16 regular budget. and $900.0 remaining from a FY2014 capital appropriation to AGDC.

DNR Costs Associated with TransCanada Buyout – RSA from AGDC

State is faced with a December 31, 2015 deadline to make a decision on whether to buy back TransCanada's share and take a direct equity participation in the AKLNG midstream. To do so would require termination of the PA. If the Legislature agrees that AGDC take control of the Midstream component of the Alaska LNG Project, the TransCanada Alaska Midstream Limited Partnership (TAMLP) partnership interests will be acquired for $1 and TransCanada will be owed for its accrued costs in the Project, which are estimated to be **~$68,445,000** at the end of 2015.

The amount owed to TransCanada is the responsibility of DNR under the current Precedent Agreement between DNR and TransCanada. Once the agreement is terminated, AGDC will require additional operational funding to carry the midstream costs through the end of FY2016.