



**STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU**

**Question and Answer:
Representative Neuman - October, 29 2015**

Representative Neuman:

Why does DNR need an \$800 thousand dollar plus employee?

Please provide more detail on the roles/responsibilities envisioned for this person and how that compares to industry standards.

Department of Natural Resources Response:

AS 38.05.020(b)(11) and (14), enacted through SB138, directs the Commissioner of the Department of Natural Resources (DNR) to take custody, market and dispose of the state's share of royalty gas and, in consultation with the Department of Revenue (DOR) Commissioner, gas delivered to the state under AS 43.55.014(b), tax-as-gas (TAG).

DNR's request for an additional appropriation to cover costs associated with a Marketing Lead/Senior Commercial Director position (total request for \$840,000 – includes the additional \$480,000 requested above the \$360,000 originally allocated in the FY16 budget – for the remaining 7 months of FY16).

In preparing the supplemental budget appropriation request, DNR informally consulted with head hunters and utilized prior recruitment discussions to help inform its request. Typical annual consultation for a Senior Marketing Commercial Director ranges from \$600,000 - \$900,000 (\$300,000-400,000 in Base + \$300,000-500,000 Bonus) for professionals primarily in Houston or US expatriates working in Europe/Middle East. Because the State cannot provide bonuses, it is anticipated that the bonus may need to be paid up front in order to attract candidates with the necessary qualifications.

DNR has assumed the high end of the range to reflect the senior level of the position and to be competitive against other North American export projects. Additionally, DNR has assumed a 20% premium to reflect the Alaska locational differences and potentially short-term nature of the project. An additional 40% has been added for benefits, total annual cost:

$$\begin{aligned} \$900,000 \quad & \times \quad (1+0.2+0.4) = \$1,440,000, \text{ prorated for 7 months for } \sim \$840,000 \\ & \text{Base Salary} \quad \times \quad (\text{Base} + 20\% \text{ Alaska differential} + \text{Benefits}) \end{aligned}$$

It is anticipated that the Marketing Lead will be responsible for:

- Leading negotiations of the marketing agreements and other related commercial agreements with the Alaska LNG project parties (ExxonMobil, BP, and ConocoPhillips).
 - o DNR has been in discussions with each of the lessees/producer parties, as part of the lease modification process laid out in AS 38.05.180(ii) and is in the process of receiving proposals and assessing what each party is proposing with regard to the state's royalty and tax-as-gas volumes.
 - o As mentioned in previous discussions with the legislature, joint-venture marketing with one or more of the parties is under consideration, but any decision to enter a joint venture marketing arrangement would require a determination of the risk tolerances of each party and whether the proposed joint venture would be a suitable fit for the State's needs.
- Lead marketing activities and build customer relationships with the targeted LNG buyers.
- Negotiate commercial agreements such as Memorandums of Agreement (MOA), Heads of Agreement (HOA), term sheets, Sales Purchase Agreements (SPAs), etc. Sales Purchase Agreements are complex and may be in place for 15-20 years – it is important to get them right.
- Develop marketing plans for the State's share of LNG export or in-state use.
- Manage communications with key project stakeholders, State, DNR, and project partners.
- Develop the State's LNG marketing team, build the organization and manage the resources.

DNR is looking for someone that has at least 15 years of experience in LNG project development activities, including at least 10 years in LNG marketing and contract negotiation. Additional qualifications that may be desirable include diverse LNG marketing knowledge and experience globally, particularly in the traditional Asia Pacific market.

Once commercial aspects of the project are resolved and a decision to enter into FEED is made, consistent with its responsibilities under SB 138 DNR may need to ramp up a marketing organization to begin actively negotiating and selling the state's gas volumes in either an equity or JV marketing organization. If the State decides to enter into any joint marketing arrangement, adequate State representation in any joint marketing venture will be critical to ensure the state's interests are fully accommodated. If the State ends up with more than one joint venture marketing agreement, the State will need marketers in each of the ventures to ensure firewalls and anti-trust issues are not violated.

While DNR is examining joint venture marketing options as part of the lease modification process, it also has been going out to the market and building buyer awareness of the project, establishing its own relationships with potential buyers of LNG, and gathering feedback from the market to present to decision makers with the assistance of a contractor who has fulfilled the marketing lead position to date. However, consistency and project reliability will be key when speaking with prospective buyers over the next 4-6 years. To show our commitment and reliability, it is imperative the DNR hire a state marketing lead and analyst to provide continuity as this project moves forward as well as

independent advice to the State on potential risks and rewards that it must consider in any marketing arrangement.

Without buyers and sales agreements in place prior to the Final Investment Decision (FID), the project is not viable and will not get the financing needed for construction. Additionally, if sales agreements are not negotiated in the state's interest, anticipated revenues may not be realized or the state may be at risk for not having enough money to pay parties who help finance construction costs.