

SEMI-MONTHLY REPORT

March 15, 2017

AGDC Semi-Monthly Report

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Contents

1. Message from AGDC	2
2. Commercial	2
2.1 Commercial Agreements	2
2.2 In-State Gas	3
2.3 Cooperation	3
2.4 Federal Support.....	3
2.5 Project Marketing	4
2.6 Financing	4
3. Regulatory and Program Management	5
3.1 Alaska LNG	5
3.2 Alaska Stand Alone Pipeline (ASAP) Project.....	6
4. Communications, Administrative, and Other	6
4.1 Communications	6
4.2 Administrative.....	6
Appendices.....	9
5.1 Commercial AFE	10
5.2 Regulatory and Program Management AFE	16
5.3 Communications AFE	24

1. Message from AGDC

The following is the second in a series of semi-monthly reports from AGDC to legislators designed to help improve transparency of the corporation's business activities as we develop the Alaska gasline and LNG project. For your convenience, beginning with the next report on March 31, 2017, current and past semi-monthly reports will be available for review online via SharePoint.

2. Commercial

The Alaska LNG Summit, where the AGDC commercial department met with potential buyers and investors, was a primary focus in early March. Concurrently, progress continues to move forward in the areas of commercial agreements, in-state gas issues, cooperation with producer partners, federal support, and project financing.

2.1 Commercial Agreements

- Several high-level commercial meetings were held privately with prospective LNG customers and investors during the Alaska LNG Summit in Girdwood, AK from March 1-6, 2017. Discussions centered on the prospective customers' anticipated timelines for committing to purchase Alaska LNG. Due to traditionally long periods of negotiations prior to long-term contract commitments, continued engagement with potential customers is critical to the project. Japanese buyers and investors in particular conveyed their confidence in Alaska as a reliable long-term partner based on their experience receiving LNG shipments from the State to Japan for more than 40 years.
- AGDC continues to prepare for a capacity marketing process with draft letters of intent and tolling term sheets developed in-house with support from outside counsel. The letters of intent will outline agreements between AGDC as the infrastructure owner and customers before the agreements are finalized. The tolling term sheets are intended to identify certain, but not all of the, contractual terms that would be embodied in a definitive tolling agreement.
- Confidentiality agreements (CAs) were sent to 13 prospective customers. Completed CAs will enable AGDC to engage signatories in in-depth discussions, ultimately leading to initial contract negotiations.
- AGDC had several initial meetings with large, worldwide LNG trading companies and utilities in Houston.
- AGDC continues its negotiations with the Alaska LNG LLC JV partners to gain access to the land through a purchase, lease, or other arrangement.
- AGDC met with Alaska Department of Law (Law) to discuss the approvals process for changes to several key legal principles contained within commercial agreements. Law has communicated that the decisions and guidance for agreements are currently in progress.

- AGDC and Alaska Department of Natural Resources (DNR) are discussing a MOU that will enable the sale of royalty natural gas. If DNR chooses to take Royalty-in-Kind (RIK), then AGDC has the opportunity to sell that natural gas.
- Regular meetings between AGDC and DNR continue in order to coordinate LNG marketing activities and upstream development issues.
- Dr. John Tichotsky joined AGDC as an economic advisor and will focus on the various financial aspects of the Alaska LNG project, including: economic systems; competition in the global LNG marketplace; federal concessionary financing; and working with institutional investors, sovereign wealth funds, and other financiers. Previously, Dr. Tichotsky served under both the Parnell and Walker administrations from 2012 through 2016; first with DNR as chief economist and then as economic advisor to the State of Alaska Office of the Governor.

2.2 In-State Gas

- Work continues on crafting responses to Alaska LNG project Federal Energy Regulatory Commission (FERC) comments on in-state gas issues.
- Enstar Natural Gas Company submitted their final report for new offtake cost estimates and in-state gas delivery options. The purpose of this report is to reduce offtake capital cost estimates by evaluating the economics of different offtake options. The report was accepted by AGDC and entered into the content management system.
- AGDC continue to engage the Alaska Energy Authority (AEA) to discuss updating the Alaska Affordable Energy Strategy (AkaES) to include Railbelt communities with natural gas alternatives. AkaES was developed with the assistance of Geographic Information Network of Alaska (GINA) to use the best available energy resource, power generation, and cost data.

2.3 Cooperation

- As a result of the agreement that BP entered into with AGDC earlier this year, BP and AGDC have commenced working together in the areas of regulatory, finance, and commercial structure as they relate to the Alaska LNG project.

2.4 Federal Support

- AGDC prepared a letter and detailed informational packet for Alaska Governor Bill Walker to present to United States President Donald Trump. Governor Walker requested that President Trump help support the Alaska LNG project through various means including streamlined federal approval and a potential loan guarantee.
- In coordination with other State of Alaska agencies, including Law, Department of Revenue (DOR), and DNR, as well as Alaska's congressional delegation, AGDC is seeking

broader recognition and support of the Alaska LNG project from the federal government including greater State control of permitting and project oversight.

2.5 Project Marketing



Summit delegates experience Prudhoe Bay

- The Alaska LNG Summit was held in Girdwood, AK from March 1-6, 2017. Twenty-three visiting delegates representing 14 companies traveled to Alaska to attend the event. During their stay, international guests toured Prudhoe Bay facilities, visited ConocoPhillips' Kenai LNG Plant in Nikiski, and attended a full day of presentations from Alaska's major producers, government representatives, ANCSA regional corporations, and labor representatives. Private meetings were also conducted with individual companies to address specific questions related to the overall project and commercial structure.
- The most significant impact on the visiting delegates, however, was the palpable and widespread local support for the Alaska LNG project. This support was demonstrated by communities on the Kenai Peninsula, all three producers, the governor's office, ANCSA regional corporations, industry, and unions. Many guests made positive comments about this all-encompassing support.
- The cost of the Alaska LNG Summit was essentially covered through the generous support of sponsors and delegate registrations fees; of the total \$264,883 event cost, sponsors contributed \$243,200, registration covered \$13,365, and AGDC paid \$8,318.

2.6 Financing

- AGDC has interviewed several globally recognized financial institutions to serve as a financial advisor. The successful candidate will assist in acquiring, managing, structuring, and arranging financing for the Alaska LNG project.

- A detailed non-confidential investor prospectus to demonstrate the competitiveness of the project to potential major investors, lenders, and the Legislature is currently being developed. The investment prospectus will demonstrate the following:
 - Lower return third-party project financing will allow the project to provide an acceptable return on investment to long-term lenders and infrastructure investment funds.
 - Upstream gas producers will earn an acceptable netback.
 - The State of Alaska will earn an acceptable return on equity for its investment.
 - The potential after debt retirement to provide a multi-billion dollar annual cash flow to the State of Alaska (assuming the State is the majority owner).

3. Regulatory and Program Management

The primary task for the AGDC regulatory department over the first two weeks of March continued to be addressing the nearly 3,000 comments made by the 13 federal, state, and local agencies that reviewed the second drafts of the Alaska LNG resource reports. AGDC's current plan is to submit the FERC filing well before the end of first-half 2017. Meetings are planned with FERC the week of March 20th to discuss the schedule.

3.1 Alaska LNG

- FERC received 457 comments, editorial, and questions from Alaska state agencies including Alaska's Department of Natural Resources (DNR), Department of Transportation & Public Facilities (DOT&PF), Department of Fish & Game (ADF&G), Department of Environmental Conservation (DEC), and Department of Health & Social Services (DHSS) regarding the second draft of the Alaska LNG resource reports. AGDC has been reviewing these comments and will work to address them directly with the State agencies during the State permitting process that is outside of the official FERC National Environmental Policy Act (NEPA) review process. AGDC will continue to collaborate with the agencies to address concerns.
- Alaska's Department of Fish and Game (DF&G) and the Department of Health and Social Services (DHSS) are providing technical expertise to AGDC via Reimbursable Service Agreements (RSAs). DF&G is finalizing a report on subsistence issues that was initiated by Alaska LNG LLC and DHSS is finalizing a health impact analysis. Both of these reports will be included in the FERC filing.
- AGDC is currently drafting permit applications with the Pipeline and Hazardous Materials Safety Administration (PHMSA).
- AGDC is following up with potential engineering, procurement and construction (EPC) contractors about the "lead contractor" role in advancing through FERC regulatory filing into the engineering, procurement, and construction phases of the project.

- AGDC has received final geodatabase information from the Alaska LNG project. This provides a tremendous amount of geotechnical and geological data along the proposed gasline route not previously available to AGDC.
- Alaska-LNG.com is now live. This new project website is intended to be a resource for the public and regulators to learn more about the Alaska LNG project. The website offers information on the project, regulatory process, procurement, how to get involved, and presentations. Additionally, the website features an extremely detailed interactive map of the proposed gasline route.
- The international law firm Greenberg Traurig (GT) is under contract with AGDC and is drafting the FERC Section 3 application.

3.2 Alaska Stand Alone Pipeline (ASAP) Project

- AGDC is responding to 350 comments from the Army Corps of Engineers and other regulatory agencies on the draft Supplemental Environmental Impact Statement (SEIS) chapters covering air quality, permafrost, and cultural resources.
- AGDC continues to develop a cultural resources management plan.

4. Communications, Administrative, and Other

Community outreach was the primary focus of AGDC’s communications department in early March.

4.1 Communications

- AGDC continued to work on regional outreach via community advisors in Fairbanks, Juneau, Kenai, and the Mat-Su Valley.
- AGDC presented updates on the Alaska LNG project at the Tanana Chiefs Conference Yukon-Tanana Subregional Meeting on March 10, 2017 in Fairbanks, AK and at the World Trade Center Anchorage Japan Business Outlook on March 14, 2017.
- Senate and House Resource committee confirmation hearings for the AGDC board members Warren Christian, Hugh Short, and David Wight are scheduled for March 27, 2017 in Juneau, AK.

4.2 Administrative

- Authorization for Expenditures (AFEs) in support of AGDC’s strategic plan for CY17 and FY18 were approved by the AGDC Board of Directors February 9, 2017. AGDC has three primary strategic plan elements: Commercial; Regulatory; and Communications. These AFEs are included at end of this report in appendices sections 5.1-5.3.
- Administrative, accounting, and legal staff continue to update existing Task Orders (TOs) and Reimbursable Service Agreement (RSAs) to align with the new AFEs.

- Note on TO(s): all contracted work requires three primary components, a master service agreement outlining basic contractual requirements (e.g., insurance minimums), a contract, and finally TO(s). It is possible to have multiple TOs within a single contract. Throughout the life of a contract, accounting staff track all costs and payments to specific TOs. Because most TOs expire on June 30 it is imperative to have new TOs in place on July 1 in order for contractors to continue their work.
- Note on RSA(s): RSAs function as contracts between State of Alaska agencies. They outline contractual parameters such as scope of work, rates, and timeframes. RSAs are not finalized until the passage of the state budget.
- A graphical depiction of the forecasted AFE expenditures from FY17 3Q through FY18 4Q is below.



AGDC Semi-Monthly Report to Legislators – March 15, 2017

A monthly variance report, produced for senior staff and board members after the January financial close, is below.

Operating Expenditures by Account	FY17	FY17	FY17	YTD	
(\$000s)	Budget	FY-YTD Actuals	FY Budget Remaining	FY-YTD Target	(Under)/Over Target
Personal Services	\$ 5,716	\$ 2,902	\$ 2,814	\$ 3,334	\$ (432)
Travel	\$ 295	\$ 96	\$ 199	\$ 172	\$ (76)
Services	\$ 4,125	\$ 1,885	\$ 2,240	\$ 2,406	\$ (521)
Commodities	\$ 250	\$ 125	\$ 125	\$ 146	\$ (21)
Depreciation		\$ 120		\$ -	\$ 120
Operating Total	\$10,386	\$ 5,129	\$ 5,257	\$ 6,059	\$ (930)

Operating Expenditures by Dept.	FY17	FY17	FY17	YTD	
(\$000s)	Budget	FY-YTD Actuals	FY Budget Remaining	FY-YTD Target	(Under)/Over Target
Executive	\$ 2,302	\$ 1,228	\$ 1,074	\$ 1,343	\$ (115)
Commercial	\$ 666	\$ 288	\$ 378	\$ 389	\$ (101)
External Affairs	\$ 1,583	\$ 909	\$ 674	\$ 923	\$ (15)
Legal	\$ 445	\$ 95	\$ 350	\$ 260	\$ (164)
Finance	\$ 1,005	\$ 511	\$ 494	\$ 586	\$ (75)
Admin Services	\$ 2,980	\$ 1,409	\$ 1,571	\$ 1,738	\$ (329)
IT Data Mgmt.	\$ 1,405	\$ 690	\$ 715	\$ 820	\$ (130)
Operating Total	\$10,386	\$ 5,129	\$ 5,257	\$ 6,059	\$ (930)

Notes: FY - Fiscal Year
YTD - Year to Date

Capital Expenditures	FY17	AFE Spend		
(\$000s)	July - Dec Actuals	AFE ITD Actuals	AFE ITD Budget	AFE ITD Variance
Regulatory	\$ 15,624	\$ 1,611	\$ 2,187	\$ (576)
Commercial	\$ 2,700	\$ 333	\$ 608	\$ (275)
Communications	\$ 94	\$ 63	\$ 122	\$ (59)
Capital Total	\$ 18,418	\$ 2,007	\$ 2,917	\$ (910)

Notes: ITD - Inception to Date
AFE - Authorization for Expenditures

Expenditures by Fund (Capital and Operating)	FY17	Calendar Year 2017		
(\$000s)	July - Dec Actuals	January Actuals	January Budget	YTD Variance
AKLNG (1235) Capital	\$ 16,806	\$ 1,820	\$ 2,422	\$ (602)
40% of Operating	\$ 1,716	\$ 335	\$ 346	\$ (11)
AKLNG (1235) Total	\$ 18,522	\$ 2,156	\$ 2,768	\$ (612)
ISG (1229) Capital	\$ 1,611	\$ 187	\$ 495	\$ (308)
60% of Operating	\$ 2,574	\$ 503	\$ 519	\$ (16)
Total ISG (1229)	\$ 4,185	\$ 690	\$ 1,014	\$ (324)
AGDC Total	\$ 22,708	\$ 2,846	\$ 3,782	\$ (936)

Appendices

5.1 Commercial AFE

Alaska Gas Line Development Corporation
Project Name: Alaska LNG Project – Commercial and Finance Development
AUTHORIZATION FOR EXPENDITURE

<input checked="" type="checkbox"/>	CAPITAL	EXPENSE
TITLE:	Alaska LNG Project – FY2017 / FY2018 Commercial and Finance Development	AFE # 17-001
Start Date:	January 1, 2017	Original Authorization: NA
Completion Date:	June 30, 2018	Rev
Responsible Manager:	Lieza Wilcox	TOTAL \$30,635

Budgeted – Yes/No	Yes					
	Q3	Q4	Q1	Q2	Q3	Q4
	FY17	FY17	FY18	FY18	FY18	FY18
EXPENDITURE FLOW (\$000s):	\$2,607	\$3,969	\$5,798	\$5,760	\$4,816	\$4,900

SUMMARY OF ESTIMATED COSTS	
Items/Description	
(1) Commercial Contract Services (incl. Legal)	\$ 20,554
(a) LNG Bundled Offering	
(b) Capacity Reservation Solicitation	
(c) LNG Export Marketing	
(d) Marketing JV	
(e) Gas Supply Agreements	
(g) Complete AKLNG Transition	
(h) Support Business Structure & Plan	
(2) Financial Activities (incl. Legal)	\$ 6,577
(a) Equity Investor Engagement	
(b) Engagement of Financial Advisor/Bank	
(3) Support FERC Regulatory	\$ 318
(4) Houston/Tokyo Office	\$ 400
Subtotal	\$ 27,850
Contingency (10%)	\$ 2,785
TOTAL	\$ 30,635

JUSTIFICATION:

(1) Scope of Work

This authorization for expenditure will enable AGDC to execute the commercial, finance, and legal work to achieve conditional commercial agreements necessary to progress the Alaska LNG project to the next stage of development by the end of 2017. The activities of the Commercial and Finance staff and contractors will be divided into the following focus areas:

1. Project marketing, including Marketing JV activities
2. Engagement of Financial Advisor/Bank
3. Equity Investor Engagement
4. Project capacity solicitation
5. Gas supply agreements
6. Completion of Alaska LNG transition agreements
7. Support of regulatory application process

The key delivery milestones of the Commercial organization in 2017 are listed below. Some of the milestones that involve a negotiated outcome are listed as internal targets.

Commercial – Potential LNG and system customers actively engaged.

- Secure sufficient conditional tolling and/or wellhead and offtake commitments to enable a FEED finance plan to be completed and executed starting in early FY2018 (3Q2017 target). To that end:
 - Complete land access and option agreements (1-2Q FY2018)
 - Implement market intelligence strategy through the deployment of expert contracting staff under AGDC’s project marketing plan (FY2017, ongoing)
 - Conduct an Alaska project capacity solicitation (4Q FY2017)
 - Open Houston and Tokyo satellite offices (3Q FY2017)
 - Legal support will be required for all commercial drafting and negotiation activities. It will be procured through RSAs with Department of Law.
- Support FERC application efforts by managing the updates to Resource Report 5 and providing commercial review of application materials (complete 4Q FY2017)

Financial

- Secure financial advisor (3Q FY2017)
- Complete initial review of AGDC’s term sheet and contract drafts (4Q FY2017)
- Commence investor presentations (1Q FY2018)
- Complete project financing plan (2Q FY2018)
- Specialized legal support is required for drafting and review of agreements as they reflect of project finance-ability. It will be procured through RSAs with Department of Law.

BP Cooperation Agreement

AGDC and BP have concluded a Cooperation Agreement to advance Commercial, Finance, and Regulatory activities of the project, under which BP will contribute to the scope of work that relates to defining, refining, and vetting the commercial structure of the project to ensure its ultimate finance-ability. BP will provide expertise, as well as share in certain third-party costs, such as the engagement of a financial advisor. Since the exact cost sharing mechanism and its division amongst the three focus areas of the agreement has not been finalized, BP’s potential contribution to this AFE is not shown. However, any contributions will be reported as a cost offset in AGDC’s future reports to the Board.

(2) Review Process

The set of activities described above follows standard practices for project financed LNG ventures in similar stages of development. The individual components of the plan were developed by AGDC’s

subject matter experts and vetted through project development experience of AGDC’s management, as well as Board engagement.

(3) Options Considered

Other options for AGDC to undertake the next phase of commercial and finance development include:

1) No action outside of regulatory activities.

This option is not advised due to the necessity of having a venture structure determined prior to submitting a project application to FERC.

2) Narrow activity focused on commercial structuring and financial planning envisioned in the BP/AGDC Cooperation Agreement.

The agreement serves as a useful supplement and foundation to AGDC’s commercial activity, however it does not address the necessary work AGDC as a State of Alaska corporation needs to undertake to develop contractual relationships within the LNG market. It is a distinct possibility the AGDC will be in the position of bringing tolling customers and LNG or wellhead gas buyers to the project in order to accommodate the desires of some upstream producers not to market their own gas beyond the wellhead. In order to enable this function, AGDC needs to begin the process of engagement with the market outside of Alaska. Same business drivers exist for securing future investment in and financing of the project.

(4) Spend Comparison to Overall Legislative Sanction and Current Year Fiscal Budget

The total previous combination of budgeted commercial contracting costs and legal RSAs in the FY2017 budget in both capital and operating budgets was \$4.4 million. As Alaska LNG project entered a new phase of development in the middle of FY2017 where AGDC is in the position of structuring the project and bringing both customers and investors into the next phase, a considerable increase in commercial and finance related activity is necessary. This investment is expected to provide the contractual foundation for future commitments of development capital from outside investors or the State of Alaska, as well as ultimate project equity and debt financing.

(5) Risks of Delivery and Mitigations

The primary risks associated with delivering commercial and financial milestones are:

1) Negotiations.

Since commercial activities inevitably involve the conclusion of multiple successful negotiations, the ability of AGDC’s team to conclude conditional project commitment agreements under favorable terms is a key success factor. AGDC’s management is planning to mitigate this risk by engaging highly experienced commercial and finance professionals with a track record of successful project deliveries, and setting specific and focused goals for completing agreements.

2) Reputational.

AGDC is entering the territory of project marketing and international communications, and has the responsibility of maintaining and improving not just the reputation of the corporation itself, but in many cases impacting the reputation of the State of Alaska abroad, and the reputation of Alaska LNG as a project. Creating momentum for the project in the market is key to its ultimate success. This effort will be a challenging task given prevalent negative interpretations of project restructuring efforts in the media. This is a tremendous responsibility, and will be handled with the utmost care through the rigorous application of business and government ethics, policies, and practices, and close coordination with the administration of the State of Alaska in any matters involving foreign governments.

3) Cost Overrun

The number of entities that AGDC will be engaged with over the course of the six quarters addressed by this AFE is as yet unknown. Given the relatively high unit cost of engaging experienced commercial and legal staff in this effort and the pace that is not always controlled by the project entity, the cost estimate has the potential for a material underrun, as well as overrun. However, the activities under this AFE will be closely monitored on a monthly basis by AGDC Management, who will put every effort in making midcourse adjustments to the manner in which they are conducted. Cost saving measures will be applied throughout the process, such as using the least expensive contractors that are well qualified to perform each task, utilizing teleconference and videoconference technology in lieu of travel, and controlling the pace of activity to eliminate periods of unproductive spending.

(6) Cost Phasing

The proposed quarterly phasing of the costs is shown on page 1 of this document.

(7) Resources

The following contractors will be utilized in the delivery of the scope of work (the list is not exclusive, and may be modified as the activities progress):

- Apex LNG Consulting, LLC
- Diamond Energy Consulting Co. Ltd
- Global NatGas Advisors, LLC
- Globalink Group, LLC
- Hawk Consultants, LLC
- SG Project Holdco, LLC
- Steve Pratt Enterprises
- State of Alaska - Department of Law (RSA)
- State of Alaska - Department of Natural Resources (RSA)
- State of Alaska - Department of Revenue (RSA)

AGDC RECOMMENDATION/APPROVAL	
Originator:	
Title:	Date:
Financial Authority:	
Title:	Date:
BOD Approval:	
Title:	Date:

5.2 Regulatory and Program Management AFE

**Alaska Gas Line Development Corporation
Project Name: Program Management Department
AUTHORIZATION FOR EXPENDITURE
(\$000s)**

<input checked="" type="checkbox"/>	CAPITAL	EXPENSE	
TITLE:	FY17 and FY18 Regulatory and Program Management Work Programs	AFE #	17-002
Start Date:	January 1, 2017	Original Authorization:	\$53,552
Completion Date:	June 30, 2018	Rev #	0
Responsible Manager:	Frank Richards	TOTAL	\$53,552

Budgeted – Yes/No	Yes					
	Q3	Q4	Q1	Q2	Q3	Q4
	FY17	FY17	FY18	FY18	FY18	FY18
EXPENDITURE FLOW (\$000s):	\$8,975	\$11,490	\$7,955	\$7,063	\$6,700	\$6,500

SUMMARY OF ESTIMATED COSTS (\$000s)		
Items/Description	FY17	FY18
(1) Core Embedded Technical Team	\$ 3,703	\$ 6,382
(2) FERC Filing	\$ 11,480	\$ 13,520
(3) Lead Contractor	\$ 2,470	\$ 6,360
(4) SEIS	\$ 978	\$ 1,115
(5) AKLNG Physical Asset Management	\$ 84	\$ 109
(6) In-State Gas Delivery	\$ 346	\$ 732
(7) Alaska LNG Cash Calls	\$ 1,405	\$ -
Subtotal	\$ 20,465	\$ 28,218
Contingency (10%)	\$ 2,047	\$ 2,822
TOTAL	\$ 22,512	\$ 31,040

Justification:

The Alaska Liquefied Natural Gas (AKLNG) Project is the State’s priority project for commercialization of Alaska’s North Slope natural gas resources. With the conclusion of the Pre-Front End Engineering and Design (Pre-FEED) and the Joint Venture Agreement (Pre-FEED JVA) at the end of 2016, AGDC is now the lead project proponent and will advance work efforts for a Federal Energy Regulatory Commission (FERC) Section 3 application and additional project definition. AGDC is now advancing the Alaska LNG Project following transition from the former AKLNG Project Management Team (PMT) led by ExxonMobil to an integrated PMT led by AGDC.

AGDC also continues to advance the Alaska Stand Alone Pipeline (ASAP) Project through National Environmental Protection Act (NEPA) process with a Supplemental Environmental Impact Statement (SEIS) that will be complete by the end of 2017. The culmination of this effort will result in a Record of Decision that will grant AGDC a right-of-way across federal lands that will be available for use for either the ASAP or AKLNG project. Additionally, AGDC is continuing work to better develop in-state gas opportunities and needs.

The following regulatory and technical work programs will advance AGDC towards an economic, financeable, and well executed project for the State of Alaska.

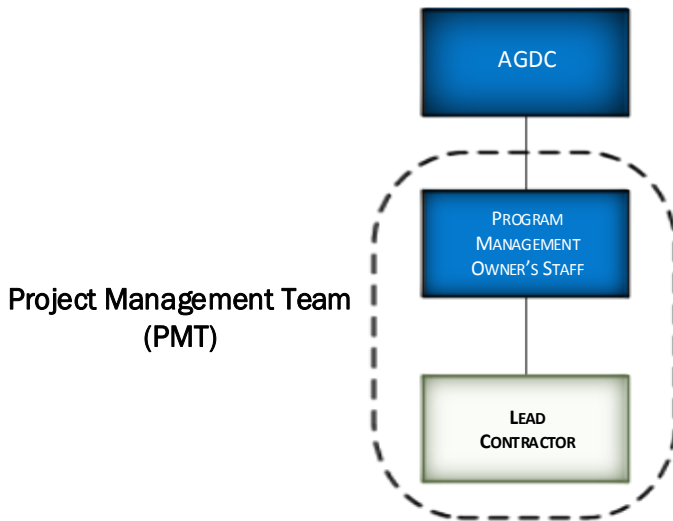
(1) Scope of Work

1.1 - Core Embedded Technical Team

The Core Embedded Technical Team scope of work is to maintain an internal staff of owner personnel and contractors with project management and technical subject matter expert (SME) expertise. The AGDC technical team within the Program Management Department oversees all project work activities and provides the owner’s management of the AKLNG Project, the ASAP Project, and other program management activities such as the In-State Gas program.

To support the priority FERC application submittal and response work through 2017, this plan requires ramp up with additional PMT personnel starting immediately to implement the required support work for the FERC application in fiscal year 2017. The AGDC PMT will consist of key owner personnel, representatives from a Lead Contractor, as well as subject matter expert support from key AKLNG contractors under subcontract to the Lead Contractor. The AGDC PMT will support FERC responses with PMT owner personnel from the core embedded technical team and representatives from a Lead Contractor supported by AKLNG subcontractors.

The following is an organizational chart for the AGDC PMT using owner’s staff and a Lead Contractor:



As owner, AGDC must recruit highly qualified individuals (contractors) to augment the existing AGDC PMT, complete the Section 3 FERC application, and to support FERC responses. These individuals will require experience in managing megaprojects, as well as familiarity with Alaskan and arctic oil and gas projects and the elements of the AKLNG Project. They will also coordinate with other non-project functions (commercial, financing, marketing, etc.)

1.2 –FERC Filing

The FERC Filing scope of work is focused on submittal of a Section 3 FERC application for the AKLNG Project since it is considered critical path and is the highest priority. The AGDC PMT will use source files for FERC Resource Reports (currently in final draft) and address concerns raised by federal and state regulators in order to finalize the reports, and will compile the final FERC application for submittal as soon as June 2017.

FERC application filing and associated activities will be the responsibility of the ERL Manager/FERC Lead in the AGDC PMT. ERL Manager/FERC Lead will be supported by owner’s staff, an interim regulatory contractor directly contracted to AGDC, and contract legal support with specific expertise in FERC requirements and process. Upon completion of the FERC application submittal, the Lead Contractor will

assume contracting of regulatory contractor resources as the AGDC PMT's consolidated contracting entity.

Throughout the FERC filing process, it will be necessary to respond to questions and technical requests from FERC and cooperating agencies as the application is reviewed. Responding will be a major work activity for the AGDC PMT through this period and will require the support of the entire AGDC PMT organization.

AGDC must also obtain sufficient rights to the lands at the LNG site for FERC to determine the application is acceptable.

1.3 – Lead Contractor

The Lead Contractor scope of work is to secure a contractor that will provide program management systems and resources to manage the FERC filing work effort and augment the PMT to prepare for future FEED/Engineering, Procurement, & Construction (EPC) and Execute phases of the project. Ideally, the Lead Contractor would have resources and wherewithal to “wrap” the full scope of the AKLNG Project. Only the major program management companies with the background in the areas critical to success of the AKLNG Project will be considered for selection. The Senior Vice President Program Management (SVP) is responsible for development and execution of this solicitation process. Key initial screening criteria include: Major program management experience including mega projects; pipeline engineering experience; pipeline construction planning and execution experience; gas processing, facilities and module design engineering and construction experience; LNG facility design and construction experience; environmental and regulatory for mega projects experience; and Arctic project experience.

Due to the magnitude of the project, the Lead Contractor will be required to supply staff that has extensive megaproject experience with gas treatment plants, cross-country pipelines, and LNG plants with associated labor, logistics, and fabrication management experience. Ideally, these personnel would also have Arctic engineering and planning experience. The Lead Contractor will serve as a consolidated contracting entity for the PMT. With the exception on an interim contract with a regulatory contractor to support the critical Section 3 FERC application deliverable, the Lead Contractor will contract with existing AKLNG Pre-FEED contractors for subproject technical support including LNG/Marine, Pipeline, and the Gas Treatment Plant.

The Lead Contractor will be responsible for developing the future scope of work that includes AKLNG Project activities following Final Investment Decision 1 (FID-1). These major project work activities would include FEED engineering readiness activities, FEED engineering/EPC design-build phase, long-lead materials and equipment procurement, and preparation for construction contracting.

1.4 –SEIS

The SEIS scope of work includes completing the major permitting of the ASAP Project. The Draft SEIS is currently in progress and is anticipated to be released in 2017. Once released for public comment, a specific regulatory timetable will be engaged by the U.S. Army Corps of Engineers to finalize the overall ASAP Final SEIS in late 2017 and publish a Record of Decision (ROD) in early 2018. The result will be the

grant of a federal right-of-way for the project alignment at which time the project is ready to proceed to construction upon a FID, or the right-of-way is transferred to another project.

This portion of the AFE will provide funding the 3rd party EIS contractor required by regulatory agencies, as well as funding for other Alaska agencies to support the permitting effort through Reimbursable Service Agreements (RSAs).

1.5 - AKLNG Physical Asset Management

The AKLNG Physical Asset Management scope of work includes costs associated with AGDC assuming certain physical assets previously held by the Pre-FEED JVA Lead Party. This portion of the AFE will provide funding for operating and maintaining the Nikiski meteorological tower, operating and maintaining the Deadhorse meteorological tower, geotechnical soil sample storage, operating and maintaining the Nikiski seismograph, and operating and maintaining the Nikiski groundwater monitoring wells.

1.6 - In-State Gas Delivery

The In-State Gas Delivery scope of work is the meet AGDC's in-state gas mission through a structured program that is project agnostic. AGDC has the responsibility to develop natural gas pipelines and other transportation mechanisms to transport and deliver gas to public utility and industrial customers in areas of the state to which the natural gas may be delivered at commercially reasonable rates. Upon commencement of construction of an in-state natural gas pipeline, the corporation also has the responsibility to analyze potential natural gas pipelines and other transportation mechanisms connecting to industrial, residential, or utility customers in other regions of the state potentially finance, construct, or operate the natural gas pipeline or other transportation mechanism as necessary.

AGDC's has prioritized in-state gas activities that focus on interconnection and off-take to utilities and other users who would potentially have direct access to gas from a North Slope pipeline. The strategy included developing and maintaining an in-state gas-aggregator and project management function through a wholly-owned AGDC subsidiary.

This portion of the AFE will provide funding for AGDC to maintain an accounting of in-state gas demand and forecast of future demand in order to assist project development efforts, identify interconnections with existing in-state gas utilities upon startup of the AKLNG pipeline, including access points at the Fairbanks Lateral, West Cook Inlet, and East Cook Inlet, and assist potential in-state users with evaluations of opportunities to reach commercially reasonable rates with information on the economics associated with offtake facilities, transmission, local distribution systems, and conversion rates.

Funding will also allow AGDC to pursue development of in-state gas markets where pipeline and transportation projects outside of the Railbelt that have been previously projected to occur, following commitment of construction of a North Slope pipeline, can be accelerated in advance of construction. An examples of these in-state market opportunities includes providing LNG to in-state users that do not currently have access to gas.

AGDC will also continue working collaboratively with the Alaska Energy Authority (AEA), the Alaska Industrial Development and Economic Authority (AIDEA), the Alaska Legislature, and other government entities as necessary to pursue realistic options for gas offtakes and gas delivery to Alaskans. The purpose of the AGDC subsidiary will be to aggregate commercial gas contracts for in-state users, identify offtake options, and develop an implementation plan for in-state offtake customers.

1.7 – Alaska LNG Cash Calls

The Alaska LNG Calls scope of work is to provide the funding obligated under the wind-down portion of the AKLNG transition agreements. This transitional funding will be requested by the former Pre-FEED JVA Lead Party to recover reasonable costs associated with the wind-down of the Pre-FEED activities in accordance with Article 3.4 of the Pre-FEED JVA.

(2) Review Process

The work scope detailed in this AFE has been developed internally within AGDC and reviewed and approved by the Senior Vice President – Program Management and the AGDC President.

(3) Options Considered

The AKLNG Project is the State's priority project and the ASAP Project represents the State's back-up project option. AGDC has evaluated several work scope options as AGDC assumed the leadership of the AKLNG Project. Three distinct options were considered to support AGDC's efforts to identify project structure that will result in the lowest cost of service for the AKLNG Project. These include:

- FEED engineering; Completion of the full FEED stage engineering and Class 3 cost estimate.
- FEED Readiness; Completion of targeted FEED-level optimization engineering efforts and a one-year field program.
- FERC Submittal; Compiling and submitting a FERC Section 3 Natural Gas Act (NGA) application and responding to agency questions and requests.

The FERC Submittal scope of work was selected by AGDC management since FERC approval of the project is critical path overall, and the work can take place as alternative commercial structures are explored to make the project as attractive as possible to the market.

(4) Spend Comparison to Overall Legislative Sanction and Current Year Fiscal Budget

The costs associated with this AFE support the stage gate decision whether to proceed to FEED/EPC at the time of FID-1. The requested funds are in-line with the 2017 and 2018 fiscal year budgets and are in-line with the legislative allocation. There are sufficient funds within AGDC's AKLNG Fund and In-State Gas Fund for this expenditure.

(5) Risks of Delivery or Non-Delivery

The following major project risks have been identified as part of this plan:

- Megaproject failure due to the following:
 - Major cost overruns
 - Major schedule delays
 - Major operational problems
 - Regulatory delays
- Alaska projects are more expensive and have higher execution risk than U.S. Gulf Coast equivalents because of difficult logistics and remoteness from needed services. These issues can amplify impacts of cost overruns and schedule delays.
- Value of the LNG market compared to the project cost.
- Alignment of major contracts to protect owner interests but viable for the contractor.
- Slippage in schedule due to lack of commercial contracts and funding or authorization of expenditure.
- Since the project designed in the Pre-FEED phase may not meet the needs of the market, design premise may change, with associated engineering requirements and delay.
- Alaska Legislature care-appropriate AGDC's funds to apply to other State priorities or can re-define AGDC's abilities through new legislation.

(6) Cost Phasing

This cash flow associated with this AFE is based on activity budgeting over the remaining Fiscal Year 2017 and full Fiscal Year 2018 budget. There are no phasing issues associated with the AKLNG transition other than the rapid increase in activity leading up to the FERC Section 3 submittal in 2017. In the absence of authorization for expenditure, AGDC will not be able to complete the FERC submittal, complete the ASAP major permitting, or complete In-State Gas work.

(7) Resources

Required resources will be provided by existing AGDC PMT staff and contractors, AKLNG Pre-FEED contractors on an interim basis, a Lead Contractor on a long-term basis, and selected technical subcontractors with subject matter expertise. The AGDC PMT Senior Project Manager and PMT staff will provide owner's representation and technical oversight of the work scope.

(8) Cost Contingencies

The budget for the scope of work has been built-up and spread on a monthly basis with no contingency included. A 10% cost contingency has been added to this AFE per previous direction from the Board of Directors. Contingency funds will be retained by AGDC for potential increases to task orders as a result of unknown requirements.

(9) Risks of Delivery and Mitigation

AGDC will mitigate risks of deliverability by managing AGDC work efforts through a fully-staffed owner’s PMT. The AGDC PMT will provide overall technical and regulatory leadership and governance for the Section 3 FERC application submittal efforts. The AGDC PMT will be supported by leveraging the services of a Lead Contractor that will be capable of scaling project support up through the FEED/EPC stage. The risk of delivery will be mitigated by authorizing expenditure and expeditiously entering into appropriate key contractual relationships.

AGDC RECOMMENDATION/APPROVAL	
Originator:	
Title:	Date:
Financial Authority:	
Title:	Date:
BOD Approval:	
Title:	Date:

5.3 Communications AFE

**Alaska Gas Line Development Corporation
Project Name: Communications Department
AUTHORIZATION FOR EXPENDITURE
(\$000s)**

X	CAPITAL	EXPENSE
TITLE:	<u>FY17 and FY18 Communications</u>	AFE # <u>17-003</u>
Start Date:	<u>January 1, 2017</u>	Original Authorization: <u>\$2,220</u>
Completion Date:	<u>June 30, 2018</u>	Rev # <u>0</u>
Responsible Manager:	<u>Rosetta Alcantra</u>	TOTAL <u>\$2,220</u>

Budgeted – Yes/No	Yes					
	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURE FLOW (\$000s):	FY17	FY17	FY18	FY18	FY18	FY18
	\$ 368	\$ 388	\$ 332	\$ 365	\$ 295	\$ 270

SUMMARY OF ESTIMATED COSTS	
Items/Description (\$000s)	
(1) Collateral	\$ 341
(2) Outreach	\$ 228
(3) Tradeshows and Conferences	\$ 691
(4) Message consistency and transparency	\$ 758
Subtotal	\$ 2,018
Contingency (10%)	\$ 202
TOTAL	\$ 2,220

(1) Scope of Work

This authorization for expenditure will enable AGDC to further develop its corporate brand, adhere to governance, and execute the communications and project awareness plan necessary to progress the Alaska LNG project to the next stage of development by the end of 2017. The key activities and milestones of the Communications department for the remainder of 2017 and Fiscal Year 2018 are listed below.

- Develop corporate and project related collateral.
- Conduct international, statewide and domestic outreach.
- Participate in industry tradeshows and conferences.
- Provide consistency and transparency in communications with legislature, public and potential business partners/interests.

(A) Corporate and Project related collateral

With enhanced efforts to engage the commercial and financial arenas, the communications team will work closely with the Alaska based commercial team and the satellite offices in Houston, Texas and Toyko, Japan. Collateral items include, but are not limited to: Corporate annual report, corporate website enhancements, project website, brochures, project summary material, paid advertisements, tradeshow materials and video presentations. Additional support items for collateral development include photography and marketing management.

(B) International, statewide and domestic outreach

The communications team has enlisted the assistance of statewide community coordinators to develop region specific outreach. The outreach includes engagement with local organizations such as chambers of commerce, local and tribal government, coordination with village and regional corporations to develop awareness of AGDC as a corporate entity and sponsor of project initiatives. The coordinators will assist in facilitating communication with various groups and organizations who express interest in learning more about AGDC.

International and domestic outreach will be supported by the communications team and the commercial team for outreach and tradeshow opportunities. The outreach could entail, conference participation, tradeshows, print advertisement, and corporate sponsorship. The instate collateral will be used to support these select opportunities and managed by the communications manager.

(C) Industry tradeshows and conferences

The communications team will attend and support various conferences in state and provide sponsorships where appropriate. These conferences include annual events such as the Alaska

Federation of Natives, Resource Development Council, the Alliance, Anchorage Economic Development Corporation, and World Trade Center to name a few.

(D) Communications consistency and transparency

A key objective is transparency with legislature, public and market. This include information sharing to the degree permissible in a timely and consistent manner. The goal is to develop positive relationships with the Alaska State Legislature through enhanced communications and presence during the legislative session and during the interim. Correspondence could include written updates, presentations, and phone calls. AGDC will continue with its tri-annual updates to Resource and Finance committees and to leadership. Communciations will also come in the form of community presentations and visability in the communities and media relations. The market communications will be in collaboration with the commercial team.

Key partners in communication include:

- Board of Directors
- Alaska LNG Project Team
- Commercial team
- Government Relations Advisory
- Community Coordinators and Community Advisory Council

(2) Review Process

The work scope detailed in this AFE is a broad overview of communications, outreach and awareness building practices for corporate and project communications. The activities are vetted through communications experience, ADGC management, and Board directives.

(3) Options Considered

(4) Spend Comparison to Previous efforts

The outreach aspect of AGDC prior to the AFE has been minimal. The attention to corporate branding, project awareness both internationally and domestic have increased dramatically.

(5) Risks of Delivery and Mitigations

None

(6) Cost Phasing

The proposed quarterly phasing of the costs is shown on page 1 of this document.

(7) Resources

The following contractors will be utilized in the delivery of the scope of work (the list is not exclusive, and may be modified as the activities progress):

- E3 Environmental Alaska
- Walsh Sheppard
- Crystal Clear Creative
- Logistics Inc.

AGDC RECOMMENDATION/APPROVAL	
Originator:	
Title:	Date:
Financial Authority:	
Title:	Date:
BOD Approval:	
Title:	Date: