



AGDC Semi-Monthly Report

March 6, 2017

Message from AGDC

The following is the first in a series of semi-monthly reports from AGDC to legislators designed to help improve the transparency of the business activities of AGDC as we develop the Alaskan gasline and LNG project.

This report is organized by four primary sections, which include: Regulatory & Engineering, Procurement & Construction; Commercial; Financial Structuring; and Communications, Administrative, and Other.

Regulatory; Engineering, Procurement, & Construction (EPC)

Alaska LNG

- AGDC management team members traveled to Washington D.C. (February 16) to attend meetings in preparation for the 2017 Federal Energy Regulatory Commission (FERC) filing.
 - Met with AGDC legal counsel to plan for the upcoming filing of the Natural Gas Act (NGA) Section 3 application with FERC.
 - Met with FERC representatives to introduce AGDC as the project's sole applicant since taking the lead on the project from the three previous producer partners – ExxonMobil, BP Exploration Alaska, and ConocoPhillips. FERC outlined its new Section 3 minimum filing requirements.
- AGDC is following up with potential engineering, procurement and construction (EPC) contractors about the “lead contractor” role in advancing through FERC regulatory filing into Front End Engineering Design (FEED) and execution phases of the project. AGDC is requesting schedule and estimated costs to produce a lump sum turn-key (LSTK) cost estimate for a phased Alaska LNG project.
- AGDC staff continue to adjudicate the nearly 3,000 comments from state and federal regulatory agencies on draft 2 of the AKLNG resource reports with in-house resources, subject matter experts and select contractors. AGDC is using all its available data and previous regulatory work products (ASAP, APP, and AKLNG) to address regulatory questions and requests for additional information. A MOU with FERC for 3rd party contract has been approved and signed. FERC and AGDC discussed the benefits of staying in the pre-File process that allows AGDC to work with FERC and resource agency collaboratively to address issues rather than being in ex-parte rules after the application is filed. Additionally, AGDC will need to work with the Pipeline and Hazardous Materials Safety

Administration (PHMSA) to address their expectations for additional engineering of the plant designs.

- AGDC is working with the State agencies to coordinate their questions and help streamline the State responses to the FERC.
- AGDC is engaged in regular meetings and exchanges of drafts with producer entities in regard to the assets owned by Alaska LNG LLC. Negotiations are ongoing, with AGDC's goal of achieving access to these assets at minimum cost to the state.

ASAP

- AGDC responded to 350 comments from Corps and other regulatory agencies on draft Supplemental Environmental Impact Statement (SEIS) chapters covering air quality, permafrost and cultural resources.
- Continuing the development of a cultural resources management plan.

Instate

- AGDC continues to engage the in-state utilities and customer potentials.

Commercial

Tolling Agreements

- AGDC is continuing preparations for a capacity solicitation process with tolling term sheets drafted by AGDC Commercial with support from outside counsel.

LNG Buyers

- AGDC has made several new marketing contacts in Asia with major potential LNG buyers. At the same time, AGDC continues to nurture existing relationships and prepare for contract negotiations with these potential customers.
- AGDC and DNR have started regular meetings that will help coordinate gas marketing activities regarding the downstream markets.
- AGDC will meet with several large, worldwide LNG trading companies in Houston this March.

Alaska LNG Summit

- Preparations are nearing completion, with AGDC coordinating multiple conference presentations from AGDC's project team, BP, ConocoPhillips, ExxonMobil, DNR, State of Alaska Administration, Native Corporations, and other participants; conference collateral materials are also in production. Twenty-one visiting delegates representing 14 companies including potential LNG buyers, investors, and trading companies will be attending. The delegates will arrive Wednesday March 1; on Thursday, the delegates will

be flown to Prudhoe Bay for a tour the facilities hosted by BP and a presentation at the Aurora Hotel with local officials; Friday is a full conference day showcasing the Alaska LNG project with presentations by AGDC, the producers, regional corporations, AGC and others; Friday evening will be a dinner event with 100 attendees confirmed; Saturday morning is a uniquely Alaskan event with the ceremonial start of the Iditarod with preferred viewing for 25 AGDC guests (via the sponsorship); Saturday afternoon the group flies to Kenai for a tour of the LNG site and the ConocoPhillips LNG facility with a tour and presentation by Conoco, followed by a closing reception at the Cannery with local representatives.

Local sponsors were extremely supportive of the event with cash contributions and tours of facilities. **The entire event, including sponsorship of the Iditarod, will cost AGDC less than ten thousand dollars (ie: less than a single trip to Asia).** By any reasonable measure, the event is a business success so far.

The total cost of the event is expected to be \$265,153; total sponsorships to date plus registration fees is \$256,565. (30 sponsors, range of \$25,000 to \$1,000; average of \$8,100; plus \$13,365 in attendee registration fees.)

Sponsors included: Lead Dogs (\$25,000): AECOM; Bechtel; BP Exploration Alaska; ExxonMobil; Fluor; Greenberg Traurig; Team Dogs (\$5,000 to \$10,000): Alaska Support Industry Alliance; Arctic Slope Regional Corporation; Associated General Contractors of Alaska; Calista Corporation; CH2M; Construction Industry Progress Fund; Cruz Companies Alaska; Hawk Consultants; Michael Baker International; PRL Logistics, Inc.; Walsh/Sheppard; Wheel Dogs (up to \$2,500): Ahtna Netiyé'; Alaska Land Status: Arktis LLC; Doyon Limited; EXP Energy Services; North Industrial Training, LLC; Northrim Bank; Olgoonik.

Financial Structuring

- A detailed investment summary is currently being developed to present to debt and equity funders as well as to communicate project investment potential to legislature. The investment presentation is expected to demonstrate the following:
 - Lower return third-party project finance will allow the project to clear the LNG markets with an acceptable return to long-term lenders and infrastructure finance participants,
 - Will result in an acceptable netback for the upstream gas producers.
 - Will result in an acceptable return on equity for the State's investment.
 - And will have the potential after debt retirement to provide a multi-billion dollar annual cash flow to the State (assuming the State is the majority owner).
- Several major global investment banks have been interviewed for a potential role as financial advisor and lead arranger (these include JP Morgan. Morgan Stanley, Society

General, Credit Suisse, Credit Agricole, Natixis, all with personal interviews; a few more to follow.) Each of the banks interviewed have the credentials to arrange funding for a multi-billion dollar project and have demonstrated credentials in the US LNG project finance arena.

Federal Support

Federal “Assistance” Under the New Administration

- Alaska’s gasline and LNG project is a major construction and infrastructure project that will result in an export project to a geo-politically strategic part of the world, supplying nations where the US currently has a negative trade balance. Consequently, we believe the US government should put the Alaska project at the top of the list of attractive infrastructure projects that could receive favorable federal treatment, including such things as expedited permitting and even federal loan guarantees.

Communications, Administrative, and Other

Communications

- Several meetings were held with individual legislators on February 6-7, as well as an update to the Senate Finance Committee on February 14, 2017.
- The Producers and former JV parties have all been asked by AGDC in writing for permission for AGDC to release to legislators under confidentiality the previous joint venture documents to include the JV Agreement, the Venture MOU, the Confidentiality Agreement, the Transition Agreements, and the redlined drafts of the LLC (land) Purchase Option Agreement; the Producers have been told that the request and their responses to the request will not be considered confidential.
- A monthly budget variance report will be produced by AGDC after the monthly financial close and will be included as a regular item in future semi-monthly reports to Legislature.
- A “Response Section” is being developed to enable legislators to provide a response to AGDC as to the adequacy of this report.
- AGDC is addressing requests for information from several legislators.
- AGDC staff participated in an AGDC Community Advisory Council meeting on February 23, 2017.
- Other outreach efforts included the Alaska Eskimo Whaling Commission presentation in Barrow on February 8, 2017 and the Kenai Alliance Chapter on February 17, 2017 in Kenai.
- A “Thank You” ad will be appearing in the local paper to thank the sponsors of the LNG Summit for their generous support of the event.

Administrative

- John Tichotsky to be joining AGDC as a contractor to focus on presentation of AKLNG as a financial investment opportunity, interface with global investment community, and interface with U.S. federal agencies on project support.
- Authorization for Expenditures (AFE) in support of AGDC’s strategic plan for CY17 and FY18 were presented to and approved by the board on February 9, 2017. AGDC has three primary strategic plan elements: Regulatory, Commercial including Project Finance, and Communications. Accounting staff are remapping existing RSAs and task orders to align with the new AFEs. The Finance Manager is working with the Office of Management and Budget (OMB) to determine the process for a potential reallocation of the FY17 Operating Budget between the 1229 In State Fund and the 1235 AK LNG fund. The Finance Manager is also conferring with OMB on the preferred method to fund source transfer from the 1229 fund to the 1235 fund. The next report will include a graphical depiction of the proposed expenditures over time as well as the AFE’s themselves.

