

SEMI-MONTHLY REPORT

March 31, 2017

AGDC Semi-Monthly Report

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1. Message from AGDC

The following is the semi-monthly report 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, all current and past semi-monthly reports are available at <https://agdcus.sharepoint.com/sites/webshare/legreports/SitePages/Home.aspx>.

2. Commercial

Preparing project information for the Alaska Legislature as well as White House officials was the primary focus in late 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

- AGDC received three confidentiality agreements (CAs) from prospective LNG buyers with several more in the works. These CAs are currently in the review and editing process. Completed CAs will enable AGDC to engage signatories in in-depth discussions.
- AGDC continues to prepare for a capacity marketing process with draft letters of intent (LOI) 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 conditions that would be embodied in a definitive tolling agreement. Letters of intent and term sheets are also being developed for LNG sales.
- AGDC continues to negotiate a deal with the Alaska LNG LLC JV partners (BP, ConocoPhillips, ExxonMobil) to gain access to land selected for the liquefaction facility in Nikiski, AK.

2.2 In-State Gas

- AGDC is in commercial discussions with three large in-state gas users to advance initial commercial agreements for gas purchases through AGDC's in-state aggregator.
- Work continues on crafting responses to Alaska LNG project Federal Energy Regulatory Commission (FERC) comments on in-state gas issues.

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, in conjunction with Alaska's Department of Transportation & Public Facilities (DOT&PF) and Department of Natural Resources (DNR), participated in a teleconference organized by the White House to discuss collaboration between the Federal Government and states on infrastructure projects. Deputy Director of White House Intergovernmental Affairs, and Special Assistant to President Trump for Infrastructure Policy, National Economic Council hosted the call. Alaska's gas infrastructure project was received very favorably, even being referred to by White House staff later in the call as "an example of a 'big, meaty' project that the White House wants to focus on." After the call, the White House requested AGDC submit a whitepaper on the project detailing the federal measures sought by AGDC to advance the project.
- AGDC plans to contract with Holland & Hart for the service of Ms. Drue Pearce, Director of Government Affairs, to assist with Federal initiatives related to Alaska's integrated gas infrastructure and LNG export project. Ms. Pearce will engage additional partners to help expedite the project in the federal arena.

2.5 Project Marketing

- AGDC and ConocoPhillips are actively engaged in formulating the contract framework for a marketing joint venture (JV).
- AGDC is making arrangements to participate in the GasTech Exhibition & Conference in Tokyo, Japan, April 4-7. Meetings are being set with potential LNG buyers, investors, and North Slope producers' LNG affiliates.
- Asia, as well as other, marketing efforts continue.

2.6 Financing

- AGDC contracted Steven Kantor of Hilltop Securities via reimbursable service agreement (RSA) from the Alaska Department of Revenue. Mr. Kantor will serve as Independent Registered Municipal Advisor (IRMA) to provide statutorily (Dodd-Frank) required fiduciary advice to AGDC.
- 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.
- AGDC submitted a request to the IRS for a Private Letter Ruling (PLR) regarding the State of Alaska's eligibility for federal tax exempt status. A response from the IRS is likely to take several months.
- A detailed non-confidential investor prospectus to demonstrate the competitiveness of the project to potential major investors, lenders, and the Legislature continues to be refined. 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.
- Under a third-party project finance structure, the project is able to compete with other new supply sources.
- 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 last half 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 in April 2017. In preparation for the upcoming filing, meetings were held with FERC as well as Pipeline and Hazardous Materials Safety Administration (PHMSA) representatives throughout the week of March 20th in Washington, D.C.

3.1 Alaska LNG

- U.S. Senate Energy and Natural Resources voted to advance, S. 217, to amend the Denali National Park Improvement Act to clarify certain provisions relating to the natural gas pipeline authorized in the Denali National Park and Preserve. This bill will enable the Alaska gasline to pass through a nonwilderness area within the boundary of the park; this route is greatly preferred to the alternative, which is much costlier due to challenging geographical features.
- 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.
- AGDC met with FERC's Office of General Counsel and Office of Energy Projects to provide an update on AGDC's role in advancing Alaska's integrated gas infrastructure and LNG export project and the Natural Gas Act (NGA) Section 3 application schedule. FERC reiterated that once the application is filed ex parte communication rules will apply. FERC

acknowledged AGDC's business case for filing prior to addressing every remaining comment and question.

- AGDC reviewed draft permit applications with senior staff at the Pipeline and Hazardous Materials Safety Administration (PHMSA) to confirm that the applications will address PHMSA's concerns. PHMSA's role in working with FERC is crucial as it will review the technical safety and reliability information in the applications to determine if the design of the LNG system is in compliance with their safety regulations. PHMSA will initially review the LNG Plant's Design Spill Plan to determine adequacy. FERC will wait to receive this review prior to publishing their NEPA schedule in the Federal Register officially starting the environmental impact study (EIS).
- AGDC has requested information and cost estimates from potential engineering, procurement and construction (EPC) contractors interested in performing a "lead contractor" role to assist in advancing the Alaska LNG project through the FERC regulatory filing and into the engineering, procurement and construction phases of the project.

3.2 Alaska Stand Alone Pipeline (ASAP) Project

- AGDC continues to respond to 350 requests for information 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.

4. Communications, Administrative, and Other

Community outreach, including creation and distribution of *The Newsline*, was the primary focus of AGDC's communications department in the second half of March.

4.1 Communications

- AGDC received a request under the Freedom of Information Act (FOIA), AS 40.21.010, from KTOO reporter Rashah McChesney for a copy of the March 6, 2017 *AGDC Legislative Report*. Increased public exposure will limit AGDC's ability to disclose commercially sensitive information in the semi-monthly report. AGDC expects further FOIA requests for the semi-monthly report.
- AGDC president and staff held several meetings in Juneau with legislators regarding a draft slide presentation that describes the economics and potential financial benefit to the State of Alaska from developing Alaska LNG under a project finance structure with the state in the lead. The draft presentation was reviewed as a work in progress in order to receive preliminary feedback and suggestions for improvements. The information was also reviewed with DNR and DOR staff, as well as producer representatives under confidentiality. The presentation is currently being modified for public consumption.

- AGDC presented a status update on Alaska’s integrated gas infrastructure and LNG export project to a delegation of stakeholders in Washington, D.C. The group included chiefs of staff to Senator Murkowski and Senator Sullivan as well as senior counsel and deputy staff director of the Committee on Energy and Natural Resources. AGDC also reviewed prospective legislative and regulatory changes that would assist in developing the project.
- AGDC printed the corporation’s quarterly newsletter, *The Newsliner*, on March 31, 2017. This first quarter edition included an update on recent activities and developments, a recap of the Alaska LNG Summit, and a calendar of upcoming events where AGDC will present.
- AGDC presented updates on Alaska’s integrated gas infrastructure and LNG export project to the Southeast Energy Conference, Alaska Miners Association – Southeast, and the Mat-Su Republican Women’s Club.
- AGDC continued to work on regional outreach via community advisors in Fairbanks, Juneau, Kenai, and the Mat-Su Valley.
- The Senate Finance, Senate Resources and House Resources committees advanced AGDC’s board appointees Warren Christian, Hugh Short, and David Wight for consideration at a future Joint Session of the Legislature.

5. Administrative

4.2 AGDC Monthly Close Report:

February Close

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	\$ 3,312	\$ 2,404	\$ 3,811	\$ (499)
Travel	\$ 295	\$ 124	\$ 171	\$ 197	\$ (72)
Services	\$ 4,125	\$ 2,022	\$ 2,103	\$ 2,750	\$ (728)
Commodities	\$ 250	\$ 147	\$ 103	\$ 167	\$ (20)
Depreciation		\$ 130		\$ -	\$ 130
Operating Total	\$10,386	\$ 5,735	\$ 4,651	\$ 6,924	\$ (1,190)

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	\$ 1,494	\$ 808	\$ 1,535	\$ (40)
Commercial	\$ 666	\$ 313	\$ 353	\$ 444	\$ (131)
External Affairs	\$ 1,583	\$ 921	\$ 662	\$ 1,055	\$ (134)
Legal	\$ 445	\$ 105	\$ 340	\$ 297	\$ (191)
Finance	\$ 1,005	\$ 581	\$ 424	\$ 670	\$ (89)
Admin Services	\$ 2,980	\$ 1,535	\$ 1,445	\$ 1,987	\$ (452)
IT Data Mgmt.	\$ 1,405	\$ 786	\$ 619	\$ 937	\$ (151)
Operating Total	\$10,386	\$ 5,735	\$ 4,651	\$ 6,924	\$ (1,190)

Notes: FY - Fiscal Year

YTD - Year to Date

February Close

Capital Expenditures	FY17	AFE Spend		
((\$000s))	July - Dec Actuals	AFE YTD Actuals	AFE YTD Budget	AFE YTD Variance
Regulatory	\$ 15,624	\$ 2,360	\$ 5,056	\$ (2,696)
Commercial	\$ 2,700	\$ 714	\$ 1,579	\$ (865)
Communications	\$ 94	\$ 163	\$ 257	\$ (94)
Capital Total	\$ 18,418	\$ 3,237	\$ 6,892	\$ (3,655)

Notes: YTD - Year to Date

AFE -Authorization for Expenditures

Expenditures by Fund (Capital and Operating)	FY17	February Close		
((\$000s))	July - Dec Actuals	YTD Actuals	YTD Budget	YTD Variance
AKLNG (1235) Capital	\$ 16,806	\$ 2,795	\$ 5,876	\$ (3,081)
40% of Operating	\$ 1,716	\$ 578	\$ 692	\$ (114)
AKLNG (1235) Total	\$ 18,522	\$ 3,372	\$ 6,568	\$ (3,196)
ISG (1229) Capital	\$ 1,611	\$ 442	\$ 1,016	\$ (574)
60% of Operating	\$ 2,574	\$ 867	\$ 1,039	\$ (172)
Total ISG (1229)	\$ 4,185	\$ 1,309	\$ 2,055	\$ (746)
AGDC Total	\$ 22,708	\$ 4,681	\$ 8,623	\$ (3,942)

Notes: YTD - Year to Date