

SEMI-MONTHLY REPORT

May 15, 2017

AGDC Semi-Monthly Report

May 15, 2017

Contents

1.	Message from AGDC	2
2.	Commercial	5
2.1	Commercial Agreements.....	6
2.2	In-State Gas	6
2.3	Cooperation	6
2.4	Federal Support.....	6
2.5	Project Marketing	7
2.6	Financing	7
3.	Regulatory and Program Management	8
3.1	Alaska LNG Project	8
3.2	Alaska Stand Alone Pipeline (ASAP) Project.....	9
4.	Communications, Administrative, and Other	10
4.1	Communications	10

1. Message from AGDC

The following is the semi-monthly report from Alaska Gasline Development Corporation (AGDC) to Alaska's governor, legislators, and congressional delegation to help improve transparency of the corporation's business activities as we develop the Alaska gasline and LNG project. For your convenience, all semi-monthly reports are available at <https://agdcus.sharepoint.com/sites/webshare/legreports/SitePages/Home.aspx>.

Supplemental message from AGDC President Keith Meyer, writing from Asia regarding recent events:

Recent global events line up in favor of the Alaska gasline and LNG project.

The U.S. presidential meetings with key Asian nations have encouraged more exports from the U.S. to those nations, specifically mentioning LNG as a target export product.

On May 11, the U.S. and China issued a joint press release indicating ten specific points of focus for the proposed action plan for US-China trade. The fourth point was specifically devoted to LNG and states, ***"The United States welcomes China, as well as any of our trading partners, to receive imports of LNG from the United States."***

US Department of Commerce

4. The United States welcomes China, as well as any of our trading partners, to receive imports of LNG from the United States. The United States treats China no less favorably than other non-FTA trade partners with regard to LNG export authorizations. Companies from China may proceed at any time to negotiate all types of contractual arrangement with U.S. LNG exporters, including long-term contracts, subject to the commercial considerations of the parties. As of April 25, 2017, the U.S. Department of Energy had authorized 19.2 billion cubic feet per day of natural gas exports to non-FTA countries.

SOURCE: US Office of Public Affairs – May 11, 2017 JOINT RELEASE: Initial Results of the 100-Day Action Plan of the U.S. - China Comprehensive Economic Dialogue

The front page headlines in China on May 12, 2017 – heralded the agreement as an understanding between the US and China to, "ease market access in the areas of agriculture, financial services, and energy," again specifically mentioning LNG.

and settlement...
Other agreements included
the US easing restriction on
liquid natural gas exports to
China, the expediting of Chi-



Alaska's own AGDC is aggressively pursuing the opportunity. AGDC president and commercial representatives are currently in China meeting with high-level executives of major Chinese LNG buyers and banks. These meetings were arranged through the combined efforts of the U.S. Commerce Department and the Consul General of China. The Consul General was specifically instructed by Chinese President Xi during his visit to Alaska, to be our point person in helping to navigate through the Chinese bureaucracy (one of the companies we will meet has more employees than twice the population of Alaska at 1.6 million employees).



AGDC meets with Bank of China executives including Executive Vice President Gao Yingxin; fourth largest bank in China and first in foreign structured finance projects.

The joint US-China announcement did not go unnoticed by our major competitors in Texas and Louisiana.

The State of Louisiana media heralded the announcement as an agreement that could boost Louisiana exports of LNG.

Texas media announced the approval by the US of the Golden Pass terminal as the first LNG terminal to be approved in the new Trump administration, and declaring the Texas Gulf Coast as a "hotbed of activity" as global demand grows.

(As an aside, the Golden Pass project commenced their pre-filing in July 2014 just ahead of the Alaska LNG project in September 2014.)

Unfortunately, not all of the news for the week was positive. On Friday, May 12, the AGDC team overseas was greeted with the

U.S. approves Golden Pass LNG export terminal

The Texas Gulf Coast is a hotbed of activity as global demand grows

By James Osborne

April 28, 2017 Updated: April 29, 2017 9:09pm

The Golden Pass LNG terminal on the Texas Gulf Coast was cleared by the Department of Energy last week to begin exporting up to 2.21 billion cubic feet of liquefied natural gas per day.

Located outside Sabine Pass, the Golden Pass terminal was built to import LNG from abroad in 2009. But following the boom in domestic gas production through hydraulic fracturing and horizontal drilling, **Golden Pass, a joint venture between Qatar Petroleum, Exxon Mobil Corp. and ConocoPhillips,** shifted gears.

"This announcement is another example of President Trump's leadership in making the United States an energy dominant force," U.S. Secretary of Energy Rick Perry said in a statement. "This is not only good for our economy and American jobs but also assists other countries with their energy security."

demoralizing headlines from home that the Alaska Senate stripped AGDC of funding necessary to advance the project as planned. These negative headlines will undoubtedly be picked up by the national and international industry press and be read by worldwide LNG buyers and financiers.

The major LNG buyers, particularly in Asia, are large utility companies, often state-owned, and very conservative. They select suppliers wisely and cautiously. They are now being encouraged by the United States to select their next block of supply from the U.S. The buyers are confronted with many U.S. choices in states where large LNG facilities are highly desired as engines of their economies.

AGDC's message to the potential large buyers is that the people of Alaska, the regional corporations, labor, and industry all want the Alaska gasline and LNG project to happen. Unfortunately, when the headlines from Alaska, reflecting comments made by Alaskan elected leaders, contradict these positive messages, the confidence of buyers to engage with Alaska is justifiably shaken.

China is rather new to the LNG industry – less than 10 years for the most part – but has quickly moved to number three in the world, on the way to number one. One of the large buyers in China this week asked a pointed question. They noted President Xi's visit to Alaska, U.S. VP Pence's visit, and now AGDC's visit to them arranged by the Chinese Consul General; they asked – "Why are we just hearing about the project now?"

I have my answer to the question, but it raises the additional question of why so little effort has been spent marketing the project to global LNG buyers? The question further recognizes the advisability of Alaska to stepping into the driver's seat for this important infrastructure project and seek – and demanding where possible - cooperation and forward progress from all involved parties.

Alaska has natural advantages in serving Asia with LNG over other U.S. states. With so many stars aligning to our benefit that are outside of our control, now is the time for Alaskans to support the State's efforts to build Alaska's – and America's - great natural gas infrastructure project. China, like much of the world, is demanding more of the clean burning natural gas – and Alaska is once again in the position to provide Asia with another 45 years of supply.

The Alaska gasline and LNG project can be the economic engine to fuel Alaska's economy for several generations. In addition to liberating the stranded natural gas resource in the north and encouraging additional exploration and production activity, the project will provide stable and affordable energy to mining and industrial projects throughout Alaska, reliable and clean natural gas to Alaskan communities, and an enormous and continuous flow of funds from outside the State into the Alaskan economy.

I have pledged increased transparency with the legislature on the project and all of our activities – something we have only had the luxury of doing since the transition to state leadership was completed at the end of 2016. We have had numerous one-on-one meetings with legislators, committee hearings, and you have been receiving a report like clockwork twice a month since the first of March. We have now presented financial projection information, market information, and many board meetings with no executive sessions. Now is the time to roll up our sleeves and work together to take advantage of developments at the national and international level that can assist Alaska LNG to compete in global and, more importantly, Asia energy markets. Alaska needs world markets to grow its economy, but world markets do not need Alaska; Alaska must fight for its share.

I recognize, however, that Alaska is in a tight financial situation with declining oil production from its legacy fields and prices that look to stay depressed for many years to come, and with services from road maintenance to troopers being in need. For those reasons, AGDC has intentionally not sought additional funding from the State and has proposed a budget which stretches our existing funds as far as we can. To cut further though, and cripple the chances of future economic vitality from a whole new export product with increasing demand throughout the world, in exchange for a limited one year increase in state services, seems to be a sacrifice too great to make so lightly.

The current financial projections on the Alaska gasline and LNG project, that has been shared with legislators and in public testimony, indicate the project can deliver a competitive price to current Asian buyers. In addition, it will include: funding annually to Alaskan communities as a payment in lieu of tax, one billion dollars annually in wages and operation expenditures – all of which will come from foreign buyers and be paid to Alaskan workers and companies. One billion or more in equity cash flow will be generated annually until the debt is paid off (20 years), and then approximately \$5 billion annually for as long as Alaska's North Slope continues to produce natural gas. These substantial benefits do not include revenue from the sale of the State's royalty and tax gas as well as benefits from mining projects, gas distribution systems, and other industries that will be bolstered once reliable and economical natural gas can be delivered.

Now is the time to support Alaska and the fight for our share of the global natural gas industry. The AGDC team and I are committed to providing information to discuss the corporation's plans and actions and are fully prepared to defend them from a sound business standpoint.

Respectfully,

Keith Meyer

2. Commercial

Bolstered by advancements in the Trump administration *100-Day Action Plan of the U.S. - China Comprehensive Economic Dialogue*, AGDC commenced a marketing campaign in China with in-

office sales presentations to prospective LNG buyers. A component of the promotional effort includes attending the CWC China LNG & Gas International Summit & Exhibition in Beijing from May 17-18, 2017. 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 has executed several confidentiality agreements with Alaska LNG Summit attendees and other parties that will allow them access to the Alaska LNG project data room, which contains technical data, reports, and presentations relating to the project.
- 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 LOI outlines agreements to be entered into by AGDC as the infrastructure owner and foundation customers in the near term. The tolling term sheets are intended to identify certain, but not all, contractual terms and conditions that would be embodied in a definitive tolling agreement. Foundation customers that enter into LOIs during this process will receive special rights, and will have the right and obligation to negotiate definitive agreements within an outlined contractual framework. Additionally, LOIs and term sheets are being developed for LNG sales. Initial execution of LOIs and term sheets is expected in August.
- In preparation for negotiations, AGDC has commenced discussions with gas owners to establish common business purposes and intents.
- AGDC continues to negotiate a deal with the Alaska LNG LLC JV partners (BP, ConocoPhillips, and ExxonMobil) for an option to purchase land selected for the liquefaction facility in Nikiski, AK.

2.2 In-State Gas

- AGDC is in commercial discussions with in-state gas users to advance initial commercial agreements for gas purchases through AGDC's in-state aggregator.

2.3 Cooperation

- AGDC and BP continue to work together in the areas of regulatory, finance, and commercial structure as they relate to the Alaska LNG project. BP has provided expert staff to the project to advance these efforts.

2.4 Federal Support

- U.S. President Donald Trump and Chinese President Xi Jinping agreed to advance U.S. - China economic cooperation with a 100-day action plan under the framework of the U.S.

- China Comprehensive Economic Dialogue. An early result of this initiative is that the U.S. officially welcomes China to receive imports of LNG from the U.S. and that Chinese companies may proceed at any time to negotiate contractual arrangements with U.S. LNG exporters. As the closest North American source of LNG to Asia, Alaska is positioned to greatly benefit from this improvement in trade relations between the U.S. and China.

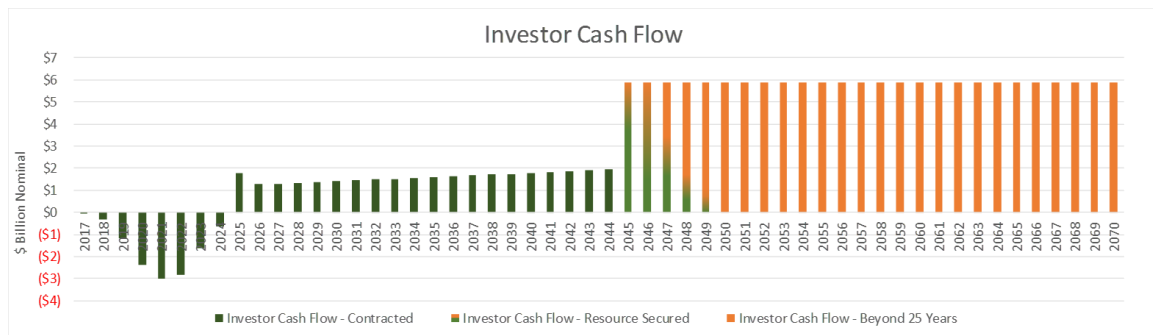
- In a recent letter to Department of Energy (DOE) Secretary Rick Perry, Industrial Energy Consumers of America President Paul Cicio requests the DOE make exporting LNG from Alaska a priority. AGDC followed up with its own letter to Secretary Perry, introducing him to Alaska LNG and requesting an opportunity to discuss the project further.
- Following Vice President Mike Pence's meeting with AGDC in Anchorage last month, AGDC continues to communicate with the Office of Management and Budget (OMB), Department of the Interior, Department of Energy, and other federal agencies about the Alaska LNG project.
- AGDC sent a letter to the Secretary of Commerce requesting clarification on how President Trump's "Buy American and Hire American" policies might affect AGDC's plans to acquire the steel necessary for the gas treatment plant, pipeline, and liquefaction facility.
- AGDC continues to provide detailed project information to representatives of the Trump administration and is developing specific detailed requests for executive and administrative relief and support to help advance the project. Meetings with members of the congressional delegation and cabinet secretaries are being scheduled for early June.

2.5 Project Marketing

- Leading up to the CWC China LNG & Gas International Summit & Exhibition, AGDC held meetings with potential LNG buyers in Shanghai, Hangzhou, and Beijing May 8-12, 2017.
- Final preparations are underway for AGDC to attend the CWC China LNG & Gas International Summit & Exhibition in Beijing May 17-18, 2017. In addition to prescheduled meetings with prospective LNG buyers, AGDC president, Keith Meyer, will give a presentation about the Alaska LNG project on May 18.
- AGDC is developing a government-to-government marketing presentation to promote Alaska LNG as a strategic opportunity for sovereign governments to invest, reduce trade imbalances, and secure long-term LNG supplies.

2.6 Financing

- AGDC is continuing to refine a project economics presentation. The presentation's objective is to provide audiences with the information necessary to make well-informed investment decisions. The graph on the following page illustrates the project's attractive projected investor returns and will be included in the final project economics presentation.



- 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 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 sellers 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 Federal Energy Regulatory Commission (FERC) issued docket number CP17-178 to AGDC's application filed on April 17, 2017 to obtain a Natural Gas Act Section 3 permit for the Alaska LNG project. While Alaska LNG moves forward as AGDC's priority project, the Alaska Stand Alone Pipeline (ASAP) continues to quietly advance toward a final environmental impact statement and record of decision.

3.1 Alaska LNG Project

- Phase 1 has commenced. AGDC is preparing responses to regulatory questions and comments, which will be submitted to FERC prior to completion of its 90-day review period of the application to obtain a Natural Gas Act Section 3 permit for the Alaska LNG project.
- The period to submit comments or become an intervener (either positive or negative) to FERC is open until May 22, 2017.

- FERC received 457 comments, editorial, and questions from Alaska state agencies regarding the second drafts of the Alaska LNG resource reports. AGDC will collaborate with the agencies to address concerns during the state permitting process that is outside of the official FERC National Environmental Policy Act (NEPA) review process.
- BP is providing subject matter experts to develop and manage technical work products to support the responses to FERC and regulatory agencies.
- AGDC is continuing the selection process of an engineering, procurement and construction (EPC) contractor to perform 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. The selection of a lead contractor is expected in June 2017.
- AGDC submitted four special permit applications to the Pipeline and Hazardous Materials Safety Administration (PHMSA). Docket numbers have been assigned to each of these applications.
- Work continues on providing responses to FERC comments on in-state gas issues.
- White papers are being developed to advise congressional offices and federal administration personnel as AGDC requests regulatory, statutory and administrative flexibility in the permitting process. The following white papers are under development:
 - Issue: Wetlands Jurisdiction – Army Corps section 404 permit responsibilities versus FERC Wetlands Policy and Procedures.
 - Issue: Regulatory preference for above ground pipeline construction versus below ground pipeline construction on Alaska’s North Slope.
 - Issue: Granting federal lands designated under Public Land Order 5150 and selected by the State of Alaska for pipeline right of way.
 - Issue: Expedited schedule for FERC to NEPA review.
- Nominations to fill FERC commissioner vacancies have begun. The agency has been without a quorum and unable to make major decisions affecting pipeline projects since February. Once nominated, the Senate Energy and Natural Resources Committee vets candidates prior to a Senate confirmation vote. Committee Chair Senator Lisa Murkowski has said she intends to approve nominees as fast as possible.

3.2 Alaska Stand Alone Pipeline (ASAP) Project

- The Army Corps of Engineers (Corps) issued an updated schedule on the environmental impact statement (EIS) to AGDC. The Corps will conduct public meetings in 10 communities from mid-July through mid-August. A list of the public meeting locations and dates will be provided on the ASAP project website at <http://www.asapeis.com/publicmeetings.html>.

- AGDC is reviewing the draft supplemental environmental impact statement (SEIS) for accuracy prior to the Corps publishing it in the federal register in June.

4. Communications, Administrative, and Other

Preparing for a marketing campaign in China was a focus in early May. Concurrently, work continues on developing new promotional materials as well as hosting community meetings across the state in areas directly affected by the Alaska LNG project.

4.1 Communications

- AGDC held community meetings to present an update on the Alaska LNG project and answer questions in Healy, Nenana, Trapper Creek, and Houston (Alaska) on May 1, 2, 10, and 11, respectively. Additional community meetings are scheduled throughout late May in Minto, Barrow, Fairbanks, and Wasilla.
- AGDC produced two new, country specific pieces of promotional material for prospective Japanese and Korean LNG buyers.
- AGDC provided an Alaska LNG project update to Monica von Dobeneck for an article in American Gas Magazine.
- AGDC continued to work on regional outreach via community advisors in Fairbanks, Juneau, Kenai, and the Mat-Su Valley.
- AGDC technical staff answered questions about pipeline safety during a hearing of the House Resources Committee on May 12, 2017.