

SEMI-MONTHLY REPORT

July 14, 2017

AGDC Semi-Monthly Report

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1. Message from AGDC

The following is the semi-monthly report from the 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>.

2. Commercial

AGDC met with several high-potential Alaska LNG buyers throughout the first two weeks of July. Concurrently, progress continues to move forward in the areas of commercial agreements, in-state gas issues, discussions with producer partners, federal support, and project financing.

2.1 Commercial Agreements

- AGDC has plans to engage in detailed discussions with the Korea Gas Corporation (KOGAS) following the signing of a memorandum of understanding (MOU) between the two organizations in Washington, D.C. on June 28, 2017. Although non-binding, the global LNG industry recognize the MOU is a commercially sensitive document and is the typical first step toward reaching a final commercial agreement.

In addition to setting the framework and process for moving forward with AGDC, KOGAS signed similar agreements with three competing U.S. LNG export projects. As the only west coast project, however, Alaska LNG has significant advantages over these competitors, which include dramatically shorter delivery times, direct country-to-country shipping routes, and opportunities for involvement upstream of the LNG plant.

- AGDC continues to solicit foundation capacity commitments for the Alaska LNG project. The capacity solicitation will provide participants with the ability to express interest in a specific quantity of capacity on the individual components of the Alaska LNG system and secure foundation customer rights; capacity on the system will provide upstream gas producers the ability to access global gas markets and thereby sell their gas. The capacity solicitation process will also allow in-state and other third parties – including AGDC – an ability to secure foundation capacity on the system.



- AGDC will use the responses to assist in determining the initial capacity design of the Alaska LNG system.
- Initial respondents will secure rights to become “Foundation Customers,” which will include certain rights to expansion capacity, favored nations pricing, extension options, and other rights typically afforded to customers that provide the commercial foundation for a pipeline or LNG system.
- This process will not close the door on future capacity commitments, but rather will guide the project’s initial design and commercial structure decisions.
- Negotiations of final definitive agreements for capacity will commence at the conclusion of the initial capacity solicitation.
- AGDC continues to negotiate an agreement 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 subject matter expertise to advance these efforts. BP has also supported AGDC’s efforts to promote the project in Asia by offering physical and work product assistance in educating Asian commercial entities about Alaska’s rich proven gas resource in Prudhoe Bay.

2.4 Federal Support

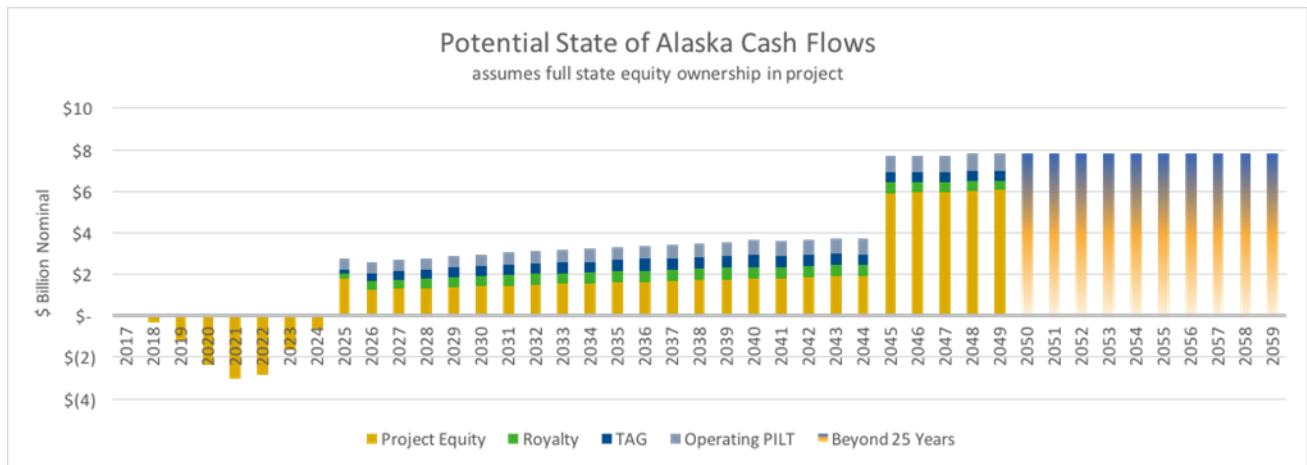
- AGDC met with representatives of the Council on Environmental Quality (CEQ) in Washington, D.C. to discuss federal agency review of the Alaska LNG project application. The National Environmental Policy Act (NEPA) established the CEQ within the Executive Office of the President to interpret regulations and issue guidance on the NEPA process.
- AGDC met with personnel at U.S. Department of Commerce in Washington, D.C. to discuss Cook Inlet issues.
- AGDC continues to receive positive feedback from federal agencies involved in the permitting of the project. The agencies are all very aware of the Alaska project, seem to be on the mission of “American Energy Dominance” and recognize the potential importance of Alaska in the broader national plan.

2.5 Project Marketing

- AGDC had follow-up meetings with several high-potential Alaska LNG buyers in Japan, Taiwan, and China.
- AGDC attended the Gas Indonesia Summit & Exhibition in Jakarta on July 12-14, 2017. In addition to meeting with prospective Alaska LNG buyers, energy ministries and officials, AGDC presented a keynote address to summit delegates on July 13, 2017.
- AGDC continues to address the lack of awareness and misperception of Alaskan gas in the Asian marketplace through an enhanced marketing campaign focused at markets in the Asia-Pacific region. Since taking over leadership of the project, AGDC is prioritizing the awareness and promotion of Alaska LNG to the global LNG community. In the last six months, Alaska LNG has gained the attention of many large buyers in Korea, China, Japan, and other markets in the Asia-Pacific region because of Alaska's unique ability to deliver energy stability at competitive pricing. In addition to raising awareness of the project, AGDC continues to address erroneous negative perceptions of the project.

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.



Potential cash flows to the State of Alaska, assuming full state equity ownership in Alaska LNG. Equity-only ROE is 8% through the initial period and 10% over the life of the project. Equity ROE plus RIK/TAG and PILT is 13% during the initial period and 15% over the life of the project.

- AGDC has received competitive proposals from two globally recognized financial institutions to serve as placement agent, and is evaluating the proposals. The successful candidate will assist in arranging financing for the Alaska LNG project. AGDC is working with an independent registered municipal advisor (IRMA) to help identify the regulatory

requirements for a financial advisor (FA) to provide service to a state-owned entity, and implications of hiring the FA on such FA's ability to act as placement agent.

- 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, taking advantage of debt leveraging and project finance structure.
 - 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

AGDC completed Phase 1 responses to the Federal Energy Regulatory Commission (FERC). While Alaska LNG moves forward as AGDC's priority project, the Alaska Stand Alone Pipeline (ASAP) continues to advance toward a final environmental impact statement and record of decision.

3.1 Alaska LNG Project

- AGDC submitted the final responses to FERC's regulatory questions and comments, weeks ahead of the late July deadline. The responses add over 1,000 pages to Alaska LNG's FERC docket, which now totals more than 60,000 pages.
- AGDC submitted the Spill Response Plan (Plan) to the Pipeline Hazardous Materials and Safety Administration (PHMSA). The Plan is part of the section 3 permit application that describes various safety aspects of the liquefaction facility. The Plan specifically addresses the containment systems that reduce the potential impacts of leaking LNG, refrigerants, and other hazardous substances. PHMSA's approval of the Plan is required before FERC will issue a schedule notice.
- AGDC continues to interface directly with PHMSA. AGDC will meet with PHMSA to review the Design Spill Plan in Washington, D.C. in late July.
- PHMSA concurred with AGDC that the regulatory jurisdiction for the proposed Prudhoe Bay gas treatment plant (GTP) should be with the Occupational Safety and Health Administration (OSHA) and the State Fire Marshall just as other North Slope gas and oil processing facilities are.

- AGDC received an environmental data request from FERC. This is the first of three requests AGDC has anticipated since submitting the section 3 application to FERC on April 17, 2017.
- 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. Additional face-to-face meetings with lead contractor candidates are ongoing.

3.2 Alaska Stand Alone Pipeline (ASAP) Project

- The U.S. Army Corps of Engineers (Corps) published a Notice of Availability in the Federal Register, initiating the public comment period that will run through August 14, 2017.
- The Corps confirmed the ASAP SEIS public hearing schedule. Hearings are scheduled throughout the state between July-August, 2017.

4. Communications, Administrative, and Other

AGDC finished its first round of community outreach meetings on June 26 in Minto. Between April 20 and June 26, eleven community meetings were conducted across the state, from Homer to Barrow. Additionally, AGDC continues to provide presentations to various audiences statewide to build project awareness and share information regarding the importance of Alaska LNG to the Asia-Pacific region. Work continues on developing new promotional materials, addressing questions from media and Alaska residents.

4.1 Communications

- AGDC responded to multiple inquiries from legislators and media regarding the memorandum of understanding (MOU) between AGDC and KOGAS, signed on June 28, 2017 in Washington, D.C.
- AGDC is finalizing the second quarter newsletter for distribution in mid-July.