



Alaska LNG Update

Joint Resources Meeting

Commissioner Andy Mack

Deputy Commissioner Mark Wiggin

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Department of Natural Resources

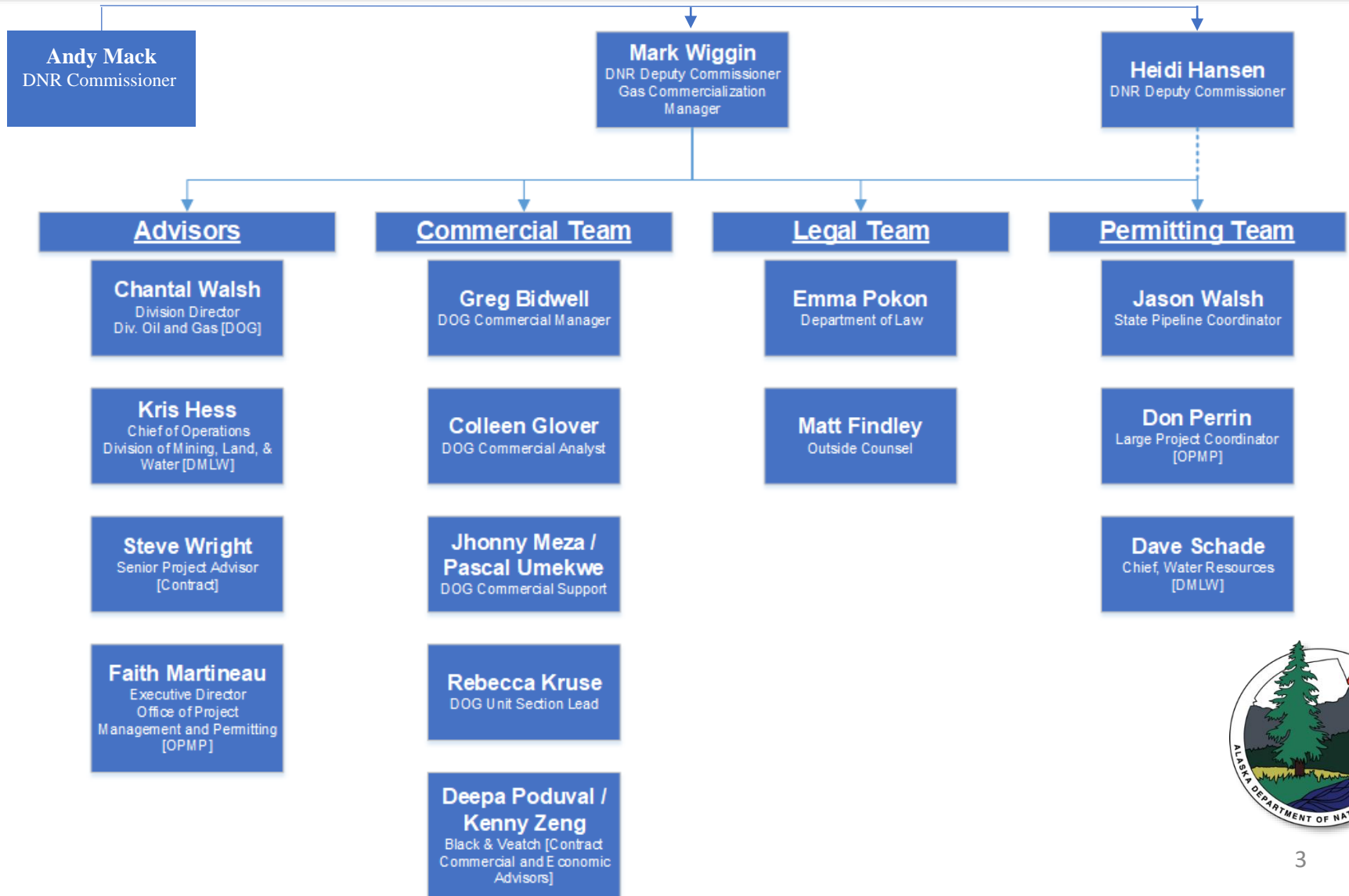
July 11, 2018



QUESTIONS POSED TO DNR

1. Please provide a detailed update on the Department's royalty gas decisions. Identify any project benchmarks that must be met for DNR to reach a decision on royalty gas.
2. Discuss DNR's work to date on marketing of state royalty gas
3. Articulate the potential risks (and possible mitigation measures) to the State of Alaska, from DNR's perspective, in relation to the project
4. Review DNR's position on future project expansions, including the outcome of discussions with AGDC regarding pro-expansion principles
5. Explain the status of instate gas issues, including how the state is or is not responsible for ensuring offtakes; identifying locations for offtakes; and supporting communities, businesses, or utilities in aggregating demand and evaluating distribution
6. Review specific upstream activities that will have to occur to support AGDC's project, but that are outside of AGDC's project scope. Explain how this work will be coordinate to maintain project schedules. Include a discussion of the major state and federal permits the producer companies will need to secure to undertake this work and whether the state will offer coordination support
7. Specifically, address the nature of work at Pt. Thomson to support the AGDC project

DNR/ALASKA LNG ORG CHART



BEST INTEREST OF THE STATE

DNR is charged with fulfilling the Constitutional obligation to maximize the value of State resources for all Alaskans. DNR's royalty decision is guided by this principle. DNR takes its responsibilities seriously and is engaging in extensive due diligence to enable a fully-informed and sound decision regarding RIK or RIV. This due diligence includes project modelling, understanding project structure, engaging with the producers, and engaging with AGDC on potential terms and conditions of a RIK sales contract.

Best Interest of the State – AS 38.05.180(a)

- Encourage development while minimizing adverse impacts
- Maximize economic and physical recovery
- Maximize competition
- Maximize use of Alaska's human resources



POTENTIAL RIK/RIV DECISIONS

- Selection of RIK/RIV
- Amending leases to (SB138; AS 38.05.180(hh))
 - Eliminate switching between RIK and RIV
 - Valuation methodology
 - NPSL royalty rates
- If RIK selected, develop and execute gas sales agreement (GSA) with AGDC
- If RIV selected, will need to address valuation process used to calculate royalty gas value



RIK/RIV DETERMINATION

- If RIV is determined to be in the best interest of the State, DNR submits RIV determination to Legislature
- Legislature can revoke RIV determination
- If RIK is determined to be in the best interest of the State, RIK contract will be subject to Oil and Gas Royalty Board and legislative process
- DNR will conduct and issue Lease Modification Best Interest Finding (BIF) for either RIK or RIV
 - Per current leases, State can switch between RIV and RIK on six months' notice



NON-COMPETITIVE RIK CONTRACT

- A familiar process for the legislature, which includes preliminary BIF for public notice and comment, notice to Royalty Board, Legislative approval, and final BIF
- Best Interest Finding will include:
 - Price
 - Impacts on state economy
 - Impacts on private investment
 - In-state needs
 - Local investment and jobs
 - Social and environmental impacts

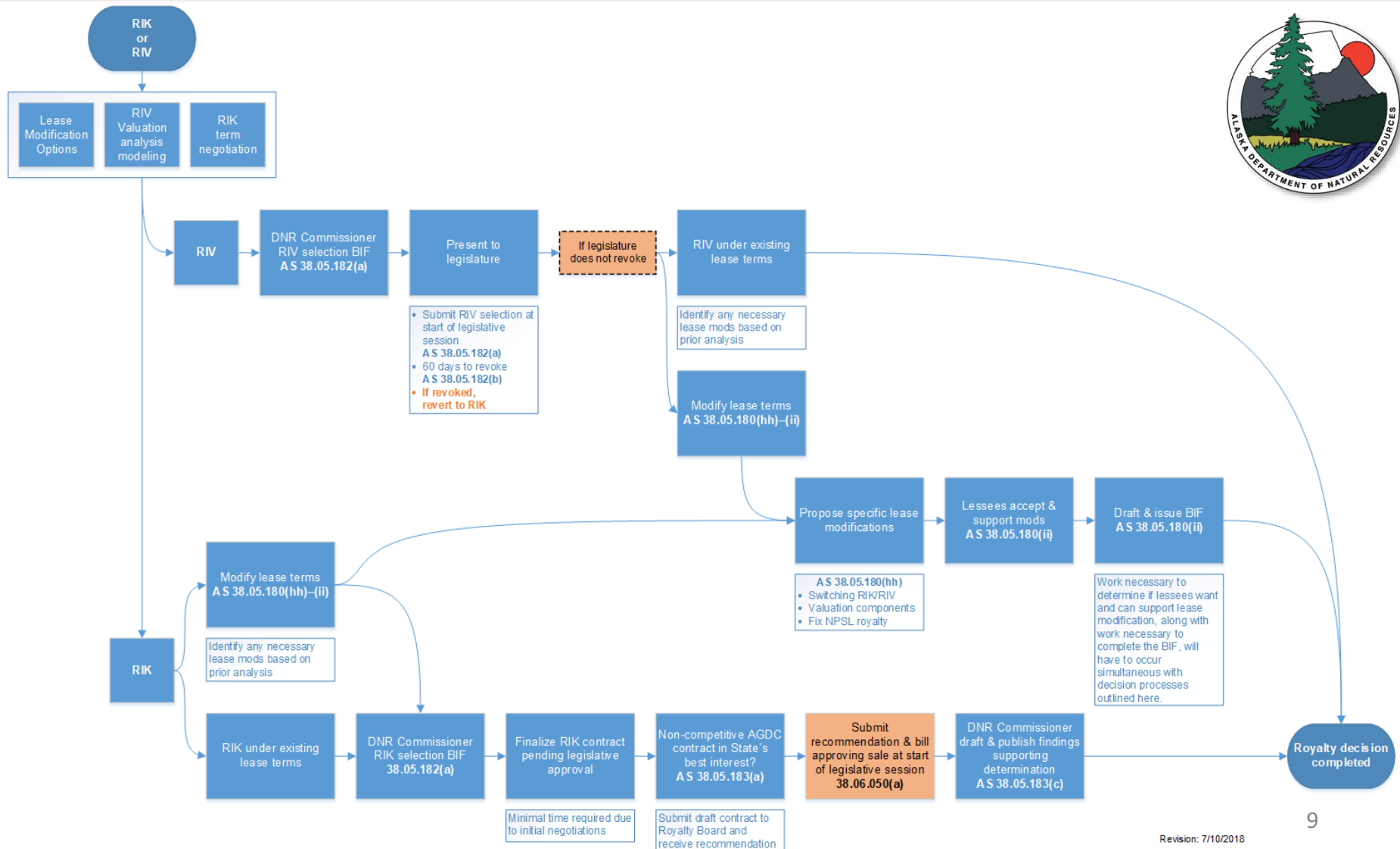


LEASE MODIFICATION BIF – SB138

- Determination that eliminating switching between RIK and RIV is in the best interest of the State. The criteria by which the Commissioner will assess include:
 - Confirmation that eliminating switching will “materially improve” the likelihood of success of the gas project
 - The gas project has sufficient “financial commitment for a work plan and budget” for major permits and regulatory filings
 - Project has sufficient gas commitment from lessees
 - Each lease “will produce hydrocarbons” that “will be transported” by the gas project “during the initial project term”



DNR RIK/RIV & LEASE MODIFICATION FLOWCHART



RIK/RIV MODELING EFFORTS

Purpose of Current Modeling

- Support Best Interest Findings and Lease Modification Decision
- Evaluate economics, costs, and risks throughout the value chain of the project including PBU and PTU upstream
- Ensure in-state gas needs are satisfied
- Confirm expandability of project to encourage future North Slope hydrocarbon exploration & development
- Analyze fiscal impacts to State of Alaska regarding RIK/RIV no-switching decision



MARKETING

- Differences between Alaska LNG structure and previous AKLNG equity structure:
 - Under current structure, during initial project term, DNR will market directly to AGDC and will not be marketing to global gas and LNG buyers
 - Under RIK, DNR will negotiate a gas sales agreement with AGDC
- DNR anticipates AGDC will take possession of all Alaska LNG Project gas upstream of or at the GTP
- Sales purchase agreements between AGDC and end consumers (in-state and global) constitute the market for RIK gas



POTENTIAL PROJECT OPPORTUNITIES

Potential Opportunities and Mitigating Risk from DNR's perspective:

- Identified buyer, identified financing, identified investor
- Primary responsibility for mitigating negative netback risk will be AGDC ensuring that SPAs (sales/purchase agreements) with LNG and in-state purchasers are coordinated with their GSAs (gas sales agreements) with gas resource owners
- DNR can control amount of risk to the state upstream by having a minimum price provision in its gas supply agreement with AGDC or by taking its royalty in-value
- AGDC is working to address cost overrun risk by developing lump sum turn key contracts for major Alaska LNG project components



EXPANSION

- DNR appreciates the criticality of project expandability as a means of promoting future gas exploration and development
- AGDC confirms system throughput could be increased by addition of trains to the GTP / LNG plant and addition of compression stations to pipeline
- Pipeline capacity with expanded compression is sized for maximum gas volume of 4.3 bcf/d or ~ 27 MMT/PA
- Current facility design focus is to support constructing a system to meet needs of initial project term with capacity to expand



IN-STATE USE

- AGDC, in consultation with the DNR, has identified six in-state gas inter-connect points on the Alaska LNG pipeline and has estimated the potential in-state demand at those points during the initial project period
- AGDC has all the engineering work done by the AKLNG producer-led team, and has committed to provide up to 500 million cubic feet per day of gas for in-state needs, more than double current in-state usage
- If DNR selects RIK, AGDC will need to make sufficient in-state provisions to allow DNR to make a finding that in-state needs will be met.



UPSTREAM ACTIVITIES/PERMITTING

- PBU and PTU operators will modify/install facilities, drill wells, install pipelines, etc. State of Alaska permit activities and approvals may include some or all of the following:
 - Address PTU Settlement obligations
 - Unit Agreement amendments to allow for facility sharing
 - Unit Plan of Operations amendments
 - Approval of new environmental permits as well as modification of existing environmental permits
 - Pipeline Right-of-Way Leases
 - Gas storage lease
- While DNR's Office of Project Management and Permitting has been coordinating permit activities to date, the State Pipeline Coordinator's Office will be taking on an increasing role in accordance with AS 38.35 "Right-of-Way Leasing Act."



THANK YOU



Questions?