



Senator Kevin Meyer
Senate President
716 W. 4th Avenue Suite 500
Anchorage, AK 99501-2133

Senator Cathy Giessel
Chair, Senate Resources Committee
716 W. 4th Avenue Suite 511
Anchorage, AK 99501-2133

July 14, 2016

Dear Senator Meyer and Senator Giessel,

Upon further consideration, there is no longer an issue with sending the original concept document. It is attached.

Sorry for any confusion.

Sincerely,



Keith Meyer
President
Alaska Gasline Development Corporation

AGDC - AKLNG Concept Document

Potential AKLNG Framework for Discussion (AGDC)

PRELIMINARY DRAFT

THIS AGREEMENT ("Agreement") is entered into effective as of [mm,dd,yyyy] ("Effective Date") by and among the Alaska Gasline Development Corporation ("AGDC"), BP Alaska LNG LLC ("BP"), ConocoPhillips Alaska LNG Company ("ConocoPhillips") and ExxonMobil Alaska LNG LLC ("ExxonMobil"). BP, ConocoPhillips and ExxonMobil are sometimes referred to collectively as "Producer Parties". AGDC and each of the Producer Parties are sometimes referred to individually as a "Party" and collectively as "Parties."

RECITALS

WHEREAS, the State of Alaska and the Producer Parties have a desire to monetize the gas resources of the North Slope.

WHEREAS, this desire may be realized by a gas treatment plant on the North Slope of Alaska with gas transmission lines from producing units, an approximate 800 mile gas pipeline, and a liquefaction plant and marine terminal located near Nikiski, Alaska (the "Alaska LNG System" or "System").¹

WHEREAS, the State of Alaska has designated AGDC to hold and manage the State's interest in the Alaska LNG System and to participate in a project to commercialize, design and construct the Alaska LNG System (the "Project").

WHEREAS, each Party is a party to the Alaska LNG Project Pre-FEED Joint Venture Agreement ("JVA") that was agreed, effective July 1, 2014, to complete preliminary front-end engineering design ("Pre-FEED") for the Project.

WHEREAS, the Producer Parties are also the members of Alaska LNG Project LLC.

WHEREAS, the Parties desire that the Project should move forward beyond Pre-FEED.

WHEREAS, AGDC wishes to create a company named [NewCo] ("Company"), that will own, commercialize, finance, design, build and operate the System. [The Producer Parties and others will be invited to be owners of the Company.]

NOW, THEREFORE, in consideration of the premises and of the mutual promises herein contained, the Parties agree as follows:

Article 1 - PURPOSE AND OBJECTIVES

The purpose of the Company shall be to conduct all work necessary to commercialize, finance, design, construct, and operate the System ("Company Purpose") in a commercially reasonable manner. The scope of the Company Purpose shall include: securing government regulatory approvals; Project commercialization, financing, design, construction and operation; and, capacity utilization and future expansion arrangements.

¹ The System may be divided into several segments, e.g. GTP, Pipeline, LNG Plant, etc.; a separate entity may be formed to hold each segment.

Article 2 - TERM OF AGREEMENT; SYSTEM PLAN

- 2.1 The term of this Agreement shall commence as of the Effective Date. The term of this Agreement shall end upon the complete performance of all the obligations of the Parties hereunder or, if earlier, at the withdrawal of all the Continuing Parties.
- 2.2 The Parties agree to progress the Project according to the following system plan ("System Plan"):
 - (a) The Parties shall make available to the Company all assets and work product currently available to the Project, whether through or under the JVA or Alaska LNG Project LLC, that are necessary and useful for the Company to efficiently undertake Operations from the Effective Date;
 - (b) The Company shall commence Operations as soon as possible after the Effective Date;
 - (c) The Company shall, as expeditiously as possible after the Effective Date, submit an application to FERC for approval under Section 3 of the Natural Gas Act;
 - (d) The "Development Phase" of the Project shall commence on the Effective Date and end when the Company makes the Final Investment Decision ("FID");
 - (e) The Company's target for FID shall be no later than July 1, 2018;
 - (f) The Company's Financial Close shall occur as soon as practicable after FID;
 - (g) The Company's target for Start-Up shall be July 1, 2023.

Development Phase work shall include securing all the loans, capital contribution commitments, tolling contracts, land access/acquisition contracts, EPC contracts and regulatory approvals necessary to complete the Project without the further material cooperation and support of any other party.

Article 3 - CORPORATE STRUCTURE

- 3.1 At the initial organization of the Company, which shall occur on the Effective Date:
 - (a) AGDC shall own the Company or, to the extent required for tax efficiency, the State of Alaska shall own the Company with management services of all affairs of the Company provided by AGDC;
 - (b) Each Party shall contribute to the Company for its exclusive use all of the Party's rights to assets, project contracts, information and data owned as a result of its participation in the JVA;
 - (c) As of the Effective Date, the Producer Parties shall provide the Company exclusive use of the assets of the Alaska LNG Project LLC without the Company being obligated to pay compensation for such use prior to FID;
 - (d) The Producer Parties shall provide the Company an exclusive option, exercisable at FID, to purchase some or all of the current assets of the Alaska LNG Project LLC for a price equal to their past cost;

Article 4 - FUNDING

4.1 It is intended and desired that each of the Parties hereto provide development funding during the Development Phase in accordance with a work plan and schedule that targets an FID date not later than July 2018 for an in-service target in July 2023. Additionally, it is desired that each of the Parties provides an amount of FEED and construction funding proportional to their capacity allocation in the System. However, to the extent that one or more of the Parties does not desire at the present time to fund the continued development or construction of the System, alternative funding options are being considered and are described more fully below.

4.2 Pre-FEED, preliminary FEED, FEED, and Regulatory

- a) Each of the Producer Parties may elect to continue to support the development of the Project and thereby be a "Continuing Party" along with AGDC by making contributions to the Company's Work Program and Budget ("WP&B") starting at the Effective Date of this Agreement under mutually agreeable terms;
- b) The Company will prepare an annual Work Program and Budget ("WP&B") that conforms to sound, reasonable and generally accepted industry practice. The Company shall propose a WP&B for the subsequent year on July 1 of each year, starting with first full year after the Effective Date of this Agreement. [Need to agree on a 2017 WP&B.] The Continuing Parties shall then have until September 1 of that year to discuss, agree amendments to, and unanimously approve the WP&B. The Company will re-submit a WP&B on September 1 of each year, which may include amendments. Any Continuing Party not wishing to participate equally in the funding of the forthcoming year's WP&B shall withdraw from this Agreement. In the event that a Continuing Party does withdraw in this manner, the other Continuing Parties shall then have 30 days to commit to equally fund the WP&B for the forthcoming year, establish a different funding method, or withdraw from this Agreement.
- c) Any Continuing Party who fails to pay its share of any approved WP&B shall no longer be in good standing and, until the failure to pay is fully cured, such Continuing Party shall not be entitled to participate in Company's Management Committee or approve any additional WP&B or amendments to any WP&B.

4.3 Post FID Funding

- (a) As soon as practical, with a target not later than the target FID date of July 1, 2018, the Company will arrange funding for final engineering, procurement, construction, and placing the System into operation ("Implementation Funding") using a combination of equity contributions and third-party project financing procured by the Company. Implementation Funding shall be supported by shippers either directly or indirectly in accordance with the following general arrangements:
- (b) Equity Funding may be provided by each of the Producer Parties or any other shipper directly in proportion to the initial capacity on the system they desire to secure and the initial ownership in the Company they desire to hold. For example, if a Party desires to own twenty five percent of the Company and hold a twenty five percent share of initial capacity, they shall provide twenty five percent of the Implementation Funding. [Very similar to the current structure except a single party cannot hold up the entire development of the system.]
- (c) To the extent a Party desires to pay up front but not hold an ownership interest in the Company, several structures may be available including a securitization of the income

stream generated by the Company, or a prepayment of service, or some other means of converting an up-front contribution of funds to a desirable capacity and/or security position in the Company.

- (d) To the extent a Party is unable or unwilling to provide equity or up-front funding in accordance with 4.3 (b) or (c) above, such Party may enter into a long term transportation or usage agreement ("Service Agreement") with the Company and/or the relevant System segment in order to secure capacity (ie: a party may only want transportation and liquefaction service and can sign up for those segments). The Shipper shall provide sufficient credit support such that the Service Agreement is able to underpin third-party financing at least sufficient to provide the funding necessary to develop and place into service the associated capacity. [Note: It is expected the NPV cost to the shipper of this option will be somewhat higher under a modest discount rate than the amount under 4.3(a) through (c) above.]
- (e) To the extent a Party is unable or unwilling to secure capacity under options 4.3(a),(b), or (c) above, the Company shall use reasonable efforts to explore alternative service arrangements, such as buy/sell arrangements, joint venture marketing arrangements, the attraction of unrelated third-party shippers, and other means to secure customer commitments necessary to underpin sufficient financing.

4.4 If FID does not occur by October 1, 2021 then the Parties will negotiate in good faith for a continuance of the effort to develop the Project or, to the extent the Parties are unable to agree on a continuation, this Agreement shall terminate and the assets of the Company will be assigned in equal proportion to those Continuing Parties who are Parties to the Agreement at that time.

4.5 The Company shall own all assets employed to earn tolling revenue by providing gas conditioning, transportation and liquefaction services ("Services") to shippers and shall incur all the costs and bear all the liabilities associated with providing such Services. In no event shall AGDC, the State of Alaska, or any affiliated entity be obligated directly or indirectly for the liabilities of the Company.

4.6 Neither any Continuing Party, nor any Affiliate or owner of a Continuing Party (including the State of Alaska), shall in any way be liable for the obligations of the Company.

4.7 A Party's interests in this Agreement may be freely assigned to an Affiliate of the Party. A Party's interests in this Agreement may be assigned to a non-Affiliate only if AGDC gives its prior written consent to the assignment, with such consent not unreasonably withheld.

4.8 A third party may become a Continuing Party by agreeing to fund development activities for the Project on terms and conditions reasonably acceptable to AGDC.

Article 5 - MARKETING AND OPERATIONS

5.1 The Company shall actively market the capabilities and services of the System on both a bundled and unbundled basis. The marketing activities shall not include the sale of gas or LNG, which is expected to be done by each of the Parties and/or the shippers. The Company shall provide reasonable support to the Parties and/or its shippers as may be desired to assist in their marketing efforts.

5.2 The Company shall use reasonable commercial efforts to provide service to existing or new shippers in the future, provided that Initial Shippers are not required to incur an adverse rate impact associated with such new shippers.

- 5.3 The System shall be developed such that capacity for in-state gas offtake of 500 MMcf/d shall be included in the base System design even though the entirety of such markets may not initially exist. Further, in-state customers shall be required to sign a service agreement similar to other shippers but shall not be required to provide a payment and performance guarantee higher than that which they are able to provide as an entity; for the avoidance of doubt, neither AGDC nor the State of Alaska shall not be required to guarantee service agreements for in-state customers.
- 5.4 The Company shall have charge of, and shall conduct, all Operations in accordance with generally accepted industry practices. The Company may directly conduct Operations itself or contract with other parties to indirectly conduct Operations on the Company's behalf.
- 5.5 Operations shall include, but shall not be limited to:
 - (a) Commercial Operations, which shall include coordination and financial oversight of annual Work Programs and Budgets, the negotiation and management of debt instruments, tolling contracts, land contracts, and the submission of an application to FERC for approval under Section 3 of the Natural Gas Act.
 - (b) Project Marketing, which shall consist of the public promotion of the Company, the Company Purpose, the Company's engineering and construction activities, and the Company's tolling services. Project Marketing shall not include the marketing of North Slope gas or any Shipper's LNG.
 - (c) Communication Operations, which shall include all communications with third parties related to Operations.
 - (d) Technical Operations, which shall include the preparation and management of annual Work Programs and Budgets related to project engineering and construction activities, the management of all FEED and EPC contracts and the preparation of all environmental regulatory submissions necessary to successfully implement the System Plan until Start-Up.
 - (e) Operating Operations, which shall include day-to-day operation of the System after Start-Up, as well as decommissioning.
- 5.6 [Party A] ("Advisor") has agreed to provide the Company with Technical Advisory Services from the Effective Date until Start-Up for review of the technical work scope, schedule and execution. The Advisor shall provide independent technical expertise in review of: project design and technologies; execution plans; cost estimates; contracting methodologies; procurement methodologies; and annual Work Programs and Budgets. Upon review, the Advisor will inform the Company of major discrepancies and challenges. The Advisor's compensation for its services will be included in the Company's Work Programs and Budgets. [Note: the intention of this clause is to create or maintain a role for one of the Producer Parties to serve as the Technical Advisor. If none of the Producer Parties desires to serve in such capacity, the Company shall engage a third-party technical advisor qualified to perform such activity.]

Article 6 - MANAGEMENT COMMITTEE

- 6.1 A Management Committee shall be established that will have the duty to advise and provide assistance to the Company in implementing the System Plan.

6.2 The Management Committee shall be composed of a representative of each Continuing Party.

Article 7 - CAPACITY RIGHTS

- 7.1 The Company shall use the System's initial capacity ("Initial Capacity") to contract with customers before FID ("Initial Shippers") to provide them with Services.
- 7.2 Potential Initial Shippers will be invited to contract with the Company to acquire and reserve rights to services ("Initial Capacity Rights"). Only Parties in good standing and their Affiliates may be Initial Shippers.
- 7.3 The Company shall use reasonable efforts to provide shippers who are not Initial Shippers ("Other Shippers") with Initial Capacity Rights. To the extent that there are insufficient Initial Capacity Rights to meet an Other Shipper's needs, then the Company shall use reasonable efforts to provide the Other Shipper with Additional Capacity Rights by expanding capacity.
- 7.4 The price of Capacity Rights ("toll") will be based on a cost of service consistent with the Company receiving a reasonable return on its investment in view of the risks that will be borne by the Company. A Shipper with Capacity Rights will pay tolls for such Capacity Rights regardless of whether they are actually used by the Shipper.

Article 8 - OTHER TERMS

- 8.1 The Laws and Regulations of Alaska, exclusive of any conflicts of laws principles that could require the application of any other law, shall govern this Agreement for all purposes, including the resolution of all Disputes between or among Parties.
- 8.2 The following additional terms are agreed upon:
 - (a) This Agreement is not intended to, and shall not be construed to, create any third-party beneficiary rights.
 - (b) The rights and obligations of the Parties under this Agreement are individual and not joint. This Agreement is intended to establish only a contractual relationship and not a partnership, joint venture or association, or a trust. No Party is authorized to act as the agent for any other Party under this Agreement. In their relations with each other under this Agreement, the Parties shall not be considered to be fiduciaries.
 - (c) This Agreement may be signed in counterparts all of which when taken together shall constitute one and the same agreement. Signature pages may be exchanged by electronic means.
 - (d) Each of the Parties has had the assistance of counsel in the preparation of this Agreement so that the rule of interpreting contract provisions against the drafter shall not apply to this Agreement.