



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 13, 2016

Dear Senator Meyer and Senator Giessel,

I have received your request for the concept document discussed with the producer parties to the AKLNG joint venture; the purpose of the document being to provide a smooth and amicable governance transition to state leadership. I intend to make good on the pledge of increased transparency – all with the intent of a more constructive relationship with the legislature as we develop the gasline and LNG project in a manner acceptable to the State of Alaska and in accordance with sound business principles. I am hoping that the increased transparency will reduce the occurrence of misunderstanding and misinformation which is detrimental to the sound development of such an important project.

Unfortunately, the apparent willingness of some authors in the public domain to take certain terms out of context or make a story where no story exists, has led to a request by one of the parties to not release a draft concept and instead wait for a more definitive agreement; we are sympathetic to that argument and have decided to comply with that request for now while a more definitive agreement is in the works. Attached is a summary of the salient points of the concept. To be clear, it is only a concept at this time and is being discussed and potentially shaped by all parties; if an agreement is concluded, the final points may look significantly different than the points attached here.

In your letter, you make reference to a desire to have legislative consultants analyze the risks associated with a new structure as compared to the current structure. I would welcome their involvement at any point in the process. Although there is a certain amount of information that will be deemed confidential pursuant to the current joint venture agreements, there may be a significant amount of work that can be done using a generic template of the project without the need for confidential information in order to make an informed risk assessment.

I am hoping this increased level of transparency and openness will help improve and build the confidence that you have in AGDC's ability to manage a project, and am also hoping the Joint Resources Committee gives us some benefit of the doubt to enable a development of the plan. It should be recognized that the global LNG community is watching this project. It is my informed belief, based on numerous data points, that the global LNG community believes the AKLNG project is no longer progressing on a path for development in the 2020's. The latest schedule presented by Steve Butt in the Joint Resources hearings no longer indicates calendar years in the schedule; instead, the schedule lists "Year 1, Year 2..." following

an undefined “FEED Decision”; while this change may seem minor, it clearly removes any focus or commitment on completion within any specified timeframe.

The fact that the project was not moving forward under the current structure became clear when the producer parties presented the State with two options: either the State takes the lead, or slow the project down under the current leadership structure. The following timeline is from the Governor’s office:

- **Tues., 02.09.16** Governor Walker met with AKLNG sponsors in Anchorage. Sponsors proposed Option 1 (project transitioned to the state) or Option 2 (shelve the project).
- **Tues., 02.16.16:** Governor Walker met with Rep. Chenault, Sen. MacKinnon, Sen. Kelly, Sen. Giessel, Rep. Neuman, Rep. Thompson, Rep. Talerico to tell them about what the producers had proposed.
- **Wed., 02.17.16:** Governor Walker and Janet Weiss, Joe Marushack and Steve Butt (on phone) held news conference to publicly communicate the message.

Senator Giessel correctly points out in her opinion piece published in the Alaska Dispatch News posted July 6, 2016 that Exxon is not chasing this project, but I believe is incorrect in the assertion that their lack of willingness to chase this project means the project is bad. Instead, it should be recognized that the Alaskan project may not rank as high in their priority queue as some other projects they are pursuing. It has been publicly stated at Exxon’s highest corporate levels that their top two LNG projects are Golden Pass in Texas and an expansion of the Papua New Guinea (Shook, Barbara, (2016, May 30). *“Market Doldrums Knocks Alaska LNG Further Down in Exxon Priorities”* Natural Gas Week). Exxon is an extremely well run organization that makes decisions on what is best for the Exxon and its shareholders; just because the Alaskan project may not currently rank as high as some of the global alternatives, by no means makes the project a bad project and certainly not bad for Alaska.

So it is against this backdrop that AGDC, with the encouragement of some of the producer parties, undertakes the effort to explore structuring alternatives as a means to reduce the cost of the infrastructure – something that will clearly increase the netback price realized by the State and producer parties - and steps into a leadership role to keep the project on a path for sound commercialization.

Again, the global LNG community is watching this project to ascertain if it is a project for consideration in the 2020’s. Price is important, but certainty is paramount. The global community well knows the Alaska LNG project is not moving forward under the current plan, but they are looking with some enthusiasm as they see the State of Alaska taking a more active role in the project execution. Their confidence, however, can be quickly destroyed and our chances of success severely diminished, if the legislative leaders of the State’s energy committees openly proclaim that the AGDC – the only entity willing to lead this project to timely completion – does not have the experience to oversee a project like this; further, if the major Asian LNG customers, our primary target market – including companies that have been Alaska’s longest and most reliable LNG trading partners, and investors in many of the world’s large LNG projects – are essentially told they are not welcome investors in Alaska’s LNG project, then they will be driven elsewhere.

Major LNG buyers have many supply projects to choose from; the recent large LNG projects that have secured LNG buyers all had government support and were selected by buyers and moved forward.

Successfully completing this project means going head-to-head against the toughest of competitors and positioning this project and the State of Alaska as a reliable supplier for generations to come. The LNG market has become much more global; Alaska now has to compete with Texas, Louisiana, Papua New Guinea, Mozambique, Indonesia, Australia, and many other rising global supply sources.

Netback price at the wellhead is extremely important, for Alaska as well as the producer parties. By lowering the cost of the transportation infrastructure through the use of infrastructure funding from third-parties, the netback price can be increased, thereby increasing the desire of the producer parties and the State to move this project forward. But if netback price has really now become the only measure of success, then Alaska, with its necessary gasline, may always be at a disadvantage. Clearly the project formation documents recognized that other measures of success were also important, including: Competitively priced, reliable in-state gas; commercialization of ANS gas resources through the sale of LNG to global markets and access to instate demand; creating jobs for Alaskans in the exploration, development, production, and transportation of natural gas; increasing opportunities for Alaskan-based businesses; providing additional revenues to the State of Alaska and LNG partners; and building infrastructure for the development of onshore and offshore oil and gas exploration and production. The benefits of this project to Alaska are enormous and should not be simply brushed aside because current netback prices are higher elsewhere than in Alaska.

In closing, I reiterate the pledge to be more transparent, which is something we can only currently do within the confidentiality constraints of the existing arrangement. I would ask however, that the legislative leaders of the state not intentionally or inadvertently destroy the chances of this project moving forward before we have had the opportunity to put the pieces in place to judge the plan on its merits.

Taking lead of the Alaska LNG project is something we do out of necessity more so than desire, but by no means out of desperation. Taking lead, however, does not mean “going it alone” as so often seems to be the mischaracterization; at no point has AGDC said or even contemplated that Alaska would “go it alone”. Taking lead, means marshalling the proper resources and skillsets to complete an energy infrastructure project – something energy professionals are very familiar with. The AGDC team currently contains a high proportion of career energy professionals; the profile and importance of the project can clearly attract additional energy management professionals fully capable of managing world-class contractors and project funding sources. Alaska will not do this project alone – it doesn’t have to – but it must have the courage and confidence to lead.

Sincerely,



Keith Meyer
President
Alaska Gasline Development Corporation

Commercial Concept Framework:

- AGDC will form the special purpose entity that will be the Project Company.
- Project Company will have a set of overarching principles designed to keep the project on track with competitive rates.
- Project Company will engage competent technical and commercial advisors.
- Producer parties' roles may change:
 - AGDC aims to keep project participants together, although some may choose not to invest in the next stage.
 - Ability for parties to participate and exit with minimal impact on project pace.
- Project ownership may not equate to gas ownership.
- Alaska LNG (Project Company) will be a midstream business:
 - Not an extension of Prudhoe Bay or Point Thomson.
 - Provides unbundled services to producers, AGDC, third parties: GTP, Pipeline, LNG.
 - Levies transparent tolls in line with midstream businesses to clear market and maximize upstream revenues.
- Potential for alternative financing.
 - Federal tax reduction options.
 - Lower-cost third-party equity investors.
 - Non-recourse debt to minimize financial exposure.