



AGDC Responses to Senator Giessel Questions

August 23, 2016

1. What is the target range for cost of supply?

Target range for cost of supply is normally driven by the least and most expensive marginal supplier. This target shifts over time as market conditions change. Therefore, rather than targeting a specific number, a project always has to strive to be competitive relative to the size of the available demand and other projects at a similar stage of development. At the moment this range appears to be driven by other major competing projects in the US Gulf and East Africa that can deliver similar volumes of LNG to the Asian market in the same time frame. Cost of supply is not the only determinant of competitiveness, but it clearly plays a large part. At the moment, AGDC and other project participants have a significant amount of external market information that places Alaska LNG toward the bottom of competitiveness scale, and that needs to be addressed through project re-structuring.

2. What is your timeline for securing access to gas?

Access to gas can come in several forms, such as contracts to ship gas on the project or wellhead sales to shippers who are not gas producers. Normally, final agreements on LNG purchase and sales contracts and upstream gas supply contracts are executed simultaneously directly before project financial close (or FID), so that pricing and other terms are fully aligned. However, intermediate option agreements can be concluded sooner. Some of the bi-lateral gas access discussions have already begun, and AGDC envisions continuing those with upstream resource owners with increasing levels of commitment over the next two years as the project continues its development.

3. What steps are being taken to secure buyers?

AGDC will be promoting the Alaska pipeline and LNG project as a reliable and accessible source of LNG supply. The AGDC marketing efforts will help support and augment the marketing activities of the upstream producer parties. The upstream producer parties may be the primary customer base for the project depending upon how they decide to market their gas supply.

Service contracts and supply agreements will be drafted in accordance with accepted industry terms and conditions used elsewhere in large, third-party financed, LNG and pipeline projects, properly tailored for the Alaska project.

4. EPC Contractors

a. When do you foresee hiring a Project Management contractor?

We plan to solicit and contract with a Program Management Contractor (PMC) over the next 2 months to augment our in-house owner's staff and have the PMC on-board for transition with AKLNG Project Management Team by the end of 2016.

b. What is that procurement process? How long do you anticipate it will take?

We plan to use the same process to solicit for program management assistance on the ASAP Project to stand-up a full PMT capability to meet the needs of the project. We are specifically looking for a PMC with oil and gas mega-project experience, ideally with Arctic experience. We have started compiling information to determine the recent level and breadth of experience from potential contractors to narrow the field down from nearly 20 to 5 or 6 qualified firms. Next step will be formal solicitation of the top tier firms with Request for Proposal and formal review and award process.

c. What are the components of that contract?

AGDC needs to have program management expertise to augment our limited in-house owner's staff. The scope of the PMC will include solicitation and recommendation of primary support contractors for LNG / Marine, Pipeline, and Gas Treatment Plant subprojects; consolidated contract management for PMT contractors; primary engineering oversight of engineering companies; primary contractor billing review and payment; project processes, systems, and procedures for PMT; project controls and reporting; scheduling and cost estimating integration; integration of engineering between engineering contractors; and EPC planning and contract management strategies. The contract will be phased to pace with the level of project activity.

d. What will the term and scope be?

The scope of the contract will be to provide program management and technical expertise to advance the project through FEED, EPC, and construction of the project.

e. What do you anticipate the cost will be for the PM contractor?

We will develop cost estimates for the PMC in future phases of the project.

5. When will you file for the draft EIS?

The environmental review process is triggered by a Natural Gas Act Section 3 application to FERC. Please see response below.

6. *When will you make FERC application?*

The earliest that FERC will accept a FERC Natural Gas Act (NGA) Section 3 application is 90 days after it accepts Resource Report 13 (RR 13) from the project. However, because of the volume of data submitted by AKLNG, we have indicated to FERC that 120 days of review would be acceptable. RR 13 is scheduled to be submitted to FERC on September 2, 2016. AGDC is planning to submit a complete application in early January 2017 depending on the amount of re-write necessary from FERC's review of the second drafts of the resource reports. AGDC will also need to demonstrate that it has control of the lands at the LNG plant site. Commercial negotiations are underway with the owners of the AKLNG Project LLC to gain that control.

7. *When will you enter FEED? Expected FID?*

AGDC does not plan on commencing FEED until several milestones have been accomplished including securing customers to subscribe to services or LNG supply, equity and debt financing to build the project, large construction contractors and others willing to protect against cost overruns, and legislative approval.

8. *Funding*

a. *The Legislature's appropriations have been based on 25% of the costs, with the 3 partners funding the other 75%. How much will the New Concept Plan need and in when to meet your proposed timeline?*

AGDC's go-forward plan will cover all of the project development until we have partners that share the costs of progressing the project. Until additional funding becomes available, AGDC will advance the project with existing funds. The priority work effort will be the filing of the Section 3 FERC application. Secondly we will continue to interface with FERC, federal and state regulators and the public as FERC advances the EIS. The EIS is expected to be complete in second half 2018. AGDC has enough funds to file the application and interface with FERC through fiscal year 2017.

b. *What supplemental funding request will you be making to the Legislature in January 2017?*

AGDC does not anticipate requesting any supplemental funding for FY17. We are building our budgets currently and will submit through the OMB process for both capital and operating needs in FY18 and beyond.

c. *With today's budget shortfall, how do you propose to forestall a slow-down due to funding constraints?*

AGDC will live within our means (funds remaining in the AKLNG and In-state Pipeline funds) and will request future funding through the appropriation process.

d. What are expected spend rates through FY 17?

AGDC anticipates spending its budgeted funds in FY17 to cover corporate operations, cash calls to cover our portion of AKLNG's 2016 work program, preliminary AK LNG FERC activities, and regulatory efforts to complete the SEIS for the ASAP project.

e. What are your plans for bringing in others to provide funding?

AGDC is actively seeking partners to advance the project and will keep the legislature informed of agreements and funding authorization needs.