ALASKA GASLINE DEVELOPMENT CORP.
GAS FOR ALASKANS

AGDC Responses to Senator Giessel's Questions in Preparation for Joint Resources Committee Hearing
June 29, 2016

The Preliminary Front-End Engineering Design Phase (Pre-FEED) has been indicated to be complete by the fall of 2016. Please describe what is envisioned to occur after the completion of Pre-FEED.

The Pre-FEED work program has progressed on schedule and the venture parties have confirmed that all deliverables, including an updated project cost estimate, will be completed and transmitted to each venture party by September 2016. From a project development perspective, the next priority is to complete and file the Natural Gas Act Section 3 application with FERC, and to negotiate an agreement that will allow the project to begin a post pre-FEED level of commercial and technical development. The State's priority in these negotiations is to create a project structure that increases the competitiveness of the project and puts it into service in the 2023-2025 timeframe.

The HOA contemplated a FEED decision from all parties within 36 months of the commencement of pre-FEED, or approximately mid-2017. However, in mid-February, it became clear that the persistent low-oil price environment created a risk that the project might not receive full support for moving into FEED on that timeline. In order for the project to advance into a post pre-FEED phase of development, the parties will need an agreement on governance and participation during the next phase. The State has initiated conversations with the producers on such an agreement to ensure that the current pace of development is maintained and to increase the project's competitiveness in the marketplace. Those conversations are ongoing and the full nature of the structure has not been finalized.

Please describe what is envisioned as to the management structure after the completion of Pre-FEED. If possible, provide an organizational chart with names and job descriptions

Maintaining the project's current pace of development is a priority for the State. However, each participating party will make a decision as to whether to proceed to FEED at their sole discretion. Advancing the project beyond pre-FEED will require an agreement on governance and participation during the next phase, and the state has initiated conversations on such an agreement. Those conversations are ongoing and the full nature of the structure has not been finalized. The state has proposed an option that would put the state in a project leadership role, which could lead to changes in ownership and management of the project, but that may increase the project's competitiveness in the marketplace.

What is the expectation for the role of the Alaska Gasline Development Corporation (AGDC) and the Department of Natural Resources (DNR) after the completion of Pre-FEED

AGDC will lead all aspects of project development on behalf of the state, including engineering, technical, regulatory, commercial, construction and project marketing. The Department of Natural Resources will continue to manage upstream aspects of the project, including management of the state's resource base, efforts to maximize the value of the state's royalty and tax gas, best interest

ALASKA GASLINE DEVELOPMENT CORPORATION
3201 C Street, Suite 200, Anchorage, Alaska 99503
Tel. 907-330-6300 | Fax 907-330-6309 | www.agdc.us

finding regarding RIK vs RIV determination, lease modifications, and any agreements regarding the disposition of the state's gas.

What is the funding source effort to proceed after the completion of Pre-FEED

AGDC has two funds from which it finances corporate operations and work activities, the In-State Natural Gas Pipeline Fund and the Alaska Liquefied Natural Gas Project Fund. The Alaska Liquefied Natural Gas Project Fund (AS 31.25.110) was established in 2014 to fund expenditures associated with an Alaska liquefied natural gas project. This is the primary funding source for AGDC's project related activities.

How does the State of Alaska (SOA) plan to fund activities after the completion of Pre-FEED

Through prior appropriation, the legislature fully funded AGDC's corporate operating expenses through FY17 and contractual obligations for the state's 25% share of expected pre-FEED expenditures, including the project's anticipated calendar year 2017 Work Program & Budget. As presented during this year's appropriation cycle, AGDC anticipates having a balance in the Alaska Liquefied Natural Gas Project Fund at the end of its FY17 work activities. AGDC currently projects that balance to be approximately $43 million. Depending on the pace of post pre-FEED activities, AGDC may need to seek additional development funds from the legislature. However, AGDC intends to seek non-recourse third-party financing for the construction and execution of the project.

Does the state (SOA) still intend to pursue a liquefied natural gas (LNG) project as prescribed in the AK LNG Heads of Agreement (HOA) and Senate Bill 138?

Yes, the state is actively working to maintain the pace of the project and to advance it as rapidly as possible to completion. The state desires continued involvement of the resource owners. Given the challenging oil price environment, all parties agreed in February 2016 to explore options for continuing the project under a different commercial structure that may reduce overall costs. The commercial framework established in the HOA envisioned a state participating interest in the Alaska LNG project that was equivalent to the state's gas share (royalty plus tax gas). Depending on the outcome of current negotiations, the state's interest in the project could change.

If it does not, is the SOA still pursuing an LNG project that is not prescribed by the AK LNG HOA and Senate Bill 138?

The state is actively working to advance the Alaska LNG project. SB 138 described an Alaska liquefied natural gas project consisting of an LNG plant, gas pipeline, gas treatment plant, and the PBU and PTU gas transmission lines. If the Alaska LNG project as currently structured is unable to proceed, the state will still be looking to develop an LNG project that includes all of those components. The commercial framework established in the HOA envisioned a state participating interest in the Alaska LNG project that was equivalent to the state's gas share (royalty plus tax gas). Depending on the outcome of current negotiations, the state's interest in the project could change.

If so, will the SOA pursue a project pursuant to the authorizations proscribed in Senate Bill 138 or House Bill 4? Does the SOA foresee authorizations that can be interchanged between the enabling legislation?

Yes. The state and AGDC continue to work within the authority originally established in HB 4 and then subsequently modified and expanded in SB 138.

What is the structure of the venture?

A new commercial venture has not been established. All parties are continuing to advance the Alaska LNG project. However, advancing the project beyond pre-FEED will require an agreement on governance and participation during the next phase. The state has initiated preliminary conversations on such an agreement. Those conversations are ongoing and nothing has been finalized. The State's priority is to maintain or increase the current pace of development. One option would be to put AGDC in a project leadership role, which could result in changes in ownership and management of the project, but which could increase the project's cost competitiveness in the marketplace.

Has an analysis from a consultancy been conducted on that new structure that show potential revenues and risks to the SOA, such as the study conducted by Black & Veatch for Senate Bill 138?

The risks and rewards to the state have not yet been quantified. The immediate focus is to determine what is needed to make the AKLNG project cost competitive in the global arena. This analysis will involve looking at multiple aspects of the project and financing alternatives. Once an optimal structure is determined, an analysis of the benefits that will accrue to the state can be performed.

Will the SOA experience any increase in liability under the new venture structure?

AGDC believes a traditional project finance structure will not increase the risk to the state relative to the equity finance structure, and should ideally reduce the risk. Further, an Alaska LNG project will yield significant benefits to the state including commercializing the state's natural gas resources, providing a new source of state revenue, expansion of the oil and gas development opportunities, jobs, economic development and access to a long-term source of energy for Alaskans. However, state participation in this or any project, does not come without risk. The state will not move forward with a project until those risks have been thoroughly analyzed and mitigated to the optimal extent possible. Ownership and investment are not equivalent. The state is evaluating a number of financing options that would reduce the need for the state to make substantial direct investment in the construction of the project, and would place the liabilities of the project on those entities best placed to mitigate the risks to ensure maximum protection for the project owner.

Does the SOA intend to purchase property in the Matanuska-Susitna Borough or the Kenai Peninsula Borough for the new venture structure? If so, who will manage those properties?

The state has no plans at this time to purchase property in the Mat-Su Borough for the purposes of advancing this project. However, the project will need to have full control of the land at Nikiski in order to receive FERC certification.

The 600+ acres of land that has been acquired to date for the Alaska LNG project is in Nikiski on the Kenai Peninsula but is owned by the producer parties under a separate limited liability company called Alaska LNG Project, LLC. The project entity, which would be the applicant at FERC, would have to have either an option to buy the property or an option for full usage rights for the project life. It has been anticipated that a purchase option or usage agreement would be completed prior to the FERC application filing. The land and facility would be managed, like the rest of the project, by an operating company formed by the venture.

Is there a reason the Legislature has yet to be briefed on the details of that structure by the State Gas Team?

Having the state take a leadership role in the project as an alternative to slowing the pace of project development and a means to reduce the overall cost is a recent development. AGDC is organizing itself to step into a leadership role and working with the upstream resource owners to develop a plan that will meet their objectives as well as the state's objectives. The structure for AGDC to take a leadership role is still in the formative stages for this project but is a traditional structure for various pipeline, LNG, and energy infrastructure projects. AGDC hired a new president familiar with energy infrastructure development only two weeks ago. This hearing is the first opportunity AGDC has had to present the concept to the legislature in any meaningful manner.

AGDC looks forward to giving the legislature further updates on the status of the project at the joint Resources Committee hearing scheduled for June 29th.

Has any company, government entity, or investment group, been identified as potential participants in the venture structure?

There are numerous companies that could be potential participants in the venture structure, but no specific entities have yet been approached. These entities could include large infrastructure investment funds, sovereign wealth funds from around the world, national oil companies, and gas and energy industry participants.

If so, has an assessment been conducted as to the cost or charge fees of those participants?

A competitive process would be used to engage investment bankers who would be charging arrangement and other fees along reasonable industry guidelines. The investment bankers would then assist in the attraction and arrangement of debt and equity investors. Debt and equity would be provided upon competitive terms, the pricing of which would vary depending upon where the debt or equity tranche fell in the "capital waterfall" (i.e.: senior debt is lower priced than subordinate debt which is lower priced than equity, and so on).

Has an analysis been done for government take for the SOA under the venture structure?

Not yet, but an analysis will be performed as progress is made in determining what is required to make the project globally competitive.

Has the SOA engaged in any discussion related to pursuing an LNG project with a company or government entity besides the AK LNG project participants?

AGDC has had internal discussions regarding potential contingency plans should the AKLNG project participants be unwilling to move the project forward. As part of those internal discussions, AGDC has discussed potential strategic entities, such as some of those entities mentioned as potential funding sources above, as potential participants. However, AGDC believes it is best to first use all reasonable efforts to proceed with the existing AKLNG project as the vehicle to accomplish its gasline and LNG objectives set forth in SB 138. Consequently, AGDC has not pursued any meaningful discussions with entities besides the AKLNG participants.

If so, has the SOA signed confidentiality agreements with anyone other than the AK LNG project participants? What is the purpose of those agreements?

AGDC uses a number of vendors and service providers that are under confidentiality agreements. Further, in the future, AGDC expects to enter into confidentiality agreements with potential buyers, investment bankers, and other relevant parties, in conformance with standard industry practice.

Has the SOA signed a Memorandum of Understanding (MOU) that have not been publically announced?

AGDC has not signed an MOU and is not aware of any state entity that has signed an MOU.

Does the SOA reaffirm their commitment that any agreement that has a term in excess of two years will come before the Legislature for approval?

Yes. Current law requires that agreements and commercial contracts associated with a North Slope natural gas pipeline project that will have a duration of longer than two years, and to which the State of Alaska is a party through DNR, require legislative authorization. AGDC is not similarly required to obtain legislative authority prior to executing commercial contracts so long as AGDC's cost of the contract can be covered by one of AGDC's funds or another existing appropriation or AGDC's obligations under the contract are made subject to appropriation.

If not, please describe the type of agreements, to the extent possible, that may bypass the Legislature, and the reason that action is necessary.

AGDC may enter into any contract that is consistent with its statutory purposes and powers as set out in AS 31.25. The duration of such a contract is not necessarily limited to two years. For AGDC to expend money from one of its existing funds under such a contract, the contract would have to be in compliance with the statutes describing how these funds can be used, which generally means for the in-state natural gas pipeline or an Alaska liquefied natural gas project. Possible examples could include contracts with engineering firms working on project design, or contracts with advisors working on securing financing for the project, or a contract to lease or purchase property for the project.