



Alaska LNG

State Gas Team Project Update

June 16, 2015

Audie Setters
General Manager
State Gas Team

Dona Keppers
Deputy Commissioner
Department of Revenue

Agenda

- Introduction: Audie P. Setters
- Organizational Issues
- TransCanada Reimbursable Costs Update
- Overview of the Municipal Advisory Gas Project Review Board Activity
- Status of Department of Revenue's Alaska LNG Financing Work

State of Alaska's Alaska LNG Gas Team

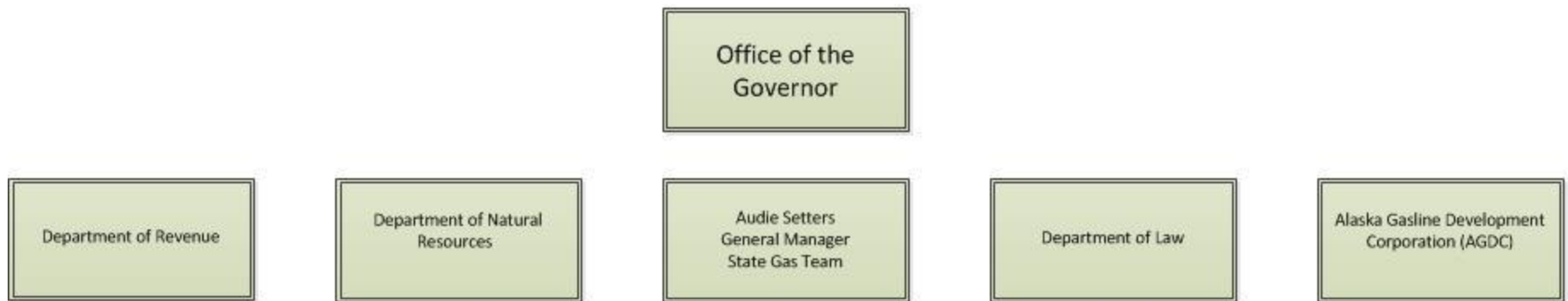
General Manager, State of Alaska Gas Team:

Audie P. Setters

- Took early retirement from Chevron in July 2014 after 34 years with Chevron and Texaco.
- Experience includes new ventures, mergers, acquisitions and divestitures, project development and gas/LNG development, transportation & marketing.
- Recent roles include:
 - VP and GM, Business Development, Asia Pacific (Singapore);
 - VP, LNG Marketing and Trading
- Global Perspective: based 6 years in Singapore, 2 years in Perth, 7 years in London and over 15 years in Calgary/Houston;
- Directly involved in the development of 3 greenfield LNG projects:
 - Gorgon LNG (Australia) – 15 MTPA
 - Wheatstone LNG (Australia) – 9 MTPA
 - Angola LNG – 5 MTPA
- By 2018 when Gorgon reaches full capacity, Chevron will have moved into the top 5 LNG producers (from the 20th largest LNG producer) according to Wood Mackenzie.
- Was hired by the Parnell administration in September 2014 to work as the lead marketing manager on the State Gas Team with additional expertise provided on upstream issues.

Structure of the State's Gas Team

State LNG Project Organization



Structure of the State's Gas Team

State Gas Team Project Roles

- Work Streams:
 - Gas Production/Upstream
 - Lease Modifications
 - Governance
 - Expansion
 - Fiscals
 - Property Tax
 - Financing
 - Regulatory
 - External Affairs/Government Relations
 - Marketing / Shipping

SOA Stakeholders

- AGDC
- State Gas Team
- Dept. of Natural Resources
- Dept. of Revenue
- Dept. of Law
- Legislature
- Regulatory Agencies
- Potential Lenders
- Alaskans

Success

- “One Team”
 - Continue to build a high performing Team
 - Clearly defined roles and responsibilities
 - Streamlined, empowered negotiating teams with clear authority to negotiate
- Negotiate the suite of agreements and obtain stakeholder agreement to enter FEED in 2016
- Encourage the training and development of Alaskan residents for jobs related to the Alaska LNG Project

Immediate Priorities

- Align our Stakeholders;
- Consolidate and integrate the various project Stakeholders involved in negotiations and the decision process;
- Establish processes to ensure State negotiating teams are armed with a clear authority to negotiate;
- Negotiate the suite of agreements required to support a legislative special session in the fall of 2015, which will enable a FEED decision in 2016;
- Develop commercial agreements and economic analysis that will inform the RIK vs. RIV determination by DNR Commissioner; and
- Build the LNG marketing organization required to promote market awareness and support our marketing requirements.

SOA AKLNG 3rd Party Cost Forecast

Through the State of Alaska's agreements with TransCanada pertaining to the AKLNG Project, SOA is accruing costs associated with TransCanada's work on the Project as follows:

➤ Actual TC Reimbursable Costs for 1/2014–3/2015	\$ 26M
➤ Estimated TC Reimbursable Costs for rest of 2015	<u>\$ 60M</u>
➤ Estimated Total SOA Obligation to TC for 2014-15	\$ 86M
➤ Add'l SOA Pre-FEED Forecast (Jan-June, 2016)	<u>\$ 22M</u>
➤ Est. Total TC Reimbursable Pre-FEED Costs	\$108M

Department of Revenue

Legislative Update

June 16, 2015

Municipal Advisory Gas Project Review Board
AK LNG Finance Work

Commissioner Randall Hoffbeck

Deputy Commissioner Dona Keppers

MAGPRB Major Achievements

- Simplified proposed methodology for Property Tax levied on the AK LNG project
- Garnered input and feedback on potential legislative changes (SB 100/HB183) and subsequent drafts
- Initiated work plan to utilize data from the FERC NEPA process to identify alternatives for Impact Payments During Construction

Simplified Methodology

- MAGPR Board considered various conceptual mechanisms during February and March 2015
- Set of easily defined/clearly understood parameters, including
 - Cost of the facility
 - Flow rate
 - Escalation/inflation
 - Tax Rate
 - Depreciation
- Board considered alternative formulas and financial outputs
- Feedback sought from the AK LNG producers
- Formula refined

Resulting formula has formed the basis for subsequent discussion around legislation and project negotiations.

Property Tax Legislation

- Proposed legislative approach
 - Policy drivers/blend of Statute/Contract
 - Methodology
- Communicated with Board on proposed legislation
- SB 100/HB 183 introduced during 2015 session
- Continued communication with MAGPRB to further develop legislation

Impact Payments During Construction Framework

- Board reviewed historical precedents/methodology under SGDA
- MAGPRB received extensive briefings on FERC NEPA process
 - FERC Resource Report #5 – Socio Economic Impacts
 - Scoping meetings with affected communities during 2015 and early 2016
- Discussed mechanisms for collection and distribution of Impact Payments During Construction

Next Steps

- Momentum and engagement significantly increased during Q1/Q2 2015
- Meetings now scheduled every two weeks to reflect project timing/importance
- Board positioned to support overall project timeframe with timely discussion/input
- Continue to be supportive of a globally competitive Alaskan LNG project

Update on AKLNG Finance

- Pursuant to SB 138, Section 76, Department of Revenue has contracted with Lazard Freres and First Southwest to progress the Finance workplan
- Launched Phase II of the workplan to coincide with AKLNG Project timeline
- Initiated outreach plan for municipalities, regional corporations, and individuals for scoping options to invest in a North Slope natural gas pipeline
- Currently modeling a range of potential financial options and impacts on State credit ratings, borrowing costs, and borrowing capacity
- On target to deliver to the Legislature a final financing recommendation report when the DNR commissioner submits a contract for approval