



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources
NORTH SLOPE GAS COMMERCIALIZATION OFFICE
AKLNG PROJECT OFFICE

550 W. 7th Ave. Suite 1400
Anchorage, AK 99501
Main: 907.269.8431
Fax: 907.269.8918

September 9, 2015

The Honorable Cathy Giessel
Chair of the Senate Resources Committee
Alaska State Capitol
Juneau, Alaska 99801-1182

The Honorable Benjamin Nageak and Dave Talerico
Co-Chairs of the House Resources Committee
Alaska State Capitol
Juneau, Alaska 99801-1182

Dear Senator Giessel and Representatives Nageak and Talerico:

The Department of Natural Resources (DNR) in consultation with the Department of Revenue (DOR) submits the following written report in accordance with Section 77 of Senate Bill 138 (SB138), Chapter 14 SLA 14. This report provides an update to the amount of money the state may be obligated to pay TransCanada for the work they are undertaking on the State's behalf through the Precedent Agreement (PA).

Since the previous report provided on July 16, 2015, the Alaska LNG Project has continued to progress technical work relating to the pre Front End Engineering and Design (pre-FEED) phase of the project. With the submission of the initial draft Resources Reports to the Federal Energy Regulatory Commission (FERC) in February 2015, work continues on NEPA pre-filing activities and TransCanada continues to provide inputs to the second draft of the Resources Reports for anticipated submission in 1Q16. TransCanada continues to participate in project technical reviews during pre-FEED.

Additionally, TransCanada has led the Alaska LNG Project's evaluation of the integrated design basis for the midstream component, which included a pipeline route review workshop with federal and state agencies, Waterway Suitability Assessment Workshop with the US Coast Guard and has worked with the federal Pipeline and Hazardous Materials Safety Administration (PHMSA) to align on permitting plans. Technical work continues on pipeline material design and testing, with evaluation of welding procedures and alternative coating designs. Per the State's request, evaluation of a 48-inch pipeline system has also begun.

Negotiations for certain commercial agreements continued in 2Q15 including on operating model, legal structure and other long-term governance terms for the Front-End Engineering and Design (FEED) phase, upstream gas supply and balancing discussions with the State and other AKLNG parties. TransCanada also provided input to the State of Alaska on proposed expansion framework and terms.

Estimated Project Spending to Date

TransCanada has reported to the State actual spends for January 1, 2014 through June 30, 2015, totaling approximately \$37.0 million, broken down as follows:

- a. A total of \$35.9 million on a cash basis, which amounts to an additional \$10.8 million expended for work related to the Alaska LNG Project in 2Q15.
- b. A carrying cost of \$1.1 million, of which \$0.5 million was expended in 2Q15.

Total Reimbursable Costs to TransCanada through March 31, 2015			
	CSA (Jan. 1- Jun 30, 2014)	PRE-FEED (July 1, 2014-March 31, 2015)	TOTAL
AKLNG Cash Calls and TC Development Costs	\$10.0	\$29.9	\$39.9
Less: AGIA Reimbursement	(\$4.0)		(\$4.0)
Carrying Cost			\$1.1
TOTAL			\$37.0

Projected Total Project Spending

The projected total project spending has not changed since DNR provided the committee with an updated projection in February 2015. TransCanada is still expected to incur approximately \$100 million associated with its work on the Alaska LNG Project, not including \$8 million in carrying costs¹, through pre-FEED.

The projected numbers are as follows from January 1, 2014 through mid-June 2016:

- a. Alaska LNG Project cash calls made on the State's behalf: **~\$77 million;**
- b. Development costs, i.e. TC internal costs for pre-FEED period: **~\$18 million;**
- c. Concept Selection costs prior to entrance of pre-FEED (from January 1 to June 30, 2014), net of AGIA reimbursements: **\$6 million;** and
- d. Carrying Costs: **\$8 million.**

The total projected amount that the State of Alaska would be responsible for through pre-FEED is still estimated to be about \$108 million², which includes the \$37.0 million spent from January 1, 2014 to June 30, 2015.

If we can be of further assistance, please do not hesitate to contact us directly.

Sincerely,



Marty Rutherford
Deputy Commissioner, DNR

CC: Mark Myers, Commissioner, Department of Natural Resources
Audie Setters, General Manager, State of Alaska Gas Team

¹ Carrying costs are also referred to as "Allowance for Funds Used During Construction/AFUDC"

² The costs as reported above add together to equal \$109 million; however, the error is due to a reporting of forecasted numbers for Pre-FEED spending rounded up to the nearest million rather than down.

Randy Hoffbeck, Commissioner, Department of Revenue
Dona Keppers, Deputy Commissioner, Department of Revenue
Dan Fauske, President, Alaska Gasline Development Corporation
Darwin Peterson, Legislative Director, Office of the Governor
Marcia Davis, Deputy Chief of Staff, Office of the Governor
Senator Pete Kelly, Co-Chair, Senate Finance Committee
Senator Anna MacKinnon, Co-Chair, Senate Finance Committee
Representative Mark Neuman, Co-Chair, House Finance Committee
Representative Steve Thompson, Co-Chair, House Finance Committee