



October 13, 2017

Senator Giessel and Representative Tarr:

I received your September 25, 2017 letter to AGDC President Keith Meyer, which included some questions directed at DNR. I felt it proper to answer those questions directly and I intend to have a DNR representative available at the October 16th hearing.

The questions to DNR are restated below, along with my response to those questions. Please let me know if there is anything else I can do to assist.

What is the Department of Natural Resources (DNR) doing to assist AGDC in fulfilling its duties under SB 138?

SB 138 added AS 38.05.180(hh) and (ii) to DNR statutes, to provide the Department with the authority to modify lease terms necessary to enable the project under the equity model framework being considered at the time. Specifically, AS 38.05.180(hh)(1) allowed the Commissioner to remove the switching option between taking its royalty in kind and in value and AS 38.05.180(hh)(3) allowed the Commissioner to replace variable payments with fixed rate payments. While these modifications were necessary to align the project interest with the gas volume interest for each party so that costs and capacity (pipeline ownership) were aligned with resource ownership, DNR was not obligated to take such action unless it was determined to be in the best interest of the State.

A considerable amount of work was afforded these efforts during commercial negotiations with project partners. With project structure changes, the FID decision no longer hinges on these decisions. If the project does require these modifications to be evaluated in the future, DNR stands ready to evaluate these lease modifications when the time comes.

Is the DNR providing the necessary pathway for a royalty decision on AK LNG? If a royalty decision is not necessary from DNR, why has that changed?

The royalty decision, which I assume to mean the decision to take all the State's gas in kind or in value for the duration of the project, was a necessary decision to finalize commercial agreements in an equity model.

Under the ownership models currently being discussed for AKLNG, the timing of this royalty decision has become less important than it was under an equity model and a switching modification may become unnecessary in some models.

As the project is still being defined, the shipping costs are unknown, and the potential sales to RIK purchasers are not identified, it is premature for DNR to issue any long-term commitment for the sale of

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State royalty gas. This decision will be made in due course, is not a critical path item, and will not delay the project.

Has the recent development with the Plan of Development (POD) of the Point Thomson Unit (PTU) impacted the AK LNG timeline in any way?

The Point Thomson Unit Expansion Planning POD was required by 4.6.2 of the Settlement Agreement which was to include the information enumerated in 4.6.4 of the Settlement Agreement. Paragraph 4.6.2 allowed the division “to provide written notice that the Expansion Planning POD is inconsistent with the term of this Agreement” within 60 days of receiving the POD. The Division exercised this right and asked for clarification from the unit operator in order to fully comply with paragraph 4.6.4 of the Settlement Agreement.

On October 12, 2017, ExxonMobil supplied DOG with additional information to supplement the Expansion Planning POD. The Division is now in a 60-day review period for this information.

Regardless, the acceptance/denial of that POD does not impact the ability for AKLNG to proceed. The operator must continue to operate the IPS and progress diligently toward either a MGS or an Expansion Project, or else relinquish the lands in accordance with the Settlement Agreement. A dispute over the completeness of the POD does not alter those obligations.

Sincerely,



Andrew T. Mack
Commissioner
Department of Natural Resources