Alaska LNG Project Update
House Resources Committee

March 22, 2019

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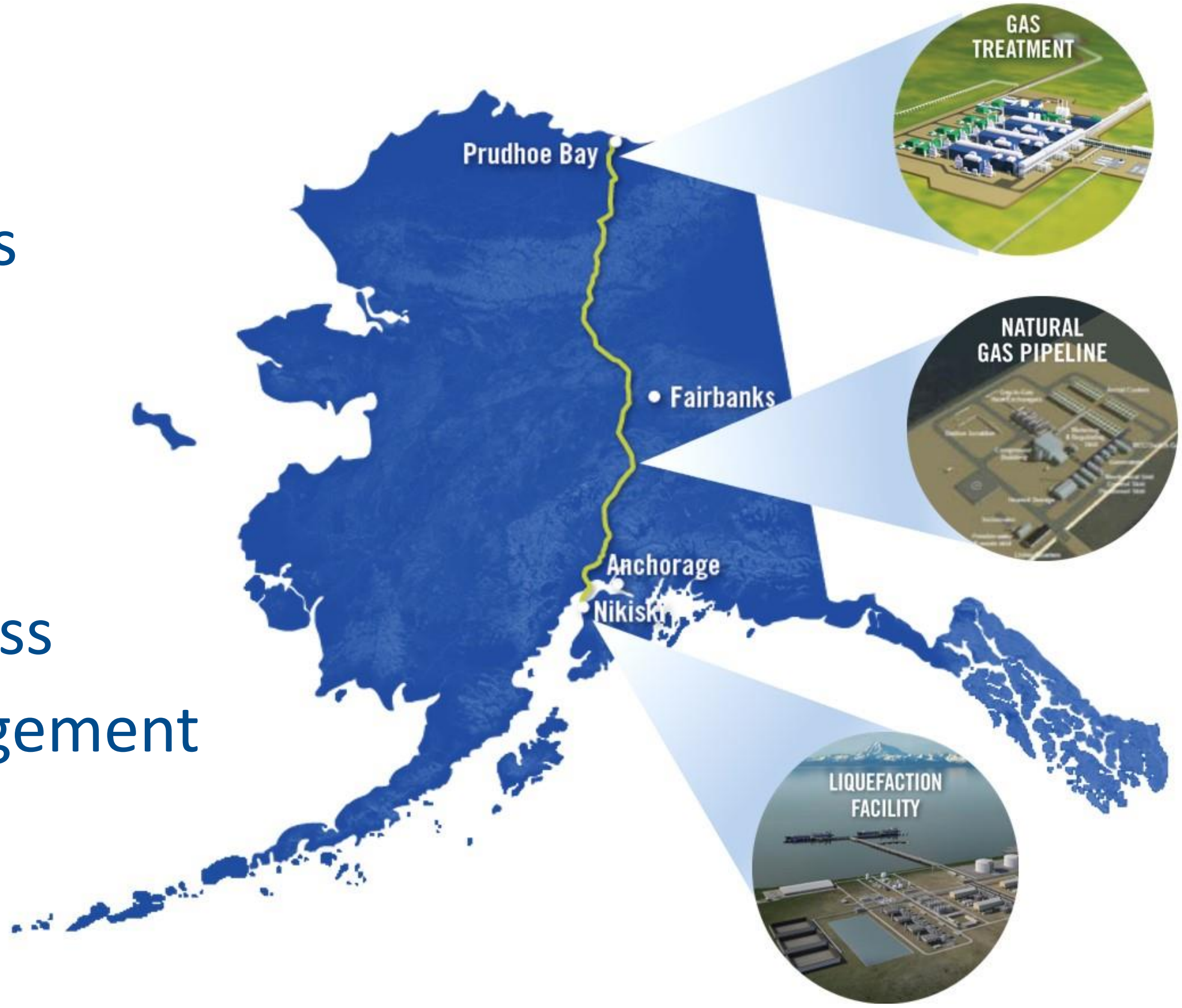

ASAP (HB4)

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- Joint Record of Decision issued by U.S. Army Corps of Engineers and Bureau of Land Management (March 4, 2019)
  - Project as permitted would require a permanent subsidy and deliver utility grade gas with no export component—changing that would require a restart to the permitting process
  - Right of way for ASAP project on 299 miles of federal land
  - ASAP and Alaska LNG share a common path for 80% of Alaska LNG pipeline route
  - Key decisions benefit the Alaska LNG project under review by Federal Energy Regulatory Commission (FERC)
  - 404 permit and compensatory mitigation plan
- No additional ASAP work is anticipated unless there are gas supply issues in Southcentral Alaska and the cost of importing LNG is prohibitive

Alaska LNG (SB138)

- 2016: Alaska LNG project Pre-Front-End Engineering and Design (Pre-FEED) completed under the Joint Venture Agreement (ExxonMobil, BP, ConocoPhillips, AGDC)
  - Economics at the time precluded Front-End Engineering and Design (FEED) initiation
- 2016: Project leadership transitioned to AGDC
- 2017: AGDC initiated FERC permitting process
- 2017-18: Commercial potential defined through non-binding agreements

Alaska LNG Project Scope

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- Recommit to original Alaska LNG design:
  - Transmission lines from Prudhoe Bay and Point Thomson
  - North Slope Gas Treatment Plant
  - 807-mile, 42-inch diameter steel pipeline with multiple in-state offtakes
  - 3-train LNG facility at Nikiski to produce 20 Million Tonnes Per Annum (MTPA) of LNG

Alaska LNG Investment

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AGDC Financial Summary ($0,000)	FY2017* Actuals	FY2018 Actuals	FY2019 Projected
Communications	$ 415	$ 1,217	$ 1,055
Commercial	$ 2,596	$ 6,669	$ 6,645
Project Finance	$ 232	$ 657	$ 1,006
Regulatory/Technical	$ 4,652	$ 5,226	$ 4,321
FERC Support	$ 4,532	$ 11,698	$ 11,195
Capital Budget Total	**$ 12,427**	**$ 25,467**	**$ 24,222**
Operating Budget	$ 4,703	$ 9,223	$ 9,737
Totals	**$ 17,130**	**$ 34,690**	**$ 33,959**
Re-Appropriation			**$ (5,000)**
Fund Balance End of Period	**$ 89,000**	**$ 54,310**	**$ 15,351**

Notes:

- *FY17 as depicted is a partial year. Reporting structure not in place prior to January 2017
- Estimated fund balance includes the proposed $5 million Supplemental Budget fund re-appropriation (01/28/19)
- Funding Source: FY19 AKLNG 1235 Fund

Budget Savings

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Reductions to align AGDC operations with State

FY2019 AGDC Contract Reductions ($0,000)	Reduction Value
Contract labor reduced by 16 FTEs	$ 2,567
Leased office space reduced by 8,327 sq. ft.	$ 125
Legal support and consultants reduced	$ 2,308
Totals	**$ 5,000**

Reductions Commentary

- In step with Alaska's fiscal reality
- Right size organization for narrower marketing focus
- Continue to advance FERC process
- Corporate structure and decisions focused on Alaska LNG

Notes:

- Ongoing budget evaluation. $5 million in reductions is unrelated to the Jan. 28, 2019 supplemental appropriation legislation.
- FTEs = Full time equivalent
- Sq. ft. = Square Feet

Alaska LNG Path Forward

- Return to stage-gate process
- Re-engage Alaska Legislature: House & Senate AGDC board observers
- Ascertain economic viability and competitiveness through a thorough commercial review
- Pursue qualified third-party expertise
- Re-evaluate schedules for FEED, Final Investment Decision (FID) and construction
- Complete FERC process with third-party participation

Define Stage-Gate Process Success

In order to continue to a FEED decision, AGDC must:

- Demonstrate a path that delivers returns sufficient to attract private equity investment and debt financing
  - Attainable North Slope gas purchases & LNG sales
- Engage qualified project participants with world-class LNG project experience to minimize construction, execution, and operation risks
- Ensure that AGDC's statutory objectives are met

Third-Party Engagement

- Enlist third-party support to fund, build and operate Alaska LNG
- AGDC, BP and ExxonMobil entered into a non-binding MOU in March 2019 to review:
  - Commercial:
    - Economic model and project competitiveness
    - Financing options and strategies
    - Equity and debt capital costs, Internal Rate of Return (IRR), and tax structure
  - Technical – cost estimates and FERC process:
    - Identify opportunities for value engineering to lower Total Installed Cost (TIC)
    - Update schedule to incorporate current assumptions
    - Assist with timely and technically advanced responses to obtain permits as rapidly and cost-effectively as possible
- Identify and incorporate additional parties to complete Alaska LNG

Challenges

- Many projects worldwide have been built at tidewater, Alaska LNG's 807-mile pipeline is a cost they do not have to cover.
- Competition from projects relying on plentiful Henry Hub-priced gas, current suppliers pursuing contract renewals, and ambitious developments in new basins.
- Increased competition and Henry Hub pricing driving long-term price projections to around $8.00/MMBtu in Asia, a challenging threshold for Alaska LNG.

Questions?

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