

04 / 08 / 16

AKLNG

FY 17

BUDGET

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BUDGET</SUBJECT><COMM>HFIN29</COMM></TARGET>

AKLNG FY2017 Budget

House Finance

Presented by:

Marty Rutherford, Acting Commissioner
Alaska Department of Natural Resources

April 8, 2016

INTRODUCTION

- Ongoing need for funds to support commercial negotiations
 - Where we were
 - Where we now are
- Overview of the State's decision making process and teams
- Description of budget requests

COMMERCIAL NEGOTIATIONS – CURRENT CONTEXT

- Commercial agreements have not kept pace with technical work
- Current LNG market conditions and budget challenges create headwinds (and opportunities)
 - Soft hydrocarbon prices
 - More favorable cost conditions
 - Challenged budgets for existing LNG parties
- Known required agreements remain unchanged
 - Additional required (but unknown) agreements possible if one or more parties choose not to fund FEED
 - New parties may have new needs
 - New agreements (e.g. “carry” provisions) may be required to be negotiated absent new parties
 - Anticipated timing of the commercial agreements is assumed to be on a “success-leg” schedule
 - Difficult to make predictions of rate of progress in light of current conditions, uncertain outcomes

AGREEMENTS/ISSUES TO BE NEGOTIATED

CATEGORY	AGREEMENT(S)/ISSUE(S)	SIGNATORY/ LEAD	COUNTERPARTY	EXECUTED?	TARGET DATE	CONSULT ¹	LEGISLATIVE APPROVAL
GENERAL							
	AGIA Termination	DNR/DOR	TC	Q2 2014			No
	Fiscal Contract	DOR/DNR	Producers	No	Q2 2016	AGDC	Yes
EQUITY							
	Memorandum of Understanding (MOU); Equity Option Agreement (EOA) Term Sheet	DNR	TC	Dec. 2013		DOR/AGDC	No
	Purchase and Sale Agreement	DNR	TC	Nov. 2015		DOR/AGDC	Yes/ Appropriation
	JVA (Pre-FEED) <i>Joint Venture Agreement</i>	AGDC	AKLNG Project Parties	Q2 2014		DNR/DOR	Appropriation
	Members Agreement	AGDC	AKLNG Project Parties	No	Q2 2016	DNR/DOR	No
	Contract Operator Services Agreement	Company ²	ExxonMobil	No	Q2 2016	DNR/DOR	No
	Member Administrator Services Agreement	Company	ConocoPhillips	No	Q2 2016	DNR/DOR	No
MIDSTREAM							
	Precedent Agreement (PA)	DNR	TC	June 2014		DOR/AGDC	No (Not More Than 2 Years)
	Firm Transportation Services Agreement (FTSA) including Liquefaction Services with AGDC	DNR	AGDC	No	During FEED	DOR	Yes
	System Use Agreement	AGDC	Producer Parties	No	Key Terms by 2Q16/ During FEED ³	DNR	No

¹ The Governor and Department of Law are consulted on all agreements/issues.

² Company refers to the Alaska LNG Project Company (includes AGDC, but not DNR or DOR) as signatories for both the Contract Operator Services Agreement and Member Administrator Services Agreement.

³ Certain terms of the System Use Agreement that are relevant to gas balancing and other issues relevant to the RIK/RIV decision must be agreed prior to the RIK/RIV decision.

Current Understanding – January 28, 2016

Current Understanding – January 28, 2016							
UPSTREAM							
	Lease Modifications	DNR	Producer Parties	No	Q2 2016	DOR	No (SB 138 Provides)
	Gas Supply and Balancing Agreement (and any associated Dedication and Supply Forecasting Agreements)	DNR	Producer Parties	No	Q2 2016	DOR/AGDC	Yes
	Field Cost Allowance Agreement ⁴	DNR	Producer Parties	No	Q2 2016	DOR	Yes
DOWNSTREAM							
	Joint Venture Marketing or Other Gas Disposition Agreements	DNR	Producer Party or Parties	No	Q2 2016	DOR/AGDC	Yes
	Domestic Gas Agreement(s)	AGDC (as aggregator)	Producer Parties and DNR	No	Q2 2016	DNR/DOR	Yes if SOA a Party
OTHER ISSUES⁵							
	Financing	DOR	TBD	No	TBD/FID	DNR/AGDC	Yes
	Property Tax Proposal and Property Tax Allocation and Disbursement Proposal/Recommendations	DOR	AKLNG Project Parties	No	Q2 2016	Communities/DNR	Yes – Statutory Changes
	Withdrawal Agreement (Gas Availability Agreement)	DNR/AGDC	BP and ConocoPhillips	Dec. 2015		DOR	No
	Byproduct Handling Agreement	DNR	Producer Parties (or Unit)	No	Q2 2016	DOR/AGDC	Yes
	Sales and Purchase Agreement (SPA)	DNR/Marketer	LNG Buyers	No	TBD	DOR/AGDC	Yes

⁴ Field Cost Allowance Agreement may not be a standalone agreement.

⁵ Items in the "Other Issues" category may not necessarily be independently negotiated, standalone agreements and may be part of other agreements listed above.

KEY COMMERCIAL ISSUES STILL TO RESOLVE

Equity Ownership

- Members Agreement
- Contract Operator Services Agreement
- Member Administrator Services Agreement

Midstream

- Firm Transportation Services Agreement (FTSA) including Liquefaction Services with AGDC
- System Use Agreement

Upstream

- Lease Modifications
- Gas Supply and Balancing Agreement
- Field Cost Allowance Agreement
- Impurities Disposal Agreement

Marketing

- Joint Venture Marketing or Other Gas Disposition Agreements
- Domestic Gas Agreement(s)

General

- Fiscal Terms and Contract

KEY COMMERCIAL ISSUES STILL TO RESOLVE

Where are we now?

- No change to the known required commercial issues to resolve, and agreements to develop, through negotiations with counterparties.
- The challenge of negotiations is they progress on their own timeline as a result of finding mutually agreed positions.

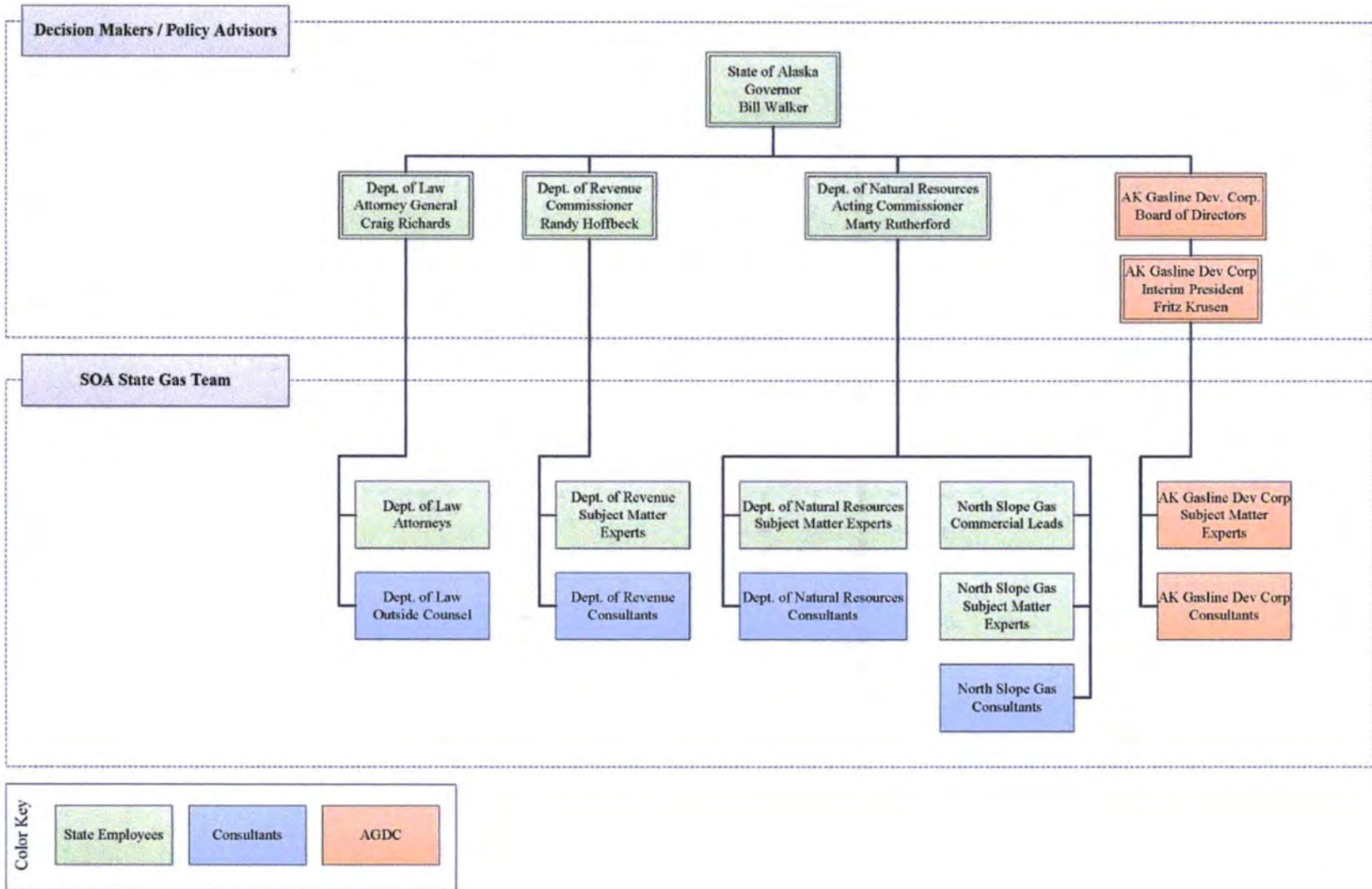
Where are we going?

- The current difficult commercial environment creates uncertainty around what agreements may look like, when they will progress, and who progresses them.
- The previously known commercial issues to resolve and agreements to negotiate remain unchanged.
- Additional required (but unknown) agreements may arise if the subset of the involved parties change, withdrawing parties create transitions issues, and replacement parties may have new needs and interests.

What will it take?

- Absent necessary commercial agreements, there is no chance the project will move into FEED.
- Absent money to negotiate these agreements, there is no chance the project will move into FEED.

STATE GAS TEAM



AGENCY ROLES IN AKLNG

Department of Natural Resources (DNR) - North Slope Gas Commercialization Office (NSG)

- Upstream [AS 38.05.180(hh), (ii)], in consult with DOR [AS 38.05.020(b)(10),(11),(12)]
- Royalty In-Kind/Royalty In-Value decision (AS 38.05.182)
- Marketing, in consult with DOR [AS 38.05.020(b)(10),(11),(12)]
- In-state Gas coordination, in consult with AGDC (SB 138, Section 73)
- Midstream Agreements, in consult with AGDC [AS 38.05.020(b)(13)]

Department of Revenue (DOR)

- Identify and recommend financing options (SB 138, Section 76)
- Recommend statutory changes to property taxes under AS 43.56 and AS 29.45.080 (SB 138, Section 74)
- Develop Impact Fees and Flow Rated Property Tax Proposals (SB 138, Section 74, AO 269 MAGPR Board)
- Allows producers to pay tax as gas (TAG) (AS 43.55.014)
- Consult with DNR on contracts negotiation [AS 43.05.010(16)]

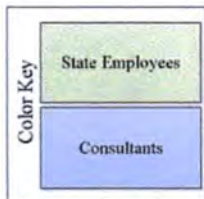
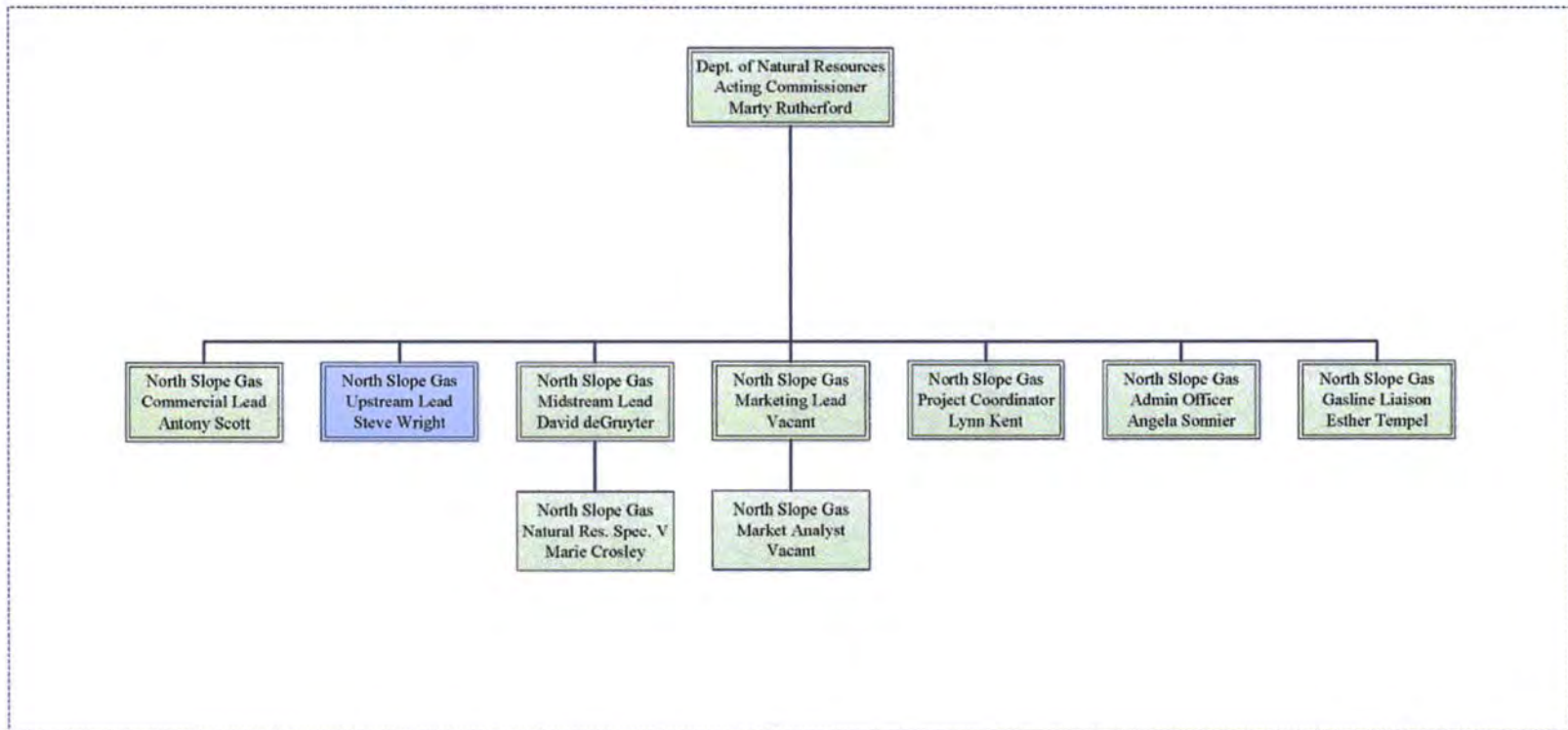
Department of Law (DOL)

- Legal support to agencies and AGDC

Alaska Gasline Development Corporation (AGDC)

- State's ownership of project infrastructure (AS 31.25.080)
- Assist DNR/DOR in maximizing the value of the State's gas [AS 31.25.005(3)]
- Provide project services to the State at cost (i.e. without profit) [AS 31.25.005(5)]
- Deliver domestic gas to in-state customers at commercially reasonable rates [31.25.005(6)]

DEPARTMENT OF NATURAL RESOURCES NORTH SLOPE GAS COMMERCIALIZATION (NSGC) AKLNG TEAM



FY2017 DNR NSGC BUDGET REQUEST

FY2017

1241 - General Fund/LNG

	Governor Request	Governor Amended	Final Gov Request	Further Reductions	Revised Request
Personal Services	11,148.0	(5,691.3)	5,456.7	(3,885.0)	1,571.7
Travel	500.0	(300.0)	200.0	(98.0)	102.0
Services	24,000.0	(1,000.0)	23,000.0	(7,745.0)	15,255.0
Commodities	85.1	(60.0)	25.1	-	25.1
	35,733.1	(7,051.3)	28,681.8	(11,728.0)	16,953.8
Budgeted Positions	21	-10	11	-4	7

FY2017 DNR NSGC BUDGET DETAILS

PERSONAL SERVICES & TRAVEL

Personal Services	Governor Request	Revised Request
10-X019 Marketing Lead	1,440.0	0.0
10-#128 Marketing Analyst	285.0	285.0
10-?099 Upstream Lead	365.3	365.3
10-0435 Administrative Officer	105.2	105.2
10-X021 Commercial Lead	282.4	282.4
10-X018 Midstream Lead	204.7	204.7
10-T069 Gasline Liaison, LTNP (unbudgeted)	138.2	138.2
10-X020 Project Coordinator	217.7	217.7
10-4253 Natural Resource Specialist V	172.9	172.9
NEW 10-#130 Senior Marketing Negotiator	1,200.0	0.0
NEW 10-#133 Market Analyst	285.0	0.0
NEW 10-#134 Marketing Negotiator	960.0	0.0
	5,656.4	1,771.4

Travel

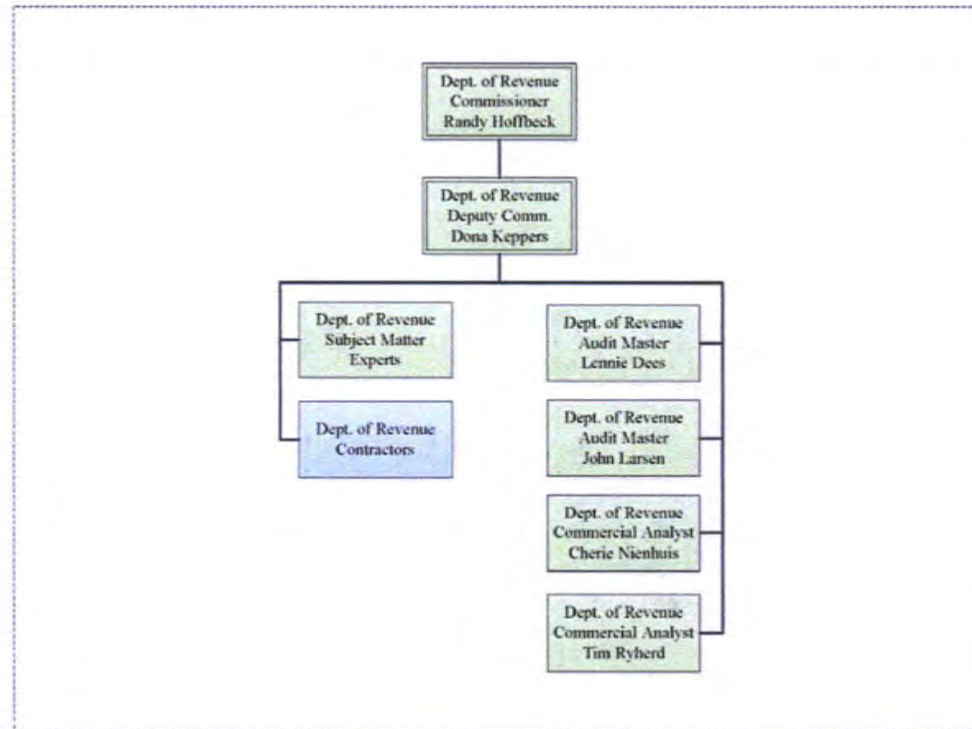
In-State Travel	12.0	12.0
Out-of-State Travel for multi day workshops that may take place in Houston at the Alaska LNG Project headquarters to work through critical commercial negotiations or technical components of the project	90.0	90.0
Out-of-Country Travel for anticipated travel to Calgary for technical workshops for the Alaska LNG Project as well as travel to Asia for marketing	98.0	0.0
	200.0	102.0

FY2017 DNR NSGC BUDGET DETAILS

SERVICES & COMMODITIES

Services	Governor Request	Revised Request
RSA to Law for continued legal support for commercial agreements negotiation and drafting - estimated spend rate of \$1,000.0/month	12,000.0	9,500.0
RSA to Law for legal support for marketing negotiation and drafting of joint venture marketing agreements with Producers - estimated spend rate of \$400.0/month	5,000.0	-
Continued commercial expertise and support for the participation in commercial negotiations such as contracts with Steve Wright and Steve Swaffield	600.0	600.0
Engineering expertise for marine, facilities, etc. As commercial agreements form, the need for expertise in specific aspects of facilities or transportation may be required to assess potential disconnects between the commercial agreements and operations	480.0	480.0
Continued analysis and modeling support, specifically continued contract with Black & Veatch	2,100.0	2,100.0
Other professional services for expertise and support as required, such as support for midstream through Pingo, support for upstream through Ryder Scott, and support for marketing activities	2,470.0	2,470.0
Expansion of the AKLNG office including Core Services (IT, HR, leases, software, telecommunications, etc.).	350.0	105.0
	23,000.0	15,255.0
Commodities		
Office supplies, books, subscriptions and educational materials	10.1	10.1
IT Equipment	15.0	15
	25.1	25.1

DEPARTMENT OF REVENUE (DOR) AKLNG TEAM



FY2017 DOR BUDGET REQUEST

FY2017

1241 - General Fund/LNG

	Governor Request	Governor Amended	Final Gov Request	Further Reductions	Revised Request
Personal Services	111.7	111.7	111.7	-	111.7
Travel	50.0	50.0	50.0	-	50.0
Services	1,715.0	1,715.0	1,715.0	(700.0)	1,015.0
Commodities					
	1,876.7	1,876.7	1,876.7	(700.0)	1,176.7
Budgeted Positions	1	1	1	1	1

FY2017 DOR BUDGET DETAILS PERSONAL SERVICES & TRAVEL

Personal Services	Governor Request	Revised Request
04-#047 Program Manager (LTNP) - position will act as administrative	111.7	111.7
	111.7	111.7

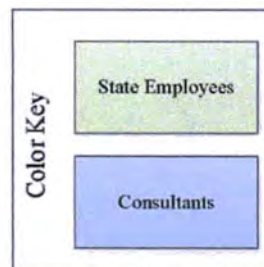
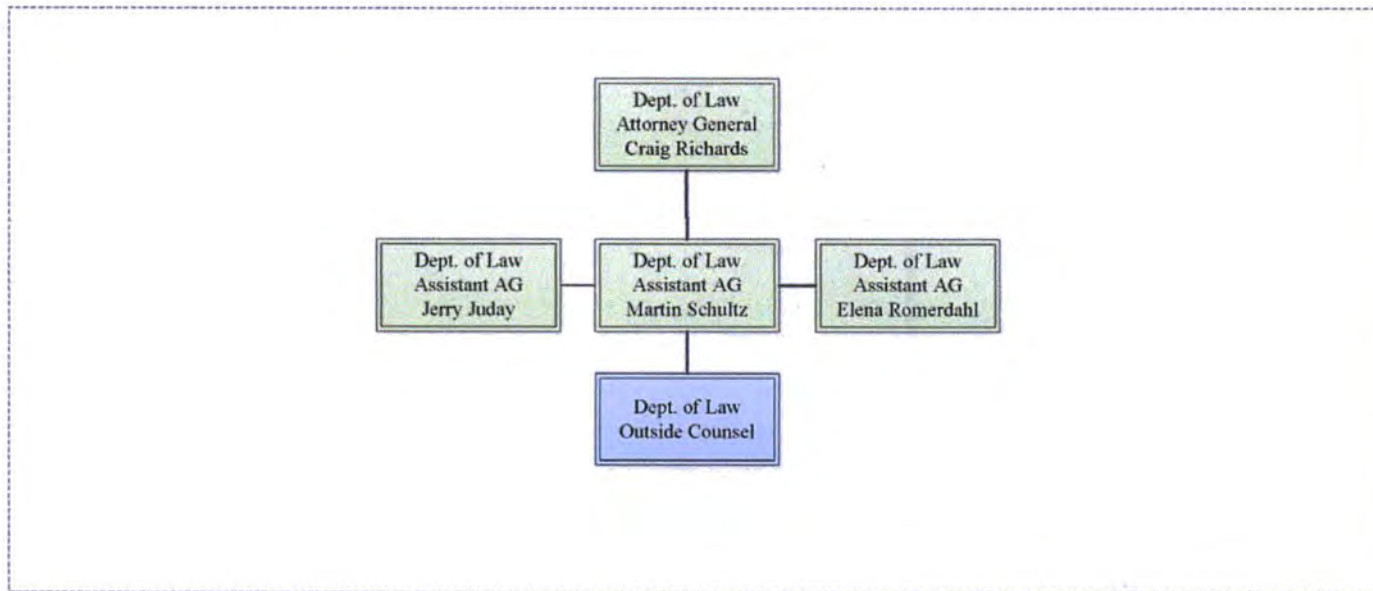
Long term non-permanent program manager position. Position will act as administrative and managerial project assistant. Duties include planning, development, and overseeing of major activities; budgetary and administrative responsibilities; development of work plans for assigned projects, including analyzing and formulating project concepts, creating task schedules and cost estimates, identifying critical path issues and other work requirements in collaboration with project teams and financing consultants.

Travel		
Travel - Finance team and economic modeling associated travel	50.0	50.0
	50.0	50.0

FY2017 DOR BUDGET DETAILS SERVICES

Services	Governor Request	Revised Request
Bankability review of commercial structure and key commercial agreements	500.0	150.0
Continued First Southwest municipal advisory services in credit rating analysis and coordination of commercial structure with financial markets	250.0	100.0
Continued Greengate for advice, expertise, analysis and support on financing options and sources of financing, financing structures, finance considerations of commercial negotiations, and property tax support	450.0	450.0
RSA to Department of Law for tax and finance consulting	500.0	300.0
Other support services (telephone, conference, mail, etc.)	15.0	15.0
	1,715.0	1,015.0

DEPARTMENT OF LAW (DOL) AKLNG TEAM



FY2017 DOL BUDGET REQUEST

FY2017

	Governor Request	Governor Amended	Final Gov Request	Further Reductions	Revised Request
Appropriation for Internal Dept. Use*	700.0	700.0	700.0	-	700.0
RSA from DNR**	18,000.0	17,000.0	17,000.0	(7,500.0)	9,500.0
RSA from DOR**	500.0	500.0	500.0	(200.0)	300.0
	19,200.0	18,200.0	18,200.0	(7,700.0)	10,500.0

*1004 - General Fund

**1241 - General Fund/LNG

(Does not include any new positions)

FY2017 DOL BUDGET DETAILS SERVICES

AKLNG Outside Counsel Legal Services for FY2017

	Request
Negotiation of Upstream Agreements & Issues (upstream, gas supply & balancing, lease modifications)	1,500.0
Negotiation of Midstream Agreements & Issues (expansion, capacity, regulatory)	1,500.0
Negotiation of Project and Equity Agreements & Issues (governance, GSA)	1,500.0
Negotiation of Marketing Agreements & Issues (marketing structure, bilateral marketing negotiations)	2,000.0
Negotiation of Fiscal and Finance Agreements & Issues (fiscal, financing, tax)	1,800.0
General AKLNG Legal Support (multi-subject negotiations, sponsor & legislative support, strategy, background)	1,500.0
	9,800.0

Internal DOL Gasline Support

	Request
Negotiation of Upstream Agreements & Issues (upstream, gas supply & balancing)	120.0
Negotiation of Midstream Agreements & Issues (expansion, capacity, regulatory)	90.0
Negotiation of Project and Equity Agreements & Issues (governance, GSA)	100.0
Negotiation of Marketing Agreements & Issues (marketing structure, bilateral marketing negotiations)	150.0
Negotiation of Fiscal and Finance Agreements & Issues (fiscal, financing, tax)	120.0
General AKLNG Legal Support (multi-subject negotiations, sponsor & legislative support, strategy, background)	120.0
	700.0

THANK YOU

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