

**HB**

**3001**

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# SENATE BILL 138 Work to Date Sectional Review

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## **Section 1-6 (AS 29.45.080 and 29.45.090, Municipal property tax limitations)**

Sections 1-6 are amendments to the statutes on municipal taxation.

*Status: In Compliance.*

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## **Section 7 (AS 31.25.005, Purpose of the Alaska Gasline Development Corporation)**

Section 7 of SB 138 amended AS 31.25.005, related to the purpose of the Alaska Gasline Development Corporation (AGDC), to add new subsections (1) - (2) to direct the AGDC to develop and have primary responsibility for developing natural gas pipelines, an Alaska liquefied natural gas project, and other transportation mechanisms to deliver gas in-state for the maximum benefit of the people of the state, and to provide economic benefits and revenue to the state.

Subsection (3) expanded the AGDC's purpose to include assisting the commissioners of natural resources and revenue to maximize the value of natural gas royalty and tax values. Subsection (5) expanded the AGDC's purpose to include advancement of an Alaska liquefied natural gas project, including infrastructure related to liquefaction and commercial support; fees for services provided to the state may not be greater than the cost of the service to the AGDC.

*Status: In Compliance. The AGDC's purpose was expanded in SB 138. The corporation now holds the state's 25% equity interest in the liquefaction component of the Alaska Liquefied Natural Gas Project (AKLNG Project) and as a signatory to the Joint Venture Agreement (JVA) participates in integrated project governance and decision making. The AGDC is the technical AKLNG Project lead for the state.*

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## **Section 8 (AS 31.25.010, Structure)**

Section 8 conformed AS 31.25.010, the structure of the AGDC related to dissolution, to include a reference to the purpose section in AS 31.25.005 and an Alaska liquefied natural gas project.

*Status: In Compliance. The AGDC continues to act in the best interests of the state.*

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## **Section 9 (AS 31.25.020(a), Governing body)**

Section 9 amended AS 31.25.020(a), the composition of the AGDC board of directors, to remove a provision which would have allowed the governor to appoint the commissioner of natural resources and the commissioner of revenue to the AGDC board after a project under AS 43.90 (the Alaska Gasline Inducement Act) has been abandoned or the commissioners are no longer signatories on a valid contract under AS 43.90. With this amendment, the commissioner of natural resources and the commissioner of revenue may not be appointed to the AGDC board.

*Status: In Compliance. The AGDC has a full seven member board of directors. Governor Walker designated Commissioner Drygas, Commissioner Hladick, Hugh Short, Joey Merrick and Rick Halford.*

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**Section 10 (AS 31.25.040, Administration of affairs; program directors)**

Section 10 amended AS 31.25.040 to add new subsections to direct the AGDC board, to the maximum extent practicable, to maximize efficient use of state resources, and establish separation with respect to the missions and information for an in-state natural gas pipeline and an Alaska liquefied natural gas project. The AGDC board may appoint separate program directors for an Alaska liquefied natural gas project and an in-state natural gas pipeline. A program director reports to the executive director of the corporation.

*Status: In Compliance. The AGDC continues to prudently and efficiently use the resources it has received to advance the AKLNG Project and to maintain the readiness for the Alaska Stand Alone Pipeline (ASAP) project. The AGDC has established appropriate internal protocols to ensure no project specific confidential information is compromised. The AGDC acquired in-house liquefaction expertise with the hiring of Fritz Krusen as Vice President of Alaska LNG. Mr. Krusen serves as the corporation's technical project lead and is the AGDC's representative on the Project Steering Committee (PSC).*

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**Sections 11-12 (AS 31.25.050, Legal counsel)**

Sections 11 and 12 amended AS 31.25.050 to add conforming language and a new subsection that requires the attorney general to be legal counsel for the AGDC for legal services related to development of contracts and agreements by the AGDC that relate to an Alaska liquefied natural gas project. The attorney general is to consult with the AGDC when procuring outside counsel for legal services for the AGDC related to an Alaska liquefied natural gas project. The AGDC retains the authority to obtain legal counsel to advise the corporation in legal matters and represent it in litigation.

*Status: In Compliance. The Attorney General serves as the corporation's legal counsel for AKLNG Project related matters, including the selection of outside counsel.*

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**Sections 13-15 (AS 31.25.080, Powers and duties)**

Section 13 amended AS 31.25.080(a), the powers and duties of the AGDC, to add references to an Alaska liquefied natural gas project where needed. New paragraph (23) added, for an Alaska liquefied natural gas project only, authority to acquire an ownership interest in the Alaska liquefied natural gas project components (pipeline facilities, treatment and liquefaction) or in an entity or joint venture with an ownership or other interest in an Alaska liquefied natural gas project. This power is limited to the entity of the AGDC pursuing an Alaska liquefied natural gas project. New paragraph (24) allows the AGDC, after consultation with the commissioners of revenue and natural resources, to enter contracts for services related to an Alaska liquefied natural gas project.

Section 14 was a conforming amendment to AS 31.25.080(e) to explicitly reference the in-state natural gas pipeline open season currently in the AGDC statutes.

Section 15 added a new subsection to AS 31.25.080 to direct that an entity or subsidiary of the corporation pursuing the in-state natural gas pipeline may not pursue an Alaska liquefied natural gas project (AS 31.25.080(a)(23)).

*Status: In Compliance. The AGDC holds the state's 25% equity interest in the liquefaction component of the AKLNG Project and as a signatory to the Joint Venture Agreement (JVA) participates in integrated*

*project governance. The AGDC is the technical project lead for the state. If the legislature supports the proposal to buy-out TransCanada's mid-stream interests, the AGDC would assume the state's full 25% ownership in the project in the mid-stream. The AGDC is working collaboratively with the Department of Natural Resources (DNR) and the Department of Revenue (DOR) on other project enabling agreements including those related to marketing, expansion, third-party access, domestic gas supply and in-state off-take.*

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**Section 16 (AS 31.25.090, Confidentiality; interagency cooperation)**

Section 16 amended AS 31.25.090 by adding a new subsection, regarding confidential information held by the AGDC, to expressly direct that the commissioners of revenue and natural resources shall have access to contract information related to an Alaska liquefied natural gas project.

*Status: In Compliance. The AGDC's Board of Directors has issued a proposed set of regulations dealing with confidentiality. The initial comment period ended on October 21st. Comments and questions are now under internal review.*

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**Sections 17-18 (AS 31.25.100, In-state natural gas pipeline fund & AS 31.25.110, Alaska liquefied natural gas project fund)**

Section 17 amended AS 31.25.100 to direct that money appropriated to the in-state natural gas pipeline fund may be used for the in-state natural gas pipeline and for purposes related to transportation mechanisms in the state, including delivery of propane.

Section 18 establishes AS 31.25.110, the Alaska liquefied natural gas project fund in the AGDC. If money is appropriated to advance an Alaska liquefied natural gas project, the corporation shall create an account in the fund for that purpose. The money may be used without further appropriation for purposes related to an Alaska liquefied natural gas project and for the purpose of transferring revenues related to equity interests, contracts and other activities to the appropriate fund of the state as determined by the commissioner of revenue in consultation with the commissioner of natural resources.

*Status: In Compliance. The AGDC has established internal accounting procedures for the Alaska liquefied natural gas project fund. The corporation has established a cost allocation methodology (85% In-State Fund/15% Alaska Liquefied Natural Gas Project Fund) to allocate corporate overhead costs.*

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**Section 19 (AS 31.25.120, Creation of subsidiaries)**

Section 19 related to subsidiaries created under AS 31.25.120, removes a reference to acquiring the state's royalty share of natural gas yet leaves the broad authority to acquire gas from the North Slope. The AGDC may transfer assets between any subsidiaries it creates under this subsection, except that money for the in-state natural gas pipeline and an Alaska liquefied natural gas project may not be transferred. A reference, which may have been read to limit subsidiary formation to not for profit subsidiaries, was removed.

*Status: In Compliance. The AGDC's Board of Directors authorized the corporation to form two subsidiary corporations, an in-state gas aggregator and an asset holding company. It is envisioned that the AGDC would aggregate in-state gas demand, primarily for small communities that are not currently on gas or that don't have an existing public utility. AGDC could pool that demand, perhaps assist in*

*setting up local distribution entities and serve as an intermediary between gas owners and small in-state buyers. The asset holding company was created as a potential vehicle for holding TransCanada's AKLNG Project interests if they are in fact transferred to the AGDC.*

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**Section 20 (AS 31.25.140(c), Exemption from the State Procurement Code; application of the Executive Budget Act; corporation finances)**

Section 20 makes a conforming amendment in AS 31.25.140(c) on budgetary reporting to the legislature to reference the Alaska liquefied natural gas project fund, AS 31.25.110.

*Status: In Compliance.*

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**Section 21 (AS 31.25.390 AGDC Definitions)**

Section 21 amended AS 31.25.390 to add a definition of the Alaska liquefied natural gas project and includes an explanation of gas pipeline, gas treatment plant, liquefied natural gas plant, marine terminal, Point Thomson and Prudhoe Bay unit gas transmission lines.

*Status: In Compliance. No action necessary.*

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**Section 22 (AS 36.30.850(b), Exemption from Procurement Code)**

Section 22 added two new paragraphs (47) and (48) to AS 36.30.850(b), related to exceptions to the application of the state procurement code. Paragraph (47) exempts contracts for professional and technical services by the DNR to support the development of agreements and contracts under AS 38.05.020(b)(10) and (11). Paragraph (48) exempts contracts of the LAW, with client participation, for legal services related to an Alaska liquefied natural gas project, except that to the extent practicable the LAW shall use the procurement process for small procurements (AS 36.30.320) with participation of the client.

*Status: In Compliance.*

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**Section 23 (AS 37.05.610, Alaska Affordable Energy Fund)**

Section 23 added AS 37.05.610, an Alaska affordable energy fund as a special non-dedicated account in the general fund to develop infrastructure to deliver energy to areas in the state not expected to have direct access to a North Slope natural gas pipeline. The fund will receive 20 percent of the money received from the state's royalty gas transported in an Alaska liquefied natural gas project (net of royalty payments to the Alaska permanent fund).

*Status: In Progress, to be done prior to when gas sales revenue starts flowing. The Alaska Energy Authority (AEA) is working on standards for projects that could be funded from this source.*

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**Section 24 (AS 38.05.020, Authority and duties of the DNR commissioner)**

Section 24 amended the authority of the DNR commissioner by adding new paragraphs (10) – (12) to AS 38.05.020(b). The commissioner may enter into commercial agreements of not more than two years duration for project services related to the North Slope natural gas project. In consultation with the commissioner of revenue, the commissioner may participate in negotiations associated with a North

Slope natural gas project, including agreements that include balancing, marketing, disposition of natural gas, and offtake contracts associated with a North Slope natural gas project.

A contract or agreement negotiated in which the state is a party would not be effective against the state without legislative authorization for the governor to execute the contract. Paragraph (12) permits the DNR commissioner to enter into confidentiality agreements related to contract negotiations and implementation. Confidential information obtained under paragraph (12) may be shared with members of the legislature, including their respective agents and contractors on request, under confidentiality agreements either in committees held in executive session or individually. The terms of a proposed final contract, subject to approval by the legislature, would not be confidential and must be made available to the public at least 90 days before the proposed effective date for the terms.

Paragraph (13) directs that the DNR commissioner consult with the AGDC in the development of agreements or contracts for project services related to a gas treatment plant, pipeline, liquefaction facility, marine terminal or transportation services.

***Status: In Compliance.** The DNR commissioner and commissioner of revenue have delegated authority to their deputy commissioners to negotiate agreements for the AKLNG Project, including gas balancing, marketing, disposition and offtake agreements. This section provides the authority for a majority of the work currently being done on the AKLNG Project by DNR and DOR.*

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**Section 25 (AS 38.05.020, Authority and duties of the DNR commissioner)**

Section 25 added a new paragraph (14) to AS 38.05.020(b) to allow the DNR commissioner, in consultation with the commissioner of revenue, to take custody of gas delivered to the state, to manage project services and the disposition of gas delivered to the state under AS 43.55.014(b)(tax as gas).

***Status: In Compliance.** The DNR, in consultation with the DOR, is the entity that will hold title to the state's share of royalty and tax gas, if the state elects to take its royalty in kind.*

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**Section 26 (AS 38.05.023, Terms related to a North Slope natural gas project)**

Section 26 added AS 38.05.023, related to terms in an agreement or contract related to a North Slope natural gas project. Subsection (a) details a requirement, to be included in a contract under AS 38.05.020(b)(11) in which the state is a party, regarding the conditions for state access to data. Subsection (b) provides that a proposed agreement or contract associated with a North Slope natural gas project may not include a provision that changes a property tax on property that was previously taxable under AS 43.56 (the oil and gas and pipeline property tax).

Subsection (c) provides that an agreement or contract under AS 38.05.020(b)(11) to which the state is a party must require allocation of infrastructure costs between the state and other parties based on the difference between life-cycle costs if the infrastructure was only for public use; the proposed agreement or contract must limit the costs the state pays for infrastructure based on the proportion of public to private use and the state's share of participation in the project.

Subsection (d) provides that an agreement or contract under AS 38.05.020(b)(11) to which the state is a party must include principles based on commercially reasonable terms for delivering natural gas to

public utilities in the state where demand for natural gas by the utilities exceeds the amount of the state's royalty and natural gas delivered to the state as payment for tax and available in a North Slope natural gas project.

*Status: In Progress, but complying. The state is still in negotiations on these agreements.*

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**Section 27 (AS 38.05.180(i), Oil and gas and gas only leasing)**

Section 27 clarified AS 38.05.180(i) with a conforming amendment that the exploration incentive credit may be applied against the oil and gas production tax levied under AS 43.55.011.

*Status: In Compliance. No action necessary.*

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**Section 28 (AS 38.05.180, Oil and gas and gas only leasing)**

Section 28 added new subsections (hh) and (ii) to the Alaska Land Act, AS 38.05.180, which deals with oil and gas leasing, to permit the DNR commissioner to propose modifications to existing leases that: (1) relate to switching between taking royalty gas in kind or in value to ensure that the lessee, state or other person bear proportionate costs for transportation, and to assure the state's actions do not unreasonably interfere with the long-term marketing; (2) provide a method to establish a fair market value for each component of the state's royalty gas; and (3) modify royalty provisions, including net profit provisions, modifications may not result in less than the value the state would have received before a modification.

The DNR commissioner must make written determinations relating to the best interests of the state, including whether the modifications will improve the likelihood of a successful North Slope natural gas project for which sufficient commitment has been shown. The commissioner must consider whether the lessee has offered to dispose of, sell or market the royalty gas and gas taken as tax on the same or substantially similar terms as the lessee or an affiliate sells, disposes of or markets the lessee's gas. An explicit reference to gas delivered to the state as payment for production tax is added to the DNR commissioner lease modification provision.

*Status: In Progress, but complying. The DNR is in the process of negotiating lease modifications.*

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**Sections 29 – 32 (AS 38.05.183, Sale of royalty)**

Sections 29 - 32 amended AS 38.05.183, related to sales of royalty oil or gas, by adding references to gas delivered to the state under AS 43.55.014(b), the levy of production tax on gas to be paid in gas for certain North Slope leases.

*Status: In Compliance. No action necessary.*

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**Section 33 (AS 38.05.965, Definitions)**

Section 33 added definitions to AS 38.05.965 for "initial project term," "North Slope natural gas project;" and "project services." North Slope natural gas project means a project to produce or transport natural gas from state oil and gas leases on the North Slope in a gaseous state from the North Slope.

*Status: In Compliance. No action necessary.*

**Sections 34 -36 (AS 38.34.020, Expedited construction and operation or expansion of an Alaska Gasline Development Corporation project)**

Sections 34 through 36 amended AS 38.34 related to review by state agencies or entities to expedite review or action of a project under AS 31.25 (AGDC statutes) and to direct that state agencies may not include project provisions that the in-state gasline project coordinator determines would prevent or significantly impair a project under AS 31.25 (AGDC statutes). The revisor of statutes renumbered AS 38.34.020(a) of Section 34 of Senate Bill 138 to AS 31.25.007.

*Status: In Compliance. The DNR facilitates project timing and construction.*

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**Sections 37 - 38 (AS 40.25.100, Disposition of tax information)**

Sections 37 and 38 amended AS 40.25.100(a) related to the confidentiality of tax information to clearly establish as confidential information related to contract negotiations for a North Slope natural gas project. Section 35 references new subsection (k) in AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the gas production tax from modified North Slope leases in gas and the amount of gas subject to that election.

*Status: In Compliance. Taxpayers have yet to make an election to pay the production tax in gas.*

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**Section 39 (AS 40.25.120, Public records; exceptions; certified copies)**

Section 39 amended AS 40.25.120(a) to establish an exception in public records for information confidential under the new provisions of AS 38.05.020(b) (related to contract negotiations for a North Slope natural gas project).

*Status: In Compliance.*

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**Sections 40 - 41 (AS 43.05.010, Duties of commissioner of revenue)**

Sections 40 and 41 expanded the authority of the commissioner of revenue by adding new paragraphs (16) and (17) in AS 43.05.010. Effective immediately, paragraph (16) provides that the commissioner may consult with the DNR commissioner on negotiations associated with a North Slope natural gas project. Section 41 amends AS 43.05.010 by adding paragraph (17) to provide that the commissioner direct the disposition of revenues received from gas delivered to the state under AS 43.55.014(b) by entering into agreements with the DNR commissioner.

*Status: In Compliance. The DOR works collaboratively with the DNR on the AKLNG Project.*

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**Section 42 (AS 43.05.230, Disclosure of tax returns and reports)**

Section 42 added new subsection (k) to AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the gas production tax in gas and the amount of gas subject to that election.

*Status: In Compliance. No action necessary at this time because taxpayers have yet to make an election to pay the production tax in gas.*

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**Section 43 (AS 43.20.144(d), Corporate income tax sales factor for oil & gas producers & pipelines)**

Section 43 amended AS 43.20.144(d) to clarify that gas delivered to the state as payment of tax under an election made by AS 43.55.014 (or similar provision of other taxing jurisdiction) is excluded from the sales factor of a taxpayer subject to the Alaska Net Income Tax Act. Also, fees paid between entities within the taxpayer's consolidated business for transporting the taxpayer's gas are excluded from the sales factor.

*Status: In Compliance. No action necessary yet; taxpayers have yet to pay production tax in gas.*

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**Section 44 (AS 43.20.144(f), Corporate income tax extraction factor for oil & gas producers & pipelines)**

Section 44 amended AS 43.20.144(f) to clarify that gas subject to an election to pay the oil and gas production tax on gas as gas under AS 43.55.014 is included in the extraction factor of a taxpayer subject to AS 43.20.144(f) in the Alaska Net Income Tax Act.

*Status: In Compliance. No action necessary yet; taxpayers have yet to pay production tax in gas.*

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**Section 45 (AS 43.55.011(e), Oil & gas production tax levy)**

Section 45 amended AS 43.55.011(e), the levy of the oil and gas production tax, to add reference to the separate levy under AS 43.55.014 for certain North Slope gas. For oil and gas produced after January 1, 2014 and before January 1, 2022, AS 43.55.011(e)(2) would levy on producers of oil and gas produced each calendar year a flat rate tax of 35 percent of the production tax value of taxable oil and gas produced from each lease or property in the state. No change is made to current tax ceilings that apply to Cook Inlet oil and gas, gas produced outside the Cook Inlet basin, gas used in the state, and oil and gas produced from fields outside the Cook Inlet basin and south of the North Slope.

For oil and gas produced on or after January 1, 2022, AS 43.55.011(e)(3) would levy on producers of oil produced each calendar year a flat tax rate of 35 percent of the production tax value of taxable oil produced from each lease or property in the state and on producers of gas, and a flat tax rate of 13 percent of the gross value at the point of production of gas produced from each lease or property in the state. The tax on gas under an election to pay in gas is levied under AS 43.55.014.

*Status: In Compliance. No action necessary at this time because the change in taxation of gas does not occur until January 1, 2022.*

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**Section 46 (AS 43.55.011(f), Oil & gas production tax minimum)**

Section 46 amended AS 43.55.011(f), the minimum tax amount for North Slope oil and gas, to retain the current minimum tax until January 1, 2022. On and after January 1, 2022, the minimum tax would apply to oil produced on the North Slope. A minor amendment adds the reference to the tax applying to leases or properties "that include land" to ensure that property that straddles 68 degrees North latitude will be considered north of 68 degrees North latitude for purpose of the alternate minimum tax.

*Status: In Compliance. No action necessary at this time because the limitation on the minimum tax to North Slope oil does not occur until January 1, 2022.*

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**Section 47 (AS 43.55.014, Production tax payment in gas of tax for gas)**

Section 47 added AS 43.55.014, related to payment in gas of tax for gas. Subsection (a) allows producers to make an election, under regulations adopted by the DOR, to pay the oil and gas production tax on gas in gas for gas produced from oil and gas leases whose terms have been modified under AS 38.05.180(hh) from which the DNR commissioner has determined to take royalty gas in kind. Under subsection (b), the levy would be 13 percent of the taxable gas when and as the gas is produced. The producer would pay the tax by delivering the gas to the state at the point of production. Under subsection (c), the DNR would manage the custody and disposition of gas delivered to the state. Under subsection (d), tax deficiencies and interest and penalties on any tax deficiency would be accounted for in an amount of gas or an amount of money. If in money, the assessment is the product of the number of units by which the producer's delivery of gas to the state was deficient, multiplied by the gross value at the point of production for each unit of the producer's gas, other than gas not subject to tax, or delivered to the state under this section. Also, this subsection accounts for an overpayment of gas under AS 43.55.014. Subsection (e) clarifies that gas subject to this provision would not include gas flared, released, or allowed to escape and, under AS 43.55.020(e), as that gas is considered as gas produced from a lease or property for the purpose of AS 43.55.011 - 180. This section took effect on January 1, 2015 to be applied to gas produced from certain North Slope leases on and after January 1, 2022.

*Status: In Compliance. No action necessary at this time because leases have not been modified yet and taxpayers have yet to make an election to pay the production tax in gas.*

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**Sections 48 - 50 (AS 43.55.019, Oil or gas producer education credit)**

Sections 48 through 50 include conforming amendments to the oil and gas producer education credit, AS 43.55.019, to clarify that the credit can be applied to tax liability only under AS 43.55.011(e). The credit is expanded to include expenditures related to nonprofit regional training centers, apprenticeship programs and programs approved by the United State Department of Veteran's Affairs and the Alaska Commission on Postsecondary Education. These sections are effective immediately.

*Status: In Compliance. A taxpayer may apply the credit.*

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**Section 51 (AS 43.55.020(a), Payment of tax in monthly installments)**

Section 51 amended AS 43.55.020(a), monthly installment payments of estimated tax, to add provisions for payment of tax after January 1, 2022 and to clarify the tax rates that apply to oil and gas produced after a certain date. Monthly installment payments for oil and gas produced on and after January 1, 2022 are in new subsection (a)(7).

*Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022.*

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**Sections 52 - 53 (AS 43.55.020, Interest on payment of tax in monthly installments)**

Sections 52 and 53 are conforming changes to AS 43.55.020, monthly installment payments. Subsection (g) is amended to account for new tax provisions for oil and gas produced on and after January 1, 2022.

A similar conforming change is made in AS 43.55.020(h) to account for interest on overpayments of installment payments.

*Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.*

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**Sections 54 - 55 (AS 43.55.020, Payment of tax)**

Sections 54 and 55 amended AS 43.55.020(l) and add subsection (m), related to making settlements by a producer with private landowner royalty owner, to account for making a settlement with the royalty owner for gas taxable before January 1, 2022 and under new AS 43.55.014.

*Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.*

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**Section 56 (AS 43.55.030(a), Filing of statements)**

Section 56 amended AS 43.55.030(a), annual statements by producers and explorers, to require reporting of the amount of gas produced from a lease or property for which tax is levied under AS 43.55.014 and the amount of gas delivered to the state under AS 43.55.014.

*Status: In Compliance. No action necessary at this time because the changes in taxation do not occur until January 1, 2022 and taxpayers have yet to pay production tax as gas.*

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**Section 57 (AS 43.55.160(a) Determination of production tax value of oil and gas)**

Section 57 amended AS 43.55.160(a), calculation of annual production tax values, to clarify and conform to the levy of tax under AS 43.55.011(e)(2) for oil and gas produced before January 1, 2022.

*Status: In Compliance. No action necessary because there was no change in the substance of the current determination.*

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**Section 58 (AS 43.55.160(e), Determination of production tax value of oil & gas)**

Section 58 amended AS 43.55.160(e), related to determination of excess lease expenditures for the purpose of calculating a carried-forward loss credit, to account for annual production tax values for oil produced on and after January 1, 2022.

*Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.*

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**Section 59 (AS 43.55.160(f), Determination of production tax value of oil & gas)**

Section 59 amended AS 43.55.160(f), a 20 percent gross value reduction for certain oil and gas produced north of 68 degrees North latitude, so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

*Status: In Compliance. No action necessary; changes in taxation do not occur until January 1, 2022.*

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**Section 60 (AS 43.55.160(g), Determination of production tax value of oil & gas)**

Section 60 amended AS 43.55.160(g), a 10 percent gross value reduction for certain oil and gas produced from a unit north of 68 degrees North latitude made up solely of leases that have a royalty share of more

than 12.5 percent in amount or value of the production removed or sold from the lease so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

**Status: In Compliance.** *No action necessary at this time because the changes in taxation do not occur until January 1, 2022.*

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**Section 61 (AS 43.55.160, Determination of production tax value of oil & gas)**

Section 61 amended AS 43.55.160, calculation of annual production tax values, to add a new subsection (h) for calculation of annual production tax values for oil produced on and after January 1, 2022. On and after January 1, 2022, gas would be taxed at a percentage of gross value. Accordingly, there would be no need to calculate a production tax value (gross value at point of production less lease expenditures) for gas. Producers would still calculate a production tax value of oil taxable under AS 43.55.011(e) for the segments set out in AS 43.55.160(h). This section was effective January 1, 2015.

**Status: In Compliance.** *No action necessary at this time because the changes in taxation do not occur until January 1, 2022.*

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**Section 62 (AS 43.55.165, Lease expenditures)**

Section 62 makes a conforming amendment to AS 43.55.165, lease expenditures, to exclude as a deduction from lease expenditures the tax levied under AS 43.55.014 (tax paid as gas).

**Status: In Compliance.** *No action necessary at this time because the changes in taxation do not occur until January 1, 2022 and taxpayers have yet to pay production tax as gas.*

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**Sections 63 - 65 (AS 43.55.165(e), Lease expenditures – Definitions)**

Sections 63 through 65 amend, for purposes of the oil and gas production tax, the definitions of "gas processing plants" and "point of production" for gas to be upstream of either the first point where it is accurately measured, the inlet of a pipeline transporting the gas to a gas treatment plant, or the inlet of any gas pipeline system transporting gas to market. The gas point of production is after mechanical separation. Section 63 adds a definition of "gas processing plant".

**Status: In Compliance.** *No action necessary.*

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**Section 66 (AS 43.56.010(c) Oil and gas property and pipelines levy of tax, limitation for municipalities)** - Section 66 amended the oil and gas property and pipelines tax levy statute, AS 43.56.010(c), to conform to the changes in the percentage factor made in section 3, AS 29.45.080(f).

**Status: In Compliance.**

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**Section 67 (AS 43.90.900 Definitions)**

Section 67 made a conforming amendment to AS 43.90.900(18), the definition of the "point of production" for purposes of the Alaska Gasline Inducement Act.

**Status: In Compliance.** *No action necessary.*

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**Section 68 (AS 43.98.030(c), Film production tax credit)**

Section 68 made conforming amendments to AS 43.98.030, the film production tax credit, to limit the applicability of the credit to the tax levied by AS 43.55.011.

*Status: In Compliance.* The film production tax credit in AS 43.98.030 was repealed in sec. 7 of CSSB 39 (L&C) am H (2015).

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**Section 69 (AS 43.98.050, Duties of the Alaska Competitiveness Review Board)**

Section 69 amended AS 43.98.050, related to the duties of the Alaska Competitiveness Review Board, to include written findings and recommendations to the legislature before January 15, 2017 regarding the state's tax structure, rates, and incentives for oil and gas production south of 68 degrees North latitude.

*Status: In Progress, but complying.* This active board submitted a report on North Slope competitiveness to the legislature last year. All Board activity is posted on a public website. The Board is currently working on an update of the report with more details to present to the legislature this year, but work has been temporarily slowed by board member ending terms, resignations, and unfilled appointments. The Board currently has 6 of 11 seats filled. The Board's report on Cook Inlet is due in 2017.

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**Section 70 (Legislative intent regarding AGDC)**

Section 70 amended the uncodified intent section from ch. 1(b), SLA 2013, the establishment of the AGDC, regarding intent, to the maximum extent permitted by law, to hire qualified residents, establish hiring facilities, and use, as far as practicable, job centers operated by the Department of Labor and Workforce development in the AGDC's participation in an Alaska liquefied natural gas project.

*Status: In Compliance.* AGDC is maximizing benefits to Alaskans

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**Section 71 (AS 31.25.080 Power and duties)**

Section 71 repeals AS 31.25.080(f) as unnecessary due to new provisions in AS 31.25.080. Subsection (f) related to the ability of the AGDC to, without delaying progress on an in-state natural gas pipeline, coordinate with developers of a large-diameter natural gas pipeline related to a certain geographic area.

*Status: In Compliance.*

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**Section 72 (Department of Transportation and Public Facilities, bridge evaluation)**

Section 72 provides in uncodified law that the Department of Transportation and Public Facilities shall, in consultation with the AGDC evaluate the design and construction of a new bridge across the Yukon River that would accommodate both vehicular traffic and a gas pipeline from the Alaska liquefied natural gas project. Also the bill added a direction for the same parties to evaluate existing bridges and infrastructure to accommodate a natural gas pipeline resulting from an Alaska liquefied natural gas project to determine whether the bridge of infrastructure could be used for transportation uses, including vehicular traffic.

*Status: In Compliance.*

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**Section 73 (The DNR & the AGDC Report on In-State Gas and 48" Pipe)**

Section 73 provides in uncodified law that the DNR commissioner, in consultation with the AGDC, is to make a report, with recommendations, to the legislature on a plan and alternatives to make North Slope gas available for delivery and use in the state. The report must also address the costs, benefits, and risks associated with building a pipeline with a diameter larger than 42 inches. Also, the DNR commissioner shall recommend means of addressing risks identified in the report. The report and recommendations are required to be available to the legislature on or before the date that a firm transportation services agreement (FTSA) in a North Slope natural gas project to which the state is a party is submitted to the legislature for approval.

*Status: In Progress, but complying. The DNR is working closely with the AGDC to prepare the report, which will be provided on or before date that a FTSA is submitted to the legislature for approval.*

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**Section 74 (Municipal Advisory Gas Project Review Board)**

Section 74 requests that the governor establish an advisory planning group to advise the governor on municipal involvement in a North Slope natural gas project. The requested board is to provide reports, including recommendations, to the governor.

*Status: In Compliance. The Board submitted an annual report in December 2014. The Board routinely meets. It is drafting an annual report due in December 2015.*

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**Section 75 (AEA Plan & Recommendation)**

Section 75 added to uncodified law a direction to the AEA, in consultation with the AGDC, the Alaska Industrial Development and Export Authority (AIDEA), and the DOR, and after considering the state energy policy in AS 44.99.115, to develop plans relating to the delivery of energy - whether fossil fuel, hydro, tidal or other - to areas of the state not expected to have direct access to commercialization of North Slope gas through a North Slope natural gas pipeline. The AEA will also consider storage options, and recommendations related to means to make energy more affordable. The AEA and the DOR will consider and recommend funding possibilities. The AEA shall provide the plan and suggested legislation by January 1, 2017.

*Status: In Progress, but complying. The AEA is in consultation with the AGDC, the DOR & AIDEA developing recommendations for rural energy benefits. The plan and any suggested legislation will be provided by AEA by January 1, 2017.*

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**Section 76 (Financing Report)**

Section 76 added to uncodified law a direction that the DOR commissioner identify and report to the legislature regarding financing options for state ownership and participation in a North Slope natural gas project. An interim draft report is to be available to the legislature on the first day of the first regular legislative session of the 29th Legislature. Also, the DOR commissioner is to consider and report, including submission of proposed legislation, to the legislature on options to allow municipalities, residents, or regional corporations to invest in a North Slope natural gas pipeline. The DOR commissioner is directed to consider relevant factors in preparing the plan and report, which is to be

presented to the legislature when the DNR commissioner submits contracts to the legislature for approval under AS 38.05.020(b)(11).

**Status: In Compliance and progressing.** *Investment opportunities are part of the final financing options report due to the legislature when the first contract is submitted. Active outreach information gathering work was performed during summer and fall 2015 with regional corporations and municipalities for inclusion in final financing options report currently being prepared by Lazard. The Initial Lazard report was submitted to the legislature in February 2015. The work is in progress on analysis and in collaboration with other financial advisors to prepare the final financing options report to be submitted to legislature with first contract.*

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**Section 77 (Legislative Briefings)**

Section 77 provided that the parties to a North Slope natural gas project provide briefings to interested legislators, their staff, and consultants on the progress of the project at least once every four months before the first flow of gas. A briefing must include a written report of the amount of money the state may be liable to pay for a North Slope natural gas project if the project is terminated before the first flow of gas.

**Status: In Compliance.** *All AKLNG Project parties have participated in quarterly Legislative Briefings.*

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**Section 78 (Tax Year Applicability)**

**Status: In Compliance.** *No action necessary.*

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**Section 79 (Regulations)**

Section 79 allows the DNR and the DOR to adopt regulations to implement this Act.

**Status: In Compliance.** *No action necessary at this time.*

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**Sections 80 - 83 (Effective dates)**

**Status: In Compliance.** *No action necessary.*

**Preliminary Agreements to be Negotiated Should Enabling Legislation Pass**

az

| Category          | Agreement(s)                                   | Signatory/Lead | Counterparty                       | Execution   | Consultation | Legislative Approval              |
|-------------------|--|----------------|------------------------------------|-------------|--------------|-----------------------------------|
| <b>General</b>    |  |                |                                    |             |              |                                   |
|                   | AGIA Termination                               | DNR/DOR        | TC                                 | Q2 2014     |              | No                                |
| <b>Equity</b>     |  |                |                                    |             |              |                                   |
|                   | Equity Option Agreement (EOA)                  | DNR            | TC, AGDC                           | Q2 2014     | DOR          | No                                |
|                   | Exercise Equity Option                         | AGDC           | TC                                 | Q4 2015     | DOR          | Appropriation                     |
|                   | JVA (Pre-FEED) Joint Venture Agreement         | AGDC           | AKLNG Project Parties              | Q2 2014     | DNR/DOR      | Appropriation                     |
|                   | JVA (FEED) Joint Venture Agreement             | AGDC           | AKLNG Project Parties              | Q1 2016     | DNR/DOR      | Appropriation                     |
| <b>Midstream</b>  |  |                |                                    |             |              |                                   |
|                   | Precedent Agreement (PA)                       | DNR            | TC                                 | Q2 2014     | DOR          | No                                |
|                   | Midstream Services Agreement (FTSA)            | DNR            | TC                                 | Q4 2015     | DOR          | Yes                               |
|                   | Liquefaction Services Agreement                | DNR            | AGDC                               | Q4 2015     | DOR          | Yes                               |
| <b>Upstream</b>   |  |                |                                    |             |              |                                   |
|                   | Lease Modification                             | DNR            | Producer Parties                   | Q4 2015/FID | DOR          | No                                |
|                   | Balancing and Offtake                          | DNR            | Producer Parties                   | Q4 2015     | DOR          | Yes                               |
| <b>Downstream</b> |  |                |                                    |             |              |                                   |
|                   | Preliminary Marketing/Disposition Agreements   | DNR            | Individual Producer Party or Other | Q4 2015/FID | DOR/AGDC     | Yes                               |
| <b>Other</b>      |  |                |                                    |             |              |                                   |
|                   | Financing                                      | DOR            | TBD                                | TBD/FID     | DNR          | Yes - Public Vote?                |
|                   | Impact Payment & PILT Proposal/Recommendations | DOR            | AKLNG Project Parties              | Q4 2014     | Communities  | Yes - Statutory changes to enable |
|                   | Sales and Purchase Agreement (SPA)             | DNR/Marketer   | LNG Buyers                         | TBD/FID     | DOR/AGDC     | Yes                               |

Notes:

1. The list may not be inclusive of all the potential agreements necessary to advance the AKLNG Project.
2. "Agreement(s)" can include multiple agreements/contracts.
3. The "consultation" column reflects CS SB 138 fin am

*Prepared by Department of Revenue/Department of Natural Resources. Revised 4/3/2014*

*From the HFIN Committee Record on SB138*

# AGREEMENTS TO BE NEGOTIATED

| CATEGORY         | AGREEMENT(S)  | SIGNATORY/<br>LEAD   | COUNTERPARTY          | EXECUTED? | TARGET<br>DATE           | CONSULT  | LEGISLATIVE<br>APPROVAL    |
|------------------|---|----------------------|-----------------------|-----------|--------------------------|----------|----------------------------|
| <b>GENERAL</b>   |   |                      |                       |           |                          |          |                            |
|                  | AGIA Termination  | DNR/DOR              | TC                    | Q2 2014   |                          |          | No                         |
|                  | Fiscal Contract   | DOR/DNR              | Producers             | No        | Q2 2016                  | AGDC     | Yes                        |
| <b>EQUITY</b>    |   |                      |                       |           |                          |          |                            |
|                  | Memorandum of Understanding (MOU); Equity Option Agreement (EOA) Term Sheet | DNR                  | TC                    | Dec. 2013 |                          | DOR/AGDC | No                         |
|                  | Equity Option Agreement <sup>1</sup>  | DNR                  | TC                    | No        | Q4 2015                  | DOR/AGDC | Yes/<br>Appropriation      |
|                  | JVA (Pre-FEED) Joint Venture Agreement                                      | 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 <sup>2</sup> | ExxonMobil            | No        | Q2 2016                  | DNR/DOR  | No                         |
|                  | Member Administrator Services Agreement                                     | Company              | ConocoPhillips        | No        | Q2 2016                  | DNR/DOR  | No                         |
| <b>MIDSTREAM</b> |   |                      |                       |           |                          |          |                            |
|                  | Precedent Agreement (PA)  | DNR                  | TC                    | June 2014 |                          | DOR/AGDC | No (Not More Than 2 Years) |
|                  | Firm Transportation Services Agreement (FTSA) <sup>3</sup> with TransCanada | DNR                  | TC                    | No        | Q4 2015                  | DOR/AGDC | Yes                        |
|                  | FTSA with AGDC  | DNR                  | AGDC                  | No        | During FEED              | DOR      | Yes                        |
|                  | Liquefaction Services Agreement   | DNR                  | AGDC                  | No        | During FEED              | DOR      | Yes                        |
|                  | System Use Agreement  | AGDC                 | Producer Parties      | No        | During FEED <sup>4</sup> | DNR      | No                         |

<sup>1</sup> Equity Option Agreement would not be required if Precedent Agreement is terminated and TC reimbursed.

<sup>2</sup> 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.

<sup>3</sup> Firm Transportation Services Agreement with TC would not be required if PA is terminated and TC reimbursed.

Current Understanding – November 2, 2015

| UPSTREAM   |  |                      |                            |    |                      |             |                         |
|------------|--|----------------------|----------------------------|----|----------------------|-------------|-------------------------|
|            | Lease Modifications  | DNR                  | Producer Parties           | No | Q2 2016              | DOR         | No (SB 138 Provides)    |
|            | Gas Supply and Balancing Agreement   | DNR                  | Producer Parties           | No | Q2 2016 <sup>5</sup> | DOR/AGDC    | Yes                     |
|            | Field Cost Allowance Agreement <sup>6</sup>                                | DNR                  | Producer Parties           | No | Q2 2016              | DOR         | Yes                     |
|            | Gas Supply Agreement (upon Withdrawal)                                     | DNR                  | Withdrawing Producer       | No | Q4 2015              | DOR         | Yes                     |
| DOWNSTREAM |  |                      |                            |    |                      |             |                         |
|            | Joint Venture Marketing or Other Gas Disposition Agreements                | DNR                  | Producer Party or Parties  | No | Q2 2016              | DOR/AGDC    | Yes                     |
|            | Domestic Gas Agreements  | AGDC (as aggregator) | Producer Parties and DNR   | No | Q2 2016              | DNR/DOR     | Yes if SOA a Party      |
| OTHER      |  |                      |                            |    |                      |             |                         |
|            | Financing  | DOR                  | TBD                        | No | TBD/FID              | DNR         | Yes                     |
|            | Property Tax Contract and Property Tax Allocation Proposal/Recommendations | DOR                  | AKLNG Project Parties      | No | Q2 2016              | Communities | Yes – Statutory Changes |
|            | Withdrawal Agreement   | DNR/AGDC             | Producer Parties           | No | Q4 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                     |

<sup>4</sup> Certain principles of the System Use Agreement that are relevant to gas balancing and related issues may be agreed in 2Q 2016.

<sup>5</sup> The State requires Producer alignment on gas balancing structure and key terms by 12/4/15.

<sup>6</sup> Field Cost Allowance Agreement may not be a standalone agreement.



# **Senate Bill 138 & AKLNG Project Overview**

**October 2015**

**By Department of Law & Department of Natural Resources**

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# SENATE BILL 138

- Passed April 2014
  - Provides Authority for the AKLNG Project
    - **AGDC:** Infrastructure
    - **DNR & DOR:** Gas
    - **Legislature:** Contract Approval
  - Provides New Provisions for Tax as Gas (TAG)
  - Amends Oil & Gas Production Tax Statutes
  - Created Municipal Advisory Gas Project Review Board
  - Requires Reports to Legislature
-

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## Provides Authority for AKLNG Project

# AGDC

### SECTIONS 7-21

- Amended AGDC's Statutory Purpose, Powers & Duties, Funds to allow AGDC to hold an ownership interest in an Alaska liquefied natural gas project
  - **AS 31.25.005** – AGDC shall develop and have primary responsibility for developing an Alaska liquefied natural gas project
  - **AS 31.25.080(a)** – AGDC may acquire ownership interest in pipeline, gas treatment, liquefaction
  - **AS 31.25.110** – Alaska liquefied natural gas project fund

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## Provides Authority for AKLNG Project

# DNR

### SECTIONS 24-25, 28

- Give DNR commissioner authority to negotiate commercial agreements, market RIK/TAG, & modify leases
  - **AS 38.05.020(b)(11)** – In consultation with DOR, participate in negotiation of agreements that include balancing, marketing, disposition of natural gas, and offtake
  - **AS 38.05.020(b)(14)**– In consultation with DOR, take custody of tax delivered to the state as gas (TAG) and manage project services and disposition and sale of TAG
  - **AS 38.05.180(hh)-(ii)** – DNR commissioner may make certain modifications to AKLNG Project leases for initial project term

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## Provides Authority for AKLNG Project

# DOR

### SECTIONS 24-25, 40-41

- Expand the authority of commissioner of DOR
  - **AS 38.05.020(b)(11)** – In consultation with DOR, participate in negotiation of agreements that include balancing, marketing, disposition of natural gas, and offtake
  - **AS 38.05.020(b)(14)**– In consultation with DOR, take custody of tax delivered to the state as gas (TAG) and manage project services and disposition and sale of TAG
  - **AS 43.05.010(17)** – DOR commissioner directs the disposition of revenues received from TAG

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## Provides Authority for AKLNG Project

# LEGISLATURE

### SECTION 24

- Gives Legislature final approval of contracts over 2 years
  - **AS 38.05.020(b)(11)**– Any agreement or contract negotiated under this paragraph to which the State is a party is not effective unless the legislature authorizes the governor to execute it

### SECTION 77

- Legislature also receives quarterly AKLNG Project briefings

# TAG & Taxes

### SECTIONS 42-69

- Relate to tax as gas (TAG) in the production tax, and conforming amendments in corporate income tax and oil and gas and pipeline property tax
  - None of these sections address AKLNG Project authority in the midstream or liquefaction
  - Administration is either in compliance with, or no action is required for, each of these sections

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# Municipal Advisory Gas Project Review Board

## MAGPR Board

### SECTION 74

- Requests that governor establish an advisory planning group to advise governor on municipal involvement in a North Slope natural gas project
  - MAGPR Board assembled by AO 269 on March 25, 2014
  - Chaired by Commissioner of Revenue
  - Prepare MAGPR Annual Report
  - Meets regularly using transparent collaborative public process to
    - Discuss AKLNG Project property tax issues
    - Recommend possible options to address & mitigate impacts of new infrastructure associated with AKLNG Project
  - Currently discussing property tax structure, amounts & allocation
    - Tentative proposal \$800M Impact Fee, \$15.7B Flow Rate Property Tax
  - Next MAGPR Board meeting will take place after special session
  - Information available at <http://dor.Alaska.gov/MAGboard>

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## Requires Reports to Legislature

# Required Reports

### SECTIONS 73, 76

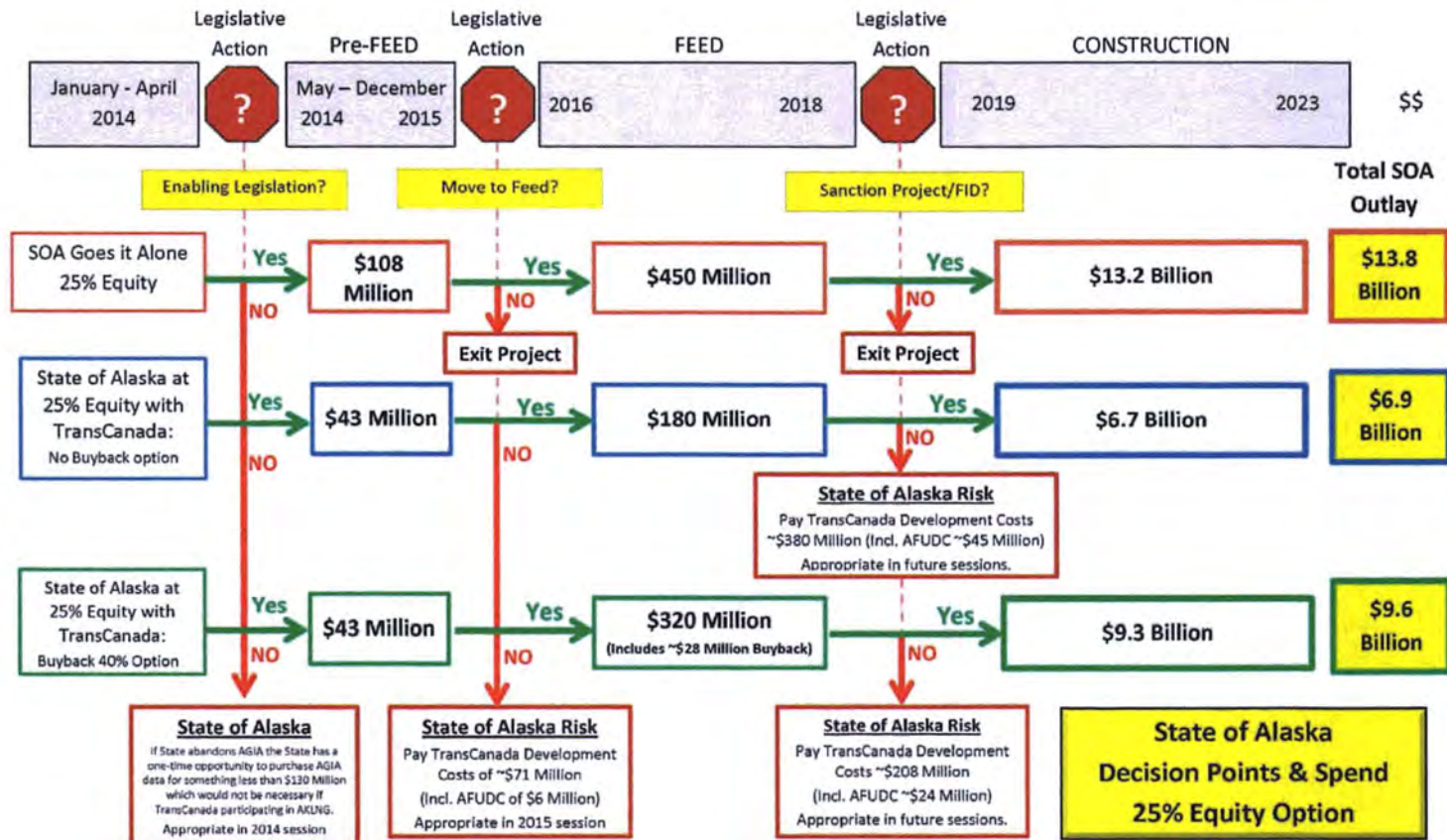
- In-State Gas Report & Financing Report
  - **Section 73** – DNR in consultation with AGDC to provide report and recommendations on in-state gas and costs, benefits, and risks associated with a pipeline larger than 42 inches, due on or before date FTSA submitted to legislature for approval
    - **STATUS:** drafting; final on or before date FTSA submitted
  - **Section 76** – DOR to provide report on financing options, including options for municipalities, residents, or regional corporations to invest in the Project, due when first contract submitted to the legislature.
    - **STATUS:** interim report provided; final with first contract

# HEADS OF AGREEMENT

- **PARTIES:** State, AGDC, Producers, TC
- **KEY PROVISIONS:**
  - **ARTICLE 4:** Pre-FEED technical work to take between 18 and 24 months, with FEED decision expected within 36 months
  - **ARTICLE 5:** State equity participation & a State Gas Share
  - **ARTICLE 6 & Appendix A:** Pro-expansion principles
  - **ARTICLE 6.5:** At least five in-state off take points for domestic gas needs
  - **ARTICLE 8:** subject to the State being satisfied with project-enabling contracts, including satisfactory arrangements for disposition of the State Gas Share, the State/DNR will elect RIK

# AKLNG PROJECT STATUS

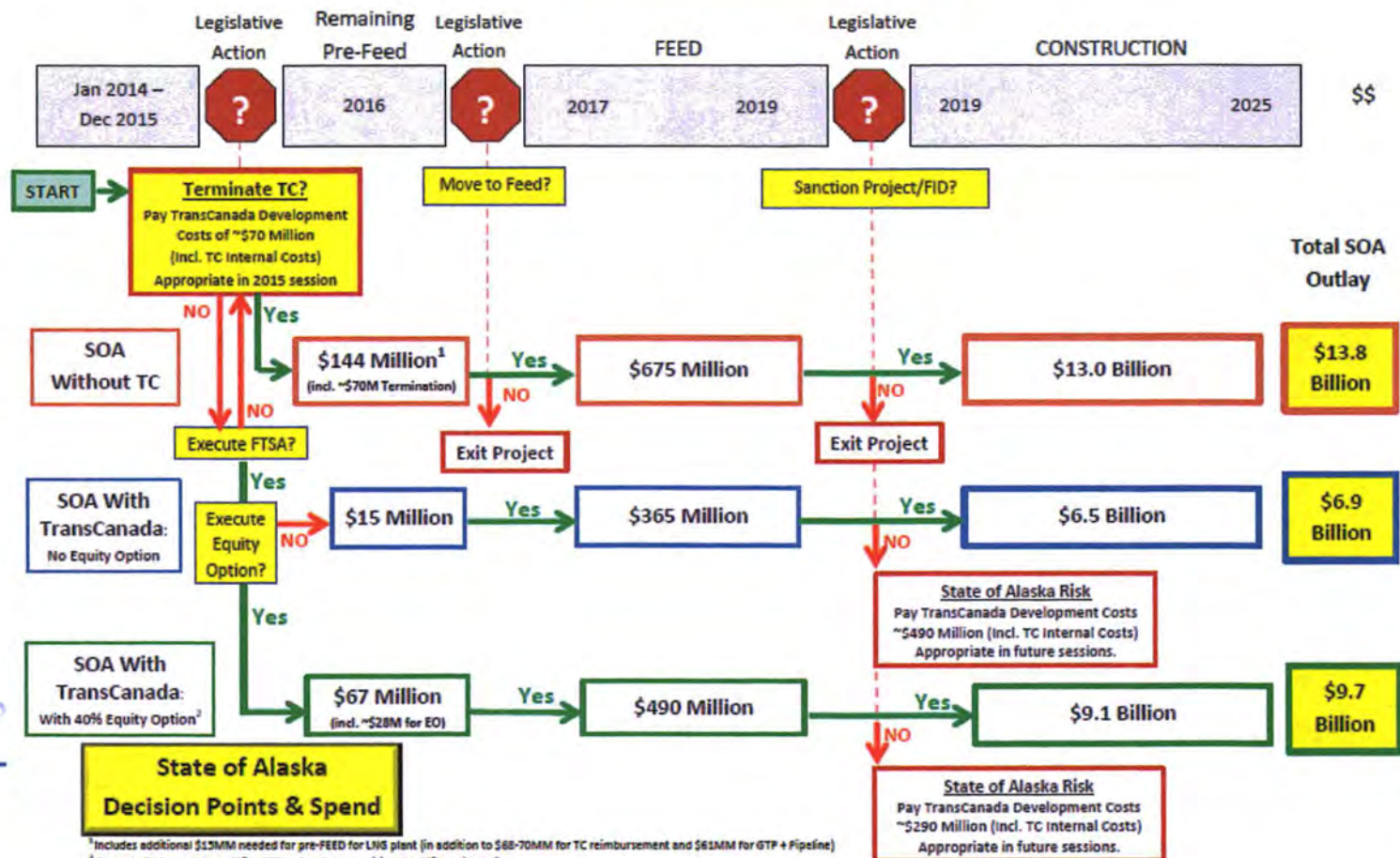
- Provided to Legislature in 2014



ExxonMobil/ConocoPhillips/BP's combined share of the total project cost is approximately \$41.2 Billion, which equals 75% of the total project costs.

# AKLNG PROJECT STATUS

- Revised** : Technical work delivery dates have changed, "Legislative Action" on commercial agreements not yet needed, but "SOA Without TC" numbers consistent with 2014 numbers



<sup>1</sup> Includes additional \$13MM needed for pre-FEED for LNG plant (in addition to \$68-70MM for TC reimbursement and \$61MM for GTP + Pipeline)

<sup>2</sup> Assumes State would pay 40% of TC costs when exercising the 40% equity option.

# AKLNG COMMERCIAL STATUS

Active negotiations among the AKLNG Parties are currently underway on the following commercial agreements. As these negotiations includes proprietary and confidential terms and conditions, additional details on these contracts and agreements will be provided as negotiations are completed.

- Gas supply/balancing Agreement
- Governance Agreement
- Expansion and Access Agreement
- Fiscal Agreement
- Withdrawal Agreement
- Gas Sales by Withdrawing Parties Agreement

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# STATE AKLNG TIMELINE

## KEY STEPS TO FEED

- 
1. **Withdrawal Agreement, Gas Balancing, Gas Sales Agreement by December**
  2. **Lease Modifications**
  3. **RIK-relevant Commercial Agreements**
  4. **RIK/RIV Decision**
  5. **Finalize Other Agreements**
  6. **Executable Agreements to Legislature for Approval**
  7. **Constitutional Amendment to Legislature for Inclusion on Ballot**
  8. **Governor Executes Approved Agreements**
  9. **November 8, 2016 Public Vote on Amendment**
  10. **FEED**

# STATE AKLNG TIMELINE

**12/2015**

- Withdrawal, Gas Balancing, Gas Sales Agreements

**1Q2016**

- Lease Modifications
- RIK-related contracts completed
- RIK/RIV decision process begins

**2Q2016**

- RIK/RIV Finding
- Contracts & Amendment to Legislature
- Legislature Approves

**3-4Q2016**

- Pre-FEED deliverables reviewed
- Nov. 8, 2016 Vote

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## STATE AKLNG TIMELINE

### OCTOBER – DECEMBER '15

- Ongoing key commercial agreement negotiations include in part:
    - Gas Supply & Balancing
    - Governance
    - Expansion & Access
    - Marketing Agreements
    - Fiscal
  - TransCanada termination executed (if appropriation received)
  - Withdrawal Agreement, Gas Sales Under Withdrawal Agreement, and Gas Balancing Agreement agreed by Producers
- 

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## STATE AKLNG TIMELINE

### JANUARY – MARCH '16

- Ongoing key commercial agreement negotiations
- RIK-relevant agreements reflecting satisfactory terms finalized and submitted to DNR
- DNR's RIK/RIV decision process initiated (target 60 days)
- All AKLNG agreements needed for FEED in executable form

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## STATE AKLNG TIMELINE

### APRIL – JUNE '16

- Finalize DNR RIK/RIV determination & finding (subject to submission of RIK-relevant contracts to DNR 60 days earlier)
- Agreements submitted to Legislature
- Legislature approves agreements
- Legislature approves constitutional amendment

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## STATE AKLNG TIMELINE

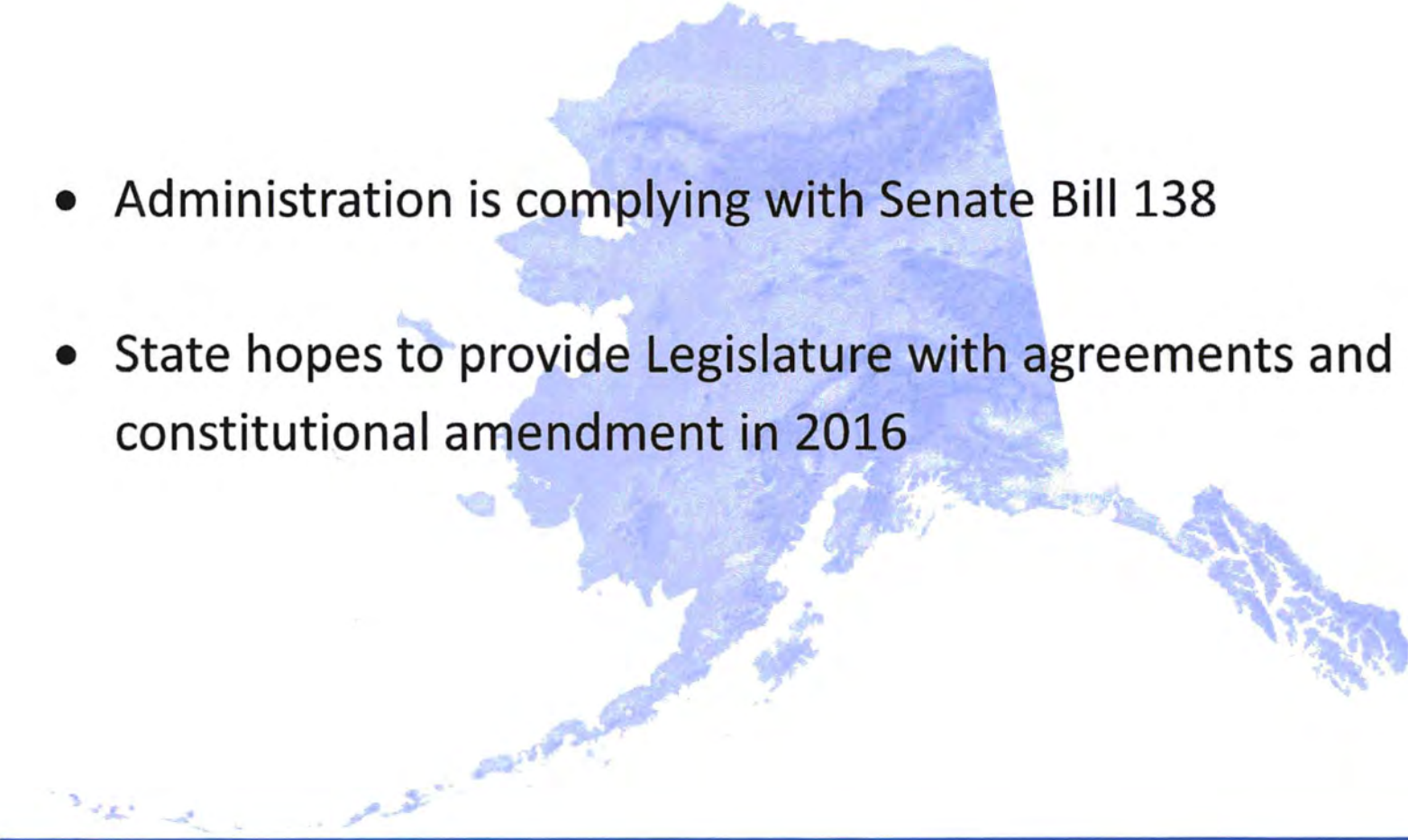
### JULY – DECEMBER '16

- All Pre-FEED deliverables reviewed by Parties and FEED recommendation with appropriate documents is prepared
- **November 8, 2016:** General election including constitutional amendment

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# CONCLUSION

- Administration is complying with Senate Bill 138
- State hopes to provide Legislature with agreements and constitutional amendment in 2016





THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

**Office of the Governor**

OFFICE OF MANAGEMENT AND BUDGET  
Pat Pitney, Director

Court Plaza Building  
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Juneau, Alaska 99811-0020  
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November 1, 2015

Representative Mark Neuman  
Co-Chair House Finance Committee  
Alaska State Legislature  
State Capitol, Room 505  
Juneau, AK 99801

Dear Representative Nueman,

Via this letter the Administration concurs with the request amounts in the work draft of CSHB3001(FIN) for Department of Natural Resources (DNR) and Department of Revenue (DOR).

- Department of Natural Resources (DNR) supplemental revised to \$1,849.5 for personnel services modifications. See details below.
- Department of Revenue (DOR) supplemental revised to \$1,045.5 for personnel services modifications. See details below.

Department of Natural Resources (DNR)

The original HB3001 included a \$2,126.0 FY16 supplemental request for DNR of which \$579.8 was for backfilling the capacity of the positions on the next page. The positions listed are dedicated to the AKLNG project and are unable to do the remaining work in Division of Oil and Gas leaving that division without adequate capacity.

| Position                           | Description                                      | FY16 Projected (salary + benefits) |
|------------------------------------|--|------------------------------------|
| Deputy Commissioner                | Project support – 50 percent of time             | \$129,217                          |
| Petroleum Reservoir Engineer – DOG | Upstream Team support – 10 percent of time       | \$25,174                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Petroleum Reservoir Engineer – DOG | Upstream Team support – 10 percent of time       | \$21,575                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$24,750                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Commercial Analyst – DOG           | Upstream Commercial support – 80 percent of time | \$158,890                          |
| Commercial Analyst – DOG           | Upstream Commercial support – 90 percent of time | \$144,656                          |
| <b>TOTAL</b>                       |  | <b>\$579,844</b>                   |

The administration is revising its DNR request to \$1,849.5, which includes \$303.5 to provide for long-term non-permanent positions and contractual services to replace the Commercial Analyst capacity highlighted above in the DNR Division of Oil and Gas.

DNR's Division of Oil and Gas UGF budget was reduced from FY15 to FY16 by \$981.5, or a 9.6% reduction. The North Slope Gas Commercialization budget accounting for the fund change was reduced from FY15 to FY16 by \$1,161.5, or an 11% reduction. Specific to the AKLNG project request of \$13,225.0 in the Governor's FY16 budget for North Slope Gas Commercialization, the funding provided by the legislature was \$4,238.5 less than needed. Of the \$13,225.0 FY16 Governor request for North Slope Gas Commercialization for AKLNG were RSA amounts for both the DNR Oil and Gas and the DOR Tax divisions that could no longer be met with \$4,238.5 less funding.

This supplemental request is required due to the reduced funding for AKLNG in North Slope Gas Commercialization and compounded by legislative and unallocated reductions in the Division of Oil and Gas Commercialization.

Specific to the supplemental funding for the commercial analyst capacity, the funding is needed to focus on regular oil and gas business activities, including:

- Analyzing commercial implications of laws, regulations, and contract provisions for policy, legislative, and regulatory decisions of the State.
- Analyze and negotiate royalty oil sales contracts, prepare best interest finding for royalty oil sales, present results to the royalty board and the legislature. There continues to be strong interest by in-state refineries for new royalty oil sales.
- Providing essential support in the Unit Plan of Development process.
- Responding to Royalty modification requests - analyze royalty valuation methodology, modification and in-kind contracts. In-depth, timely analysis of those requests is essential to the economic well-being of the state. Royalty modification requests are more likely now with the difficult pricing environment.
- Initiating royalty reopeners in order to verify/challenge allowed cost deductions or crude markers used in calculations. Without reopeners, the state may not receive the maximum royalty valuation.
- Establish financial assurance agreements for future abandonment obligations and royalty-in-kind sales contracts. Delays Royalty modification requests are more likely now with the difficult pricing environment. In-depth, timely analysis of those requests is essential to the economic well-being of the state. Analysis of royalty valuation methodology, modification and in-kind contracts and affect business decisions, which in turn affect their costs, which has been noted by the industry.

The Division of Oil and Gas did take a significant portion of DNR's unallocated reduction, \$435.5 through a 5-day mandatory furlough for XE positions, reduced travel, and not filling vacancies. The choice to address unallocated reductions in the Oil and Gas Division was necessary as the legislative cuts to other divisions in DNR were too significant to take additional unallocated reductions. For example, Forestry sustained a 33% reduction, Agricultural Development -20%, Plant Material Center -17%, and Parks Management and Access -18%. DNR's assigned unallocated reduction relative to other agencies was proportional to DNR's UGF budget. Some agencies, relative to total UGF, were assigned proportionally larger unallocated reductions.

Department of Revenue (DOR)

The original HB3001 included a \$1,381 FY16 supplemental request for DOR of which \$793.4 was for backfilling the capacity of the positions listed below. The positions listed are dedicated to the AKLNG project and are unable to do the remaining work with the largest impact being in the tax division. Three of the Tax Division employees are the most tenured professionals in the division.

| Position                  | Description  | FY16 Projected (salary + benefits) |
|---------------------------|--|------------------------------------|
| Deputy Commissioner       | Focuses on fiscals, finance, governance and tax deliverables – 90 percent of time      | \$214,934                          |
| <b>Audit Master</b>       | <b>Focuses on upstream deliverables - 90 percent of time</b>                           | <b>\$192,505</b>                   |
| <b>Audit Master</b>       | <b>Focuses on property tax, some upstream deliverables - 75 percent of time</b>        | <b>\$179,111</b>                   |
| <b>Commercial Analyst</b> | <b>Focuses on fiscals, finance, and property tax deliverables - 50 percent of time</b> | <b>\$86,906</b>                    |
| Chief Economist           | Focuses on marketing and finance deliverables - 10 percent of time                     | \$18,695                           |
| Petroleum Economist       | Focuses on revenue aspects of marketing deliverables - 10 percent of time              | \$13,216                           |
| Petroleum Economist       | Focuses on property tax deliverables - 25 percent of time                              | \$36,062                           |
| State Investment Officer  | Focuses on finance deliverables - 5 percent of time                                    | \$18,632                           |
| State Investment Officer  | Focuses on finance deliverables - 5 percent of time                                    | \$18,632                           |
| State Investment Officer  | Focuses on finance deliverables - 5 percent of time                                    | \$14,744                           |
| <b>TOTAL</b>              |  | <b>\$793,437</b>                   |

The administration is revising its request for DOR from \$1,381.0 to \$1,045.5, which includes \$458.5 for long-term non-permanent positions and contractual services to address the two audit masters and commercial analyst capacity necessary in DOR's Tax Division through FY16. The capacity in the Tax Division is necessary in these areas:

- Support SB 138 property tax modeling, analysis, reporting and legislation
- Support for various regulations projects – property tax, allocation of lease expenditures and others
- Financing related economic modeling and reporting for official statement disclosure

- Analysis in support of revenue legislation
- Analyzing commercial implications of laws, regulations, and contract provisions for policy, legislative, and regulatory decisions of the State
- Providing essential support in the work plan development process

DOR's UGF budget was reduced from FY15 to FY16 by \$4,848.4, or a 14% reduction. The Tax Division's UGF budget was reduced from FY15 to FY16 by \$2,414.4, or a 14% reduction. Due to the severe reduction, the Tax Division did not receive any unallocated reduction.

Had the AKLNG project request of \$13,225.0 in the Governor's FY16 budget for North Slope Gas Commercialization been funded there would have been sufficient RSA amounts for the DOR.

Please let me know if you have additional questions.

Sincerely,



Pat Pitney  
Director

cc: David Teal, Director, Legislative Finance

# State of Alaska

*Bill Walker, Governor*

*Office of Management and Budget*

*PO Box 110020*

*Juneau AK 99811-0020*

*(907) 465-4660, fax 465-3008*

## **FY2016 Supplemental Request for State Agencies - \$13.6 Million**

### **Background – Roles and Responsibilities**

The AKLNG state gas team consists of representatives from the Department of Natural Resources (DNR), Department of Revenue (DOR), Department of Law (DOL), and Office of the Governor (GOV), as well as subject matter experts from other state agencies and external consultants. The AKLNG state gas team is primarily responsible for:

- negotiating critical commercial agreements for the Alaska LNG Project with the Producer parties (ExxonMobil, BP, and ConocoPhillips);
- developing a plan to market and dispose of the State's share of project gas for in-state use and LNG exports;
- evaluating, and if it's in the best interest of the State, modify existing lease structures to accommodate the State taking tax-as-gas and royalty in-kind;
- negotiating Property Tax for the Payment in Lieu of Taxes (PILT) and Impact Payments during construction;
- assuring the project allows for adequate expansion for new discovery and alternative gas supplies; and
- assuring the pipeline is adequately designed to provide supply to meet in-state gas demand (demand is determined by the Alaska Gasline Development Corporation).

In addition to the state agencies, the Alaska Gasline Development Corporation (AGDC) is a party to the Alaska LNG Project and deals with specific project and infrastructure issues.

### **FY2016 AKLNG State Gas Team Supplemental Request Summary**

The coming months are critical for the Alaska LNG Project. The AKLNG state gas team continues to work diligently in crafting agreements to move the project forward and begin to plan for the next phase of the project, specifically in marketing the State's share of gas.

Under SB 138, the DNR Commissioner was given the authority to participate in negotiation of contracts for marketing of the state's gas and in consultation with the DOR Commissioner take custody of gas delivered to the state under AS 43.55.014(b) and manage project services and disposition and sale of that gas. The need for a marketing organization within DNR is an important step in preparing for successful sale of gas under the Alaska LNG Project or an alternative project. Gas sales contracts typically need to be negotiated before a LNG project can proceed into construction. With assistance provided by expert consultants Black & Veatch on staffing needs and market rates for key personnel, the DNR North Slope Gas Commercialization (NSG) is requesting funds to begin developing a gas marketing organization required to attract the necessary expertise to compete with global marketing organizations. Further detail on the marketing structure is provided later in this document.

The DNR NSG did not receive the full \$13,186.7 requested for FY2016. The project workload has increased significantly over the past several months in preparation for a special session and the currently appropriated FY2016 budget for the NSG is insufficient to cover projected expenses and the need to begin ramp up of a

marketing effort. We expect the workload to remain steady through the remainder of FY2016 and therefore are submitting a supplemental budget during the fall special session.

Should the AKLNG state gas team not receive supplemental funding, important project work will come to a halt. Instead of moving the project forward, critical DOL and DNR contracts would not be able to continue and many subject matter experts from the DNR and DOR would be laid off. Further, the State will be unable to compete with international gas marketers. It is important the DNR begin to develop the capability during the second half of FY2016 to be fully positioned to sign sales agreements which will underpin a Final Investment Decision in 2018 or 2019 to proceed to construction.

### Department of Natural Resource's NSG LNG Supplemental Request

The FY2016 projected supplemental request for DNR is estimated at **\$2,126,000**.

#### New DNR NSG Marketing Structure

Please note the Marketing Lead is not a new position, it is a current vacant position but an increase in salary will be required to attract a candidate with the level of global LNG marketing experience required to help the State build a successful gas marketing organization to remain competitive. Projections are for December 1, 2015 – June 30, 2016.

| Position          | Description  | FY16 Projected (salary + benefits) |
|-------------------|--|------------------------------------|
| Marketing Lead    | Existing Position – additional funding for level of expertise required           | \$480,000                          |
| Marketing Analyst | New Position Request – manage marketing portfolio & risk under direction of Lead | \$166,000                          |
| <b>TOTAL</b>      |  | <b>\$646,000</b>                   |

#### Additional DNR FY16 NSG Contractual Services

DNR was given procurement exemptions under SB 138 section 22. DNR's exemption is specific to contracts for professional and technical services to support the development of agreements and contracts under AS 38.05.020(b)(10) and (11) to help facilitate coordination of contract work for a large integrated project such as this. It is anticipated that an additional **\$1,479,800** will be required in contractual services.

| Budget Item                     | FY16 Allocated   | FY16 Projection  | FY16 Supplemental Request |
|---------------------------------|------------------|------------------|---------------------------|
| DNR Contractual Services        | \$7,115.0        | \$8,015.0        | \$900.0                   |
| Other DNR Agency AKLNG Expenses | \$0.0            | \$579.8          | \$579.8                   |
| <b>TOTAL</b>                    | <b>\$7,115.0</b> | <b>\$8,594.8</b> | <b>\$1,479.8</b>          |

Below is a list of existing contracts. Some may need to be extended and additional contracts are currently being negotiated or have been identified for work related to FERC resource reporting reviews and drafting, facilities review for commercial aspects, commercial analysis and support, and audits associated with termination of TransCanada.

#### **FY16 Existing Contracts:**

| Contractor     | Contract Admin | Contract Period          | FY16 Projected |
|----------------|----------------|--------------------------|----------------|
| Audie Setters  | DNR            | Sept 2014 – October 2015 | \$170,000      |
| Black & Veatch | DNR            | Sept. 2014 – June 2016   | \$2,200,000    |
| Greengate LLC  | DNR            | July – September 2015    | \$300,000      |
| Nan Thompson   | DNR            | July – September 2015    | \$200,000      |
| Pingo          | DNR            | January 2015 – July 2016 | \$240,000      |
| Simon Lisiecki | DNR            | May 2015 – June 2016     | \$100,000      |

|                 |                |                      |                    |
|-----------------|----------------|----------------------|--------------------|
| Contractor      | Contract Admin | Contract Period      | FY16 Projected     |
| Steve Swaffield | DNR            | Aug 2014 – Dec 2015  | \$120,000          |
| Steve Wright    | DNR            | Aug 2014 – June 2016 | \$336,000          |
| Subtotal        |                |                      | <b>\$3,666,000</b> |

**Other FY16 DNR AKLNG Project Related Personal Services – RSA to DNR**

An additional \$580,000 will cover the significant workload associated with the AKLNG Project placed on other Divisions, primarily the Division of Oil and Gas as outlined in the table below:

| Position                           | Description                                      | FY16 Projected (salary + benefits) |
|------------------------------------|--|------------------------------------|
| Deputy Commissioner                | Project support – 50 percent of time             | \$129,217                          |
| Petroleum Reservoir Engineer – DOG | Upstream Team support – 10 percent of time       | \$25,174                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Petroleum Reservoir Engineer – DOG | Upstream Team support – 10 percent of time       | \$21,575                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$24,750                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Commercial Analyst – DOG           | Upstream Commercial support – 80 percent of time | \$158,890                          |
| Commercial Analyst – DOG           | Upstream Commercial support – 90 percent of time | \$144,656                          |
| <b>TOTAL</b>                       |  | <b>\$579,844</b>                   |

**Department of Revenue’s LNG Supplemental Request**

The supplemental budget request for Revenue includes both operating and capital budget requests. The total projected supplemental request for this project from Revenue is estimated at \$1,381,000 for the remainder of FY2016.

**FY16 DOR AKLNG Project Related Personal Services**

The personal services funding will support Revenue’s work on fiscals, project financing, governance, and the revenue aspects of marketing and taxes.

| Position                 | Description   | FY16 Projected (salary + benefits) |
|--------------------------|---|------------------------------------|
| Deputy Commissioner      | Focuses on fiscals, finance, governance and tax deliverables – 90 percent of time | \$214,934                          |
| Audit Master             | Focuses on upstream deliverables - 90 percent of time                             | \$192,505                          |
| Audit Master             | Focuses on property tax, some upstream deliverables - 75 percent of time          | \$179,111                          |
| Commercial Analyst       | Focuses on fiscals, finance, and property tax deliverables - 50 percent of time   | \$86,906                           |
| Chief Economist          | Focuses on marketing and finance deliverables - 10 percent of time                | \$18,695                           |
| Petroleum Economist      | Focuses on revenue aspects of marketing deliverables - 10 percent of time         | \$13,216                           |
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| State Investment Officer | Focuses on finance deliverables - 5 percent of time                               | \$18,632                           |
| State Investment Officer | Focuses on finance deliverables - 5 percent of time                               | \$18,632                           |
| State Investment Officer | Focuses on finance deliverables - 5 percent of time                               | \$14,744                           |
| <b>TOTAL</b>             |   | <b>\$793,437</b>                   |

### **FY16 DOR Travel and Contractual Services**

Revenue is also requesting \$87,000 for travel expenses and other related expenses related to performing work services for AKLNG. Revenue is also requesting \$500,000 for contractual costs to fund AKLNG Project "Bankability" review of project financing.

### **Department of Law's LNG Supplemental Request**

#### **FY16 Law Contractual Services**

The supplemental budget request for Law includes a \$10,100,000 operating budget requests for contractual services with other law firms to assist in drafting, negotiating and reviewing AKLNG contracts with the producers, to provide legal and regulatory support for state participation in the project. Currently under contract are Greenberg Traurig and Milbank, Tweed, Hadley & McCloy.

| <b>Budget Item</b> | <b>FY16 Allocated</b> | <b>FY16 Projection</b> | <b>Difference</b>  |
|--------------------|-----------------------|------------------------|--------------------|
| Milbank            | 2,300.0               | 10,000.0               | 7,700.0            |
| Greenberg Traurig  | 2,000.0               | 4,400.0                | 2,400.0            |
| Jones Day          | 100.0                 | 100.0                  | 0.0                |
| DOL Internal costs | 200.0                 | 200.0                  | 0.0                |
| <b>TOTAL</b>       | <b>\$4,600.0</b>      | <b>\$14,700.0</b>      | <b>-\$10,100.0</b> |

\*Law's allocation includes \$3 million from DNR, and \$700.0 from the FY16 regular budget, and \$900.0 remaining from a FY2014 capital appropriation to AGDC.

### **DNR Costs Associated with TransCanada Buyout – RSA from AGDC**

State is faced with a December 31, 2015 deadline to make a decision on whether to buy back TransCanada's share and take a direct equity participation in the AKLNG midstream. To do so would require termination of the PA. If the Legislature agrees that AGDC take control of the Midstream component of the Alaska LNG Project, the TransCanada Alaska Midstream Limited Partnership (TAMLP) partnership interests will be acquired for \$1 and TransCanada will be owed for its accrued costs in the Project, which are estimated to be ~\$68,445,000 at the end of 2015.

The amount owed to TransCanada is the responsibility of DNR under the current Precedent Agreement between DNR and TransCanada. Once the agreement is terminated, AGDC will require additional operational funding to carry the midstream costs through the end of FY2016.

**Department of Natural Resources**  
**AKLNG Pipe Size Issue**  
**October 28, 2015**

**Background on pipe size**

Beginning in 2012 as part of the Alaska Pipeline Project (APP)/Alaska Gasline Inducement Act (AGIA) effort, TransCanada and ExxonMobil came to the conclusion after extensive engineering work that a 48-inch pipe was the best choice for their project due largely to optimal expandability. The APP/AGIA project was premised on exporting North Slope stranded natural gas via an overland pipeline to tie into the North American gas pipeline grid in Alberta. With the termination of APP/AGIA, North Slope gas commercialization efforts reemerged under South Central LNG (SCLNG), premised on exporting LNG to high-value Asian markets, and initial conclusions by SCLNG on pipe diameter largely reflected the same conclusion reached in earlier APP/AGIA Project (48-inch pipe has optimal expandability). By the time SCLNG evolved into AKLNG, the Producers (ConocoPhillips, ExxonMobil, BP) had reversed prior conclusions and settled on a preference for 42-inch pipe size based on minimizing upfront capital costs.

**Administration's past and current position on pipe size**

Since 2013, the State of Alaska has consistently advocated for a 48-inch case in AKLNG Pre-FEED engineering work. During SB 138 hearing in 2014, DNR Commissioner Balash advised that a larger pipe was an alternative to be evaluated during AKLNG Phase 2 technical work, and that such an evaluation was in the best interest of the State to make an informed decision on appropriate pipe size.

Consistent with legislative direction in SB 138, the Administration has continued to advocate that a 48-inch case be preserved as a viable alternative for AKLNG. In February 2015 the State learned that no engineering work was under way on the 48-inch case as part of Pre-FEED, which would make an eventual apples-to-apples comparison between 42-inch and 48-inch pipe impossible. Due to strong advocacy by the State of Alaska, the AKLNG Parties voted in September 2015 to change the Pre-FEED Work Plan and Budget (WP&B) to include all the engineering work necessary to raise the 48-inch to an equivalent level to the 42-inch case. This work should be completed by April 2016, at which time appropriate technical and commercial data will be available to make an informed decision by all Parties to AKLNG.

**Basis for Administration's desire to have a full analysis of a 48-inch pipe size**

When evaluating pipeline sizing options, it is normal to consider at an early stage in the process all pipe diameters and maximum operating pressures that are potentially feasible. On the basis

of technical work completed to date, there appears to be consensus that only two pipe diameters require further detailed consideration, a 42-inch pipeline and a 48-inch pipeline. As part of Pre-FEED, a broad-based engineering study is underway to determine which of these two options satisfies the technical needs of AKLNG as well as achieves broader State of Alaska gas development interests.

Early on in the project, it was recognized that there was a fundamental difference between the State of Alaska's primary design criteria and the producers' preferences on sizing the AKLNG pipeline. Producers are focused on the lowest cost transportation capacity needed to monetize their PBU and PTU resources, as might be expected. Using only this single criterion, the 42-inch diameter is likely the best option. However, the 42-inch option does not easily accommodate entrance of new gas until after PBU and PTU come off plateau and begin to decline. The State of Alaska is more broadly focused on its ability to more timely open the North Slope's gas resources to development beyond PBU and PTU, as anchor fields for AKLNG, and the capability to serve greater in-state needs. The 48-inch pipe is a much better option to meet these requirements as its expandability is significantly easier and cheaper.

When completing a study to determine the optimum pipeline diameter, there are many factors that influence the final selection. The importance of each factor varies with the perspective of the decision-makers. Some of the main factors are described below:

- **CAPITAL COSTS** – For the base case throughput of 3.3 bcf/d the 42-inch is the lowest cost option. The 48-inch option, transporting an equal amount of gas, could cost as much as 8% more.
- **OPERATING COSTS** – At the base case throughput, the 42-inch initially has a lower cost of service than the 48-inch largely because of its lower cost of capital. Because the 48-inch pipeline has fewer compression stations it burns less fuel, and needs less maintenance. Over time, the larger pipe begins to overtake the smaller, less efficient pipeline.
- **EXPANSION** – The 42-inch pipe can be expanded to transport up to 1 bcf/d. The incremental cost of expanding the 42-inch is double what it costs for the same 1 bcf/d additional capacity with the 48-inch pipe. Furthermore, since this size expansion requires 10 additional compression stations on the 42-inch compared to only four more on the 48 inch operating costs considerations strongly favor the larger, more efficient pipe, which is 10% to 15% cheaper. Finally, a 1 bcf/d expansion on the 42-inch pipeline is the maximum achievable while the larger pipeline can be expanded at least another 1.5 to 2 bcf/d above the limit of the 42-inch.
- **SCHEDULE RISK** – Since engineering work on the 42 inch case is almost complete, pursuing the equivalent level of work on the 48-inch option does represent a setback in the Project schedule. Currently this potential delay in the Pre-FEED to FEED transition could be as much as eight months; it should not have any delay on Final Investment Decision

(FID) or first gas. Given the heavier weight and larger diameter of the 48-inch pipe, it does represent additional logistical, installation, and safety risks, but with careful planning and choosing high performing contractors these risks can be mitigated. These added construction risks are contemplated in the additional 5% contingency and will be better understood, and potentially better mitigated after the 48-inch engineering work is complete during pre-FEED.

- The 48-inch pipeline is also expected to offer additional flexibility; more line pack, lower maintenance, fewer emissions, and more stability in discontinuous permafrost.

### **Process for proposing and approving Project Scope changes and securing State funds**

During Pre-FEED, the AKLNG Work Plan & Budget (WP&B) is approved in the late fall for the following calendar year. The process for amending an AKLNG Work Plan & Budget is straightforward. A change proposed by a JVA Party to the existing Pre-FEED WP&B is reviewed for scope, technical, cost, and commercial implications through a series of committees and then voted on by the AKLNG partners (currently including AGDC and TransCanada for the State of Alaska). Note that some requests may require a change in scope, without a cost increase, while others may require additional work, but ultimately may result in cost savings for the overall Project. These sorts of requests still require approval of all the partners, as they will likely require additional Pre-FEED or FEED expenditures.

Changes to the WP&B costs which require State funding above amounts already approved via legislative appropriation are requested through the normal State budget process, such as the current request before the Legislature.

Once the AKLNG parties make a FEED decision, they intend to have a single Work Plan & Budget for the entire FEED process, rather than an annual Work Plan & Budget. Scope and cost amendments to the FEED Work Plan & Budget will follow the same process outlined for pre-FEED.

### **Who will bear the additional costs and receive the benefits of a larger pipe?**

All AKLNG parties are currently participating in funding the engineering analysis for Pre-FEED for the 48-inch pipe size at an approximate cost of \$30M. Until that work is complete, the Parties will not know all the costs and benefits associated with the larger pipe.

### **Can a 48" pipe be designed to cross Cook Inlet?**

The technical alternatives for the AKLNG pipeline crossing of Cook Inlet are the subject of extensive analysis now underway. There are three alternatives currently being investigated by the Project team:

- **Cross Cook Inlet with 48-inch pipe**

- **Cross Cook Inlet with 42-inch pipe as per the current design basis** (may require an additional compression station on the west side of Cook Inlet)
- **Cross Cook Inlet with twin smaller diameter pipes**

It is anticipated that this alternative analysis, including feasibility, cost, schedule and reliability/maintenance components, will be completed during 1Q2016. At that time, the results and recommendation will be presented to the AKLNG Project parties for review and approval.

*Adopted  
11/1/15*

29-GH3812/E  
Wallace/Martin  
11/1/15

**CS FOR HOUSE BILL NO. 3001(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - THIRD SPECIAL SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:  
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act making supplemental appropriations; making appropriations to capitalize**  
2 **funds; and providing for an effective date."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 \* **Section 1.** LEGISLATIVE INTENT. (a) It is the intent of the legislature that the  
5 appropriations made in secs. 2 - 4 of this Act be accounted for separately from the unrestricted  
6 general fund.

7 (b) It is the intent of the legislature that the appropriation made in sec. 5(a) of this Act  
8 be paid in an expedited manner, resulting in a successful state acquisition of the interest in the  
9 Alaska liquefied natural gas project currently held by TransCanada Alaska Midstream  
10 Limited Partnership by December 1, 2015.

11 \* **Sec. 2.** DEPARTMENT OF LAW. The sum of \$10,100,000 is appropriated from the  
12 general fund to the Department of Law, civil division, oil, gas, and mining, for contractual  
13 services with law firms to assist the Department of Natural Resources in drafting and  
14 reviewing contracts related to the Alaska liquefied natural gas project and to provide legal and

1 regulatory support for state participation in the Alaska liquefied natural gas project for the  
2 fiscal year ending June 30, 2016. Money may be expended from the appropriation made in  
3 this section only for work completed during the fiscal year ending June 30, 2016.

4 \* **Sec. 3.** DEPARTMENT OF NATURAL RESOURCES. The sum of \$1,849,500 is  
5 appropriated from the general fund to the Department of Natural Resources, administration  
6 and support services, North Slope gas commercialization, for a marketing lead position, a  
7 marketing analyst position, work related to Federal Energy Regulatory Commission resource  
8 reporting reviews and drafting, facilities review for commercial aspects, commercial analysis  
9 and support, and audits associated with the termination of the agreement with TransCanada  
10 Alaska Midstream Limited Partnership for the fiscal year ending June 30, 2016. Money may  
11 be expended from the appropriation made in this section only for work completed during the  
12 fiscal year ending June 30, 2016.

13 \* **Sec. 4.** DEPARTMENT OF REVENUE. The sum of \$1,045,500 is appropriated from the  
14 general fund to the Department of Revenue, administration and support, natural gas  
15 commercialization, for personal services for work on financial analysis, project financing,  
16 governance, and the revenue aspects of marketing and taxes; for travel; for contractual review  
17 of project financing; and for other costs related to performing work for the Alaska liquefied  
18 natural gas project for the fiscal year ending June 30, 2016. Money may be expended from the  
19 appropriation made in this section only for work completed during the fiscal year ending  
20 June 30, 2016.

21 \* **Sec. 5.** FUND CAPITALIZATION. (a) The amount necessary, estimated to be  
22 \$68,455,000, is appropriated from the general fund to the Alaska liquefied natural gas project  
23 fund (AS 31.25.110) to acquire the interest currently held by TransCanada Alaska Midstream  
24 Limited Partnership in the Alaska liquefied natural gas project.

25 (b) The sum of \$75,600,000 is appropriated from the general fund to the Alaska  
26 liquefied natural gas project fund (AS 31.25.110) to fund the state's share of preliminary  
27 front-end engineering and design work for the Alaska liquefied natural gas project.

28 (c) The statutory designated program receipts received as reimbursement for costs of  
29 field work paid from the Alaska liquefied natural gas project fund (AS 31.25.110) during the  
30 fiscal year ending June 30, 2016, estimated to be \$2,900,000, are appropriated to the Alaska  
31 liquefied natural gas project fund (AS 31.25.110).

1 (d) The statutory designated program receipts received as reimbursement for costs of  
2 field work paid from the in-state natural gas pipeline fund (AS 31.25.100) during the fiscal  
3 year ending June 30, 2016, estimated to be \$1,300,000, are appropriated to the in-state natural  
4 gas pipeline fund (AS 31.25.100).

5 \* **Sec. 6. LAPSE OF APPROPRIATIONS.** The appropriations made in sec. 5 of this Act are  
6 for the capitalization of funds and do not lapse.

7 \* **Sec. 7. RETROACTIVITY.** If secs. 2 - 5 of this Act take effect after November 15, 2015,  
8 secs. 2 - 5 of this Act are retroactive to November 15, 2015.

9 \* **Sec. 8. CONTINGENCY.** The appropriations made in secs. 2 - 4, and 5(b) of this Act are  
10 contingent on adoption of a work program and budget for the Alaska liquefied natural gas  
11 project for calendar year 2016 by the Alaska Gasline Development Corporation, ExxonMobil  
12 Alaska LNG LLC, ConocoPhillips Alaska LNG Company, and BP Alaska LNG LLC by  
13 December 31, 2015.

14 \* **Sec. 9.** This Act takes effect immediately under AS 01.10.070(c).

## Fund Source Report

1241 GF/LNG General Fund / LNG

| Year Authorized | Year Repealed | Active? | Mental Health? | Duplicated? | Fund Group           |
|-----------------|---------------|---------|----------------|-------------|----------------------|
| 2016            |               | Yes     | No             | No          | Unrestricted General |

No Appropriations during last 10 years

### Legal Authority

None--tracking code only

### Source of Revenue

Unrestricted general fund

### Restrictions on Use

Intended for activities associated with a natural gas pipeline.

### Description and History

October 2015

General Fund LNG is a tracking code that consists of unrestricted general funds appropriated to agencies to fund activities associated with development of a natural gas pipeline.

This fund code was established in FY16 in order to

- 1) provide a means to track agency expenditures on gasoline activities.
- 2) bypass AGDC control over RSAs using the AKLNG Project fund, for which code 1236 was established.

GF/LNG is an unrestricted fund source, meaning that LNG funds can be used for purposes other than activities associated with a gasoline. However, the intent of the fund code is to allow accurate tracking of general fund expenditures for those purposes. Accuracy will not be achieved unless and until this code is used instead of UGF code 1004. Also note that language appropriations may restrict use of the funds to specific items or activities and that appropriations unspent for those purposes lapse to the general fund.

See

1236 AKLNG I/A

**AGDC REGULATIONS**

3 AAC is amended to add a new chapter \_\_\_ to read:

**3 AAC \_\_\_\_\_.Confidentiality agreements.** (a) After December 1, 2015, the corporation may enter into a contract with a third party to protect the confidentiality of information belonging to the third party that is disclosed to the corporation in connection with its business or affairs only when the specific information protected by the confidentiality contract is within one or more of the following categories:

- (1) income tax returns, financial statements, profit-and-loss statements, cash flow reports and cash flow projections;
- (2) credit reports and other credit information;
- (3) proprietary business plans, strategies, analyses, budgets, or information the disclosure of which would cause commercial or competitive harm to the third party owning the information;
- (4) trade secrets, as defined in the Alaska Uniform Trade Secrets Act (AS 45.50.940(3)), including proprietary and confidential information on products, pricing, manufacturing, or operating processes ;
- (5) market surveys, sales or marketing strategy information, or pricing strategies;
- (6) information that is required to be kept confidential under applicable federal or state law.

(b) No contract that the corporation enters into after December 1, 2015 to protect the confidentiality of any information shall itself be treated as a confidential document.

(c) Notwithstanding (a) of this section, the corporation shall continue to honor its obligations under any contracts it entered into with a third party prior to December 1, 2015 to preserve the confidentiality of any information.

(Eff. \_\_/\_\_/2015, Register \_\_\_\_\_)

**Authority:** AS 31.25.040      AS 31.25.090      AS 31.25.130

**3 AAC \_\_\_\_\_. \_\_\_\_\_. Disclosure of the corporation's information.** (a) The corporation will make its records available to the public in accordance with the Alaska Public Records Act (AS 40.25.100 – 40.25.295) and the regulations adopted under it (2 AAC 96), subject to the exemptions established in the Alaska Public Records Act, the regulations, or AS 31.25.090(g) or (h).

(b) Unless the board approves waiving confidentiality, the corporation will preserve the confidentiality of its trade secret information, the disclosure of which would result in the loss of the value of the corporation's trade secret or which would cause other commercial or competitive harm to the corporation.

(c) The corporation may enter into confidentiality agreements with other parties as the corporation considers appropriate for the protection of its trade secret information, the disclosure of which would result in the loss of the value of the

corporation's trade secret or which would cause other commercial or competitive harm to the corporation.

(Eff. \_\_\_/\_\_\_/2015, Register \_\_\_\_\_)

**Authority:** AS 31.25.040 AS 31.25.090 AS 31.25.130

**3 AAC \_\_\_\_\_.\_\_\_\_. Consideration of confidential information.** (a) The board may meet in executive session as authorized under the Open Meetings Act (AS 44.62.310 – 44.63.319) to consider information that the corporation may or must keep confidential under 3 AAC \_\_\_\_\_.\_\_\_\_(a) or (c) or 3 AAC \_\_\_\_\_.\_\_\_\_(b). The corporation may also provide to directors, outside of any board meeting, for the purpose of fulfilling their duties as directors, information that the corporation may or must keep confidential under 3 AAC \_\_\_\_\_.\_\_\_\_(a) or (c) or 3 AAC \_\_\_\_\_.\_\_\_\_(b).

(b) Unless the board authorizes a disclosure, all directors, officers, employees and agents of the corporation participating in an executive session of the board at which information the corporation may or must keep confidential under 3 AAC \_\_\_\_\_.\_\_\_\_(a) or (c) or 3 AAC \_\_\_\_\_.\_\_\_\_(b) is considered shall preserve the confidentiality of the information. Unless the board authorizes a disclosure, a director to whom the corporation has provided, outside of any board meeting, information that the corporation may or must keep confidential under 3 AAC \_\_\_\_\_.\_\_\_\_(a) or (c) or 3 AAC \_\_\_\_\_.\_\_\_\_(b) shall preserve the confidentiality of the information.

(Eff. \_\_\_/\_\_\_/2015, Register \_\_\_\_\_)

**Authority:** AS 31.25.040 AS 31.25.090 AS 31.25.130

**3 AAC \_\_\_\_\_. \_\_\_\_\_. Limits on and review of confidential information. (a)**

Consistent with any confidentiality agreements of the corporation and applicable law, the board will endeavor to limit the amount of confidential information it withholds from the public and the time period for which information is kept confidential. The corporation shall presume that information is available for public disclosure and is not confidential, absent clear indication or demonstration to the contrary. In withholding records as confidential, the corporation shall adopt the least restrictive means possible, making as much of the records available as is practical while preserving the confidentiality of any information that is protected under 3 ACC \_\_\_\_\_. \_\_\_\_\_. (a) or (c) or 3 AAC \_\_\_\_\_. \_\_\_\_\_. (b).

(b) In response to a public records request, and on a periodic schedule the board may establish, the president of the corporation shall appoint a committee to review information in the possession of the corporation to determine whether it is confidential under 3 ACC \_\_\_\_\_. \_\_\_\_\_. (a) or (c) or 3 AAC \_\_\_\_\_. \_\_\_\_\_. (b). The committee shall consist of at least one director and one or more staff members of the corporation selected by the president. The committee will consider applicable law and the standards of (a) of this section in making a determination as to whether specific information is confidential.

(c) The president of the corporation will periodically direct the corporation's staff to review information previously treated as confidential and, if the need for confidentiality no longer exists, make the information publicly available.

(Eff. \_\_/\_\_/2015, Register \_\_\_\_\_)

**Authority:** AS 31.25.040      AS 31.25.090      AS 31.25.130

**3 AAC \_\_\_\_\_. \_\_\_\_\_. Board action on contracts.** The corporation shall make the entirety of any contract that is submitted to the board for approval available to the public at least 10 days prior to the board meeting at which the contract will be considered. Any reasonable means of making proposed contracts available to the public is sufficient but the means used must include posting the contract on the corporation's website.

(Eff. \_\_/\_\_/2015, Register \_\_\_\_\_)

**Authority:** AS 31.25.040      AS 31.25.090      AS 31.25.130

**3 AAC \_\_\_\_\_. \_\_\_\_\_. Definitions.** As used in these provisions,

(1) "corporation" means the Alaska Gasline Development Corporation created under AS 31.25;

(2) "board" means the board of directors of the corporation as established under AS 31.25.020; and

(3) "information" means any knowledge, statement, fact, opinion, material, data or tangible thing, regardless of the format, means or media by which it exists or is communicated or recorded.

(Eff. \_\_/\_\_/2015, Register \_\_\_\_\_)

**Authority:** AS 31.25.010      AS 31.25.040      AS 31.25.130  
AS 31.25.020      AS 31.25.090



# Confidentiality

**House Finance  
Committee**

November 1, 2015



# Public Record Disclosures

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- AGDC was granted broad confidentiality authority in the corporation's enabling statutes through HB 4 (2013)
- AGDC may enter into Confidentiality Agreements (CA) as necessary to carry out its functions *[AS 31.25.090]*
- Confidential information is not subject to the state's public records disclosure laws
- Confidential information shared by AGDC with another public agency, are not public records

# Public Record Disclosures

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- CAs are valid and binding against all parties
- Information and trade secrets of the corporation are confidential if disclosure would cause commercial or competitive harm
- Information that discloses the particulars of a business or the affairs of a private enterprise is confidential and not subject to public disclosure
- SB 138 added provision to ensure that the DNR & DOR Commissioners have access to confidential information related to North Slope natural gas pipeline contracts

# Confidentiality Agreements

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- All AGDC employees sign a standard confidentiality agreement upon employment
- Originally all AGDC board members also signed a confidentiality agreement upon appointment
- Governor Walker has expressed a desire for more transparency in the corporation's business
- New AGDC board members have not signed CAs
- Governor Walker notified Alaska LNG partners that Commissioners, the Attorney General and other cabinet officials would not sign CAs

# Draft Confidentiality Regulations

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- AGDC is authorized to adopt regulations to carry out corporate duties and functions
- Attorney General has worked with AGDC to draft a set of proposed confidentiality regulations:
  - Public Hearing held on Oct 15<sup>th</sup>
  - 30-day public comment period closed Oct 21<sup>st</sup>
  - Public comments will be reviewed by AGDC's board
  - Supplemental public comment period being considered
  - Board may adopt the regulations as drafted, modify them or decide to take no action

# Draft Confidentiality Regulations

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- After December 1<sup>st</sup>, AGDC may only enter into a CA to protect specific categories of information:
  - Tax and financial
  - Credit related
  - Proprietary business information
  - Trade secrets
  - Sales, marketing and pricing strategies
  - Information required to be confidential under state or federal law
  
- Confidentiality Agreements themselves shall not be treated as confidential

# Draft Confidentiality Regulations

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- AGDC shall make its records available to the public pursuant to the Alaska Public Records Act
- Board members may meet in executive session to consider confidential matters
- Directors, officers, employees and agents of the corporation must preserve the confidentiality of information
- Board shall endeavor to limit the amount of information it withholds from the public

# Draft Confidentiality Regulations

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- Information is assumed to be public, absent clear indication to the contrary
- AGDC President shall appoint a committee to periodically conduct a confidentiality review
- Upon review, if a need for confidentiality does not still exist, information shall be made public
- Board shall make available to the public the entirety of any contract submitted for its approval 10 days prior to meeting to consider the contract

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**ALASKA GASLINE DEVELOPMENT CORPORATION**  
**PUBLIC HEARING**  
**NOTICE of PROPOSED CONFIDENTIALITY REGULATIONS of the**  
**ALASKA GASLINE DEVELOPMENT CORPORATION**

October 15, 2015  
9:00 a.m.  
Anchorage/Juneau/Fairbanks

P R O C E E D I N G S

(On record - 9:07 a.m.)

1  
2  
3 LEVINTON: Good morning. Welcome to AGDC or the Alaska Gasline  
4 Development Corporation. My name is Leah Levinton.  
5 I'm the external affairs coordinator at AGDC and I'll  
6 be moderating today's Public Hearing.

7 On September 18th the AGDC Board of Directors  
8 initiated a public comment period on a set of proposed  
9 regulations dealing with confidentiality. A copy of  
10 the proposed regulations are available on the AGDC  
11 website and there are also hard copies on the table  
12 just outside the entrance of this room.

13 All comments on these regulations must be received  
14 no later than 5:00 p.m. on October 21st and that's next  
15 Wednesday.

16 This morning we will be taking comments in person.  
17 We're scheduled until 10:00 a.m., but we'll certainly  
18 extend if necessary.

19 AGDC will aggregate all the public comments we  
20 receive including those provided today and make them  
21 available on the public website at [www.agdc.us](http://www.agdc.us) at the  
22 close of the public comment period on the 21st.

23 Any substantially similar questions we receive prior  
24 to Monday, which is 10 days before the close of the  
25 comment period, will be make available on the website

1 with responses.

2 If you would like to testify today, please, sign in  
3 on the sign-in sheet located on the table in the side  
4 hall as you entered the room. We'll take testimony  
5 from the list in order of sign ups, so if you haven't  
6 signed in, please, go ahead and do that now.

7 If we have people on line today we will alternate  
8 accepting testimony between the attendees present in  
9 the room and those on the phone line.

10 I will not be responding to your comments or  
11 questions today. I'm here to moderate the hearing and  
12 to ensure that your testimony is taken. We have a  
13 Court Reporter here today to record the testimony.  
14 Please try and limit your testimony to no longer than  
15 three minutes so we can accommodate everyone that  
16 wishes to provide their comments this morning.

17 If you would like to submit your written comments  
18 today, we can accept those as well. You can provide  
19 them to Gwen Graham who is right here and with that,  
20 lets begin.

21 When you testify, please, state your name and  
22 affiliation before providing your comments. And the  
23 first person we have on the list is Ms. Lydia Johnson,  
24 so if you'd like to come up to the podium. Microphones  
25 should be on.

1 (Off record comments on microphones)

2 JOHNSON: Okay, are you guys ready. Well, good morning. My  
3 name is Lydia Johnson. I'm the Technical Manager for  
4 the Alaska LNG project and I'm also an employee of  
5 ExxonMobil and I just wanted to make a statement.

6 One of the strengths of the Alaska LNG Project Team  
7 is the ability to draw on the experience and expertise  
8 of the people from all five co-ventures which are BP,  
9 ConocoPhillips, ExxonMobil, TransCanada and AGDC.

10 And when AGDC entered the gas project in -- the LNG  
11 project in July of 2014, they came to the table with  
12 the ability to fully participate in the venture and  
13 that includes engaging in the technical work. And  
14 they've done a great job of building their team with  
15 experienced engineers that have brought a lot of value  
16 to these discussions over the past year.

17 And many of these discussions include commercially  
18 sensitive and competitive information from third  
19 parties who are our vendors and these third parties  
20 often require the participants to sign a nondisclosure  
21 agreement to protect that information. This is a very  
22 common practice in our industry and for projects  
23 certainly of this size.

24 And if the proposed confidentiality regulations are  
25 adopted in a way that prevents AGDC from signing these

1 agreements, then it will not only compromise their  
2 ability to have all of the information needed to inform  
3 the AGDC vote as the State's representative, but also  
4 makes it very difficult for the project team to  
5 continue to work in the collaborative, open and  
6 transparent manner that's needed to maximize as much as  
7 possible the benefits and synergies of our joint  
8 venture.

9 I've got the statement, I can -- do I need to put my  
10 name?

11 LEVINTON: That would be helpful and you can provide it to  
12 Gwen. Thank you.....

13 JOHNSON: Sure.

14 LEVINTON: .....for your comments.

15 JOHNSON: Great, thank you.

16 LEVINTON: Gwen, do we have anyone on the phone lines?

17 GRAHAM: Nope, no one yet.

18 LEVINTON: Okay. Then we'll proceed with the sign-in sheet of  
19 those present. Next on the list is Mr. Bill McMahon.  
20 So, again, please state your name and affiliation and  
21 then you can provide your comment.

22 McMAHON: Okay. My name is Bill McMahon. I work with  
23 ExxonMobil. I've been involved with the development of  
24 Alaska gas since 1992, currently involved with the  
25 Alaska LNG project and the commercial and fiscal

1 agreements associated with that.

2 ExxonMobil is pleased that the State of Alaska is  
3 participating in the Alaska LNG project as a way to  
4 build alignment among the participants and provide a  
5 clear signal that the State supports the project. This  
6 is consistent with the Heads of Agreement that the  
7 State signed back in January of 2014. And it's  
8 consistent with Senate Bill 138 that was enacted by the  
9 Alaska Legislature in April of last year.

10 AGDC is a valued participant in the Pre-FEED phase  
11 of AKLNG.

12 And to be frank, ExxonMobile is troubled by the  
13 proposed AGDC confidentiality regulations.

14 I don't believe AGDC can name a single private,  
15 public or state-owned company that publicly discloses  
16 its commercial agreements, including the actual terms  
17 and conditions. And we believe that if enacted these  
18 regulations would prohibit AGDC from continuing its  
19 participation in AKLNG.

20 As Ms. Johnson said, technology providers would be  
21 unlikely to license proprietary information to AKLNG if  
22 a key participant is unable to enter robust  
23 confidentiality agreements.

24 Also, disclosure of commercial terms related to  
25 AKLNG would not only be a competitive detriment to the

1 AKLNG project, but it would also put the AKLNG  
2 participants at a significant disadvantage in  
3 commercial negotiations with potential LNG buyers,  
4 potential contractors, suppliers and vendors to the  
5 project and potential lenders.

6 The Alaska Legislature has given AGDC full authority  
7 under House Bill 4 and Senate Bill 138 to enter robust  
8 confidentiality agreements necessary for a venture such  
9 as AKLNG.

10 The proposed regulations are unnecessary and harmful  
11 and should be rejected in their entirety. Thank you.

12 LEVINTON: Thank you for your comment.

13 GRAHAM: We still do not have anyone on line.

14 LEVINTON: All right, thank you, Gwen. Next attendee we have  
15 on the list is Mr. Pat Flood. You can step forward.  
16 Again, please state your name and affiliation and begin  
17 your comment.

18 FLOOD: Thank you for the opportunity to comment. My name  
19 is Patrick Flood. I've the senior lead negotiator for  
20 ConocoPhillips.

21 ConocoPhillips believes State participation is one  
22 of the key elements to the success of the AKLNG  
23 project. Our support for State participation in AKLNG  
24 includes the State participation through AGDC.

25 However, for AGDC to participate as the

1 representative of the State as a fully effective  
2 participant in AKLNG, AGDC will need to continue to be  
3 able to enter into confidentiality agreements and abide  
4 by the confidentiality agreements it has already  
5 executed.

6 As in any business venture, there has been and will  
7 continue to be commercially sensitive information  
8 shared between the parties and provided by or shared  
9 with third parties. Some of that commercially  
10 sensitive information is the property of third parties  
11 and some is confidential to the venture or project.

12 In order for AGDC to participate as a fully informed  
13 party in AKLNG and for the State to have transparent  
14 access to information in support of the State's  
15 participation in AKLNG, it is imperative that AGDC be  
16 able to sign and be bound by confidentiality  
17 agreements.

18 If the proposed confidentiality regulations are  
19 adopted, it will place the State and AGDC in an awkward  
20 position and may slow the decision making process down  
21 because of AGDC's lack of access to key information.  
22 We urge AGDC to reconsider the proposed confidentiality  
23 regulations.

24 ConocoPhillips appreciates the opportunity to  
25 provide comments at this time and intends to provide

1 further written comments during the public comment  
2 period. That's the end of my remarks.

3 LEVINTON: Thank you.

4 FLOOR: Thank you.

5 LEVINTON: Thank you for your comments. The next and last  
6 person on the list is Mr. David Van Tuyl. All right.  
7 Please state your name and affiliation and you may  
8 begin your comment.

9 VAN TUYL: Good morning, thank you.

10 LEVINTON: Good morning.

11 VAN TUYL: My name is David Van Tuyl. I'm Regional Manager for  
12 BP in Alaska. And I represent BP's interests on the  
13 Management Committee of the Alaska LNG Project, working  
14 jointly with AGDC to bring Alaska's gas to market.  
15 Thanks for the opportunity to provide public comment on  
16 the proposed confidentiality regulations for the Alaska  
17 Gasline Development Corporation.

18 For BP, confidentiality agreements are an essential  
19 part of doing business in a technically and  
20 commercially competitive world. The Alaska LNG project  
21 is one of many LNG projects around the world competing  
22 to provide supply to the market. BP wants the Alaska  
23 LNG project to win that competition. We want the  
24 Alaska LNG project to succeed.

25 Confidentiality agreements promote the exchange of

1 information among parties, allowing projects to be  
2 developed to the mutual benefit of all involved. This  
3 is true for the Alaska LNG project.

4 To date, all parties have benefitted from being able  
5 to share technically and commercially sensitive  
6 information. As a result, a competitive project is  
7 emerging and advancing.

8 The State's participation in the project through  
9 AGDC has been an important part of our success. We are  
10 concerned that these newly proposed regulations could  
11 stifle that exchange of information to the detriment of  
12 the Alaska LNG Project and BP.

13 We offer two observations about these proposed  
14 regulations which are of particular concern to BP.  
15 One, will project information already disclosed to AGDC  
16 under our existing confidentiality agreement remain  
17 confidential or would it be made public under these new  
18 regulations without the consent of the participants?

19 A public disclosure of all this historic information  
20 could seriously jeopardize the competitiveness of the  
21 Alaska LNG project.

22 And two, the proposed regulation requiring the  
23 public disclosure of the entirety of any contract  
24 provided to the AGDC Board for approval, even if that  
25 contract contains commercially sensitive, financial or

1 technical information, would seriously harm the  
2 competitive advantage that the project might otherwise  
3 enjoy.

4 As I said BP wants the Alaska LNG project to be  
5 successful. While we understand, appreciate and  
6 support appropriate public disclosure and transparency,  
7 these proposed regulations would cause significant  
8 unintended consequences and make it difficult for the  
9 project to be successful.

10 BP urges reconsideration of these proposed  
11 regulations.

12 Thank you, too, for being able to provide these  
13 verbal comments in addition to the written comments  
14 already provided by BP. Thanks.

15 LEVINTON: Thank you for your comments. We don't have anyone  
16 else on the list. Do we have anyone that called?

17 GRAHAM: We have no one.

18 LEVINTON: Okay. We'll keep the public -- oral public comment  
19 period is scheduled until 10:00 a.m., so we'll keep the  
20 lines open until 10:00 and the room open for those that  
21 may come in late.

22 For those that are present right now, thank you so  
23 much for your attendance and comments and we'll take  
24 them into consid- -- or we'll aggregate them and post  
25 them on the AGDC website when the public comment period

1 has closed. So thank you very much.

2 (Off record - 9:22 a.m.)

3 (On record - 10:00 a.m.)

4 LEVINTON: Again, this is Leah Levinton. Seeing that there are  
5 no further public comments, we will close the oral  
6 public comment period at 10:00 a.m. Thank you very  
7 much. We're done.

8 (Adjourned - 10:00 a.m.)

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## PROPOSED AGDC CONFIDENTIALITY REGULATIONS

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### **BP General Questions:**

1. Why is December 1, 2015 selected as the date after which these proposed regulations would apply? Is there significance to that date?
2. Are these proposed regulations intended to limit AGDC's authority to enter into confidentiality agreements necessary to carry out its functions, as set forth in AS 31.25.090(f) and (g)?

### **BP Questions by Section**

#### Confidentiality agreements section:

3. Are the restrictions under part (a) intended to apply to the Alaska LNG Confidentiality Agreement dated effective May 9, 2014?
4. Do the categories of confidential information under part (a) include commercially sensitive terms such as pricing, volumes, vendors, customers, operational or technical information, intellectual property, engineering designs, business methods, or contract negotiations? If so, should those categories be included under part (a)?
5. Under part (a) (3), why is the impact on commercial or competitive harm limited to these items only? Shouldn't that be an overriding principle for all of the categories listed here?
6. Under part (a) (5) why is this limited to strategies? Shouldn't it be broadly relating to pricing/marketing information?
7. The meaning and Intent of the language in part (b) is unclear. Does this mean a confidentiality agreement itself is not confidential? Or any "contract" as the language suggests?

#### Disclosure of the corporation's information section

8. Under part (b) why is this not the same as the confidentiality restrictions in part (a)? Is this more or less restrictive? What if the information is jointly owned by AGDC and a private firm?

#### Consideration of confidential information section

9. In part (a) there is information missing as to what regulations are being referred to. To what regulations do these refer to?
10. Is the language in part (b) limited to a disclosure of corporation information as described in subsection (a)? Or can this be read that the board can authorize disclosure of others' information?

#### Limits on and review of confidential information section

11. Part (a): Will AGDC abide by the confidentiality terms of any confidentiality agreement it enters into before or after December 1, 2015?

12. Part (a): How can AGDC presume information is not confidential if it is covered by a confidentiality agreement? What is meant by “clear indication”? A confidentiality agreement?

13. Part (a): Should the disclosing party to confidential information be notified first of any intended public disclosure, and an opportunity to object and/or take appropriate action to preserve confidentiality? Without this, doesn't that put AGDC in breach of a CA if it discloses confidential information?

14. In part (a) there is information missing as to what regulations are being referred to. To what regulations do these refer to?

15. Part (b): There is a reference to “applicable law.” What applicable law?

16. Part (b): In the committee's determination whether certain information is confidential, in addition to “applicable law” and the standards in (a), shouldn't this also include the terms of a confidentiality agreement between AGDC and a third party?

17. Part (b): Why would a decision about the confidentiality of someone else's information not require consultation with that party in advance? If this process is followed without such consultation, doesn't expose AGDC to a claim for breach?

18. Part (c): Will AGDC release confidential information without agreement or permission of the disclosing party to the confidential information?

Board action on contracts section

19. Will AGDC include confidential or sensitive commercial terms, e.g. pricing, vendors or customers, or volumes that may put AGDC at a competitive disadvantage vis-à-vis its competitors? Would a summary of non-confidential terms be sufficient to accomplish the stated objectives? Or confidential/sensitive commercial terms redacted?

## BP COMMENTS

### PROPOSED AGDC CONFIDENTIALITY REGULATIONS

OCTOBER 21, 2015

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BP offers the following general comments and observations to the proposed confidentiality regulations. BP understands AGDC will soon be providing responses to questions posed by BP and other interested parties regarding the proposed regulations, and extending the time period for additional comments once the responses are issued. BP may provide further comments based on those responses.

1. BP is concerned that confidential Alaska LNG Project information already disclosed to AGDC under the May 9, 2014 confidentiality agreement would be made public under the new regulations, without the consent of BP and the other project participants. Public disclosure of this information could jeopardize the competitiveness of the Alaska LNG Project. It would also deter third parties from disclosing their confidential information to all the Alaska LNG Project participants and impair the ability of the project participants to share technical and commercially sensitive information with each other. This issue could be addressed through an exemption from the disclosure provisions for any Alaska LNG Project confidentiality agreement.

2. The proposed regulation requiring public disclosure of the entirety of any contract provided to the AGDC Board for approval, even if that contract contains sensitive commercial, financial or technical information, would seriously harm the competitive advantage of the Alaska LNG Project. This issue could be addressed a number of ways, including: (a) disclosure of the entirety of any contract to the AGDC Board during executive session; the contract parties would prepare an agreed summary of non-confidential contract terms for public disclosure, or (b) the redaction or removal of sensitive commercially, financial and technical information from any contract released to the public.

3. The proposed regulations allow for the disclosure of previously agreed confidential information to be released to the public without the consent of the disclosing party. The issue could be addressed by adding language to the proposed regulations that requires (a) consent by the disclosing party to release the information to the public, or (b) notice to the disclosing party of the intent to disclose the confidential information, and an opportunity to take appropriate legal action to protect the confidential information should the disclosing party choose to do so.



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patrick.m.flood@conocophillips.com

October 21, 2015

Leah Levinton  
External Affairs Coordinator  
Alaska Gasline Development Corporation  
3201 C Street, Suite 200  
Anchorage, Alaska 99503

Re: Comments on Proposed Confidentiality of Information Regulations

Dear Ms. Levinton:

By this letter, ConocoPhillips Alaska, Inc. (CPAI) provides further comments on the proposed regulations regarding confidentiality of information issued by the Alaska Gasline Development Authority (AGDC) on September 18, 2015. CPAI is a participant in the ongoing Alaska LNG Project (AKLNG) and AGDC is a state-owned entity participating on behalf of the State of Alaska in AKLNG. CPAI supports AGDC's participation in AKLNG; hence, CPAI has a significant interest in how AGDC proposes to handle confidential information related to both AKLNG and the in-state natural gas pipeline that AGDC is also tasked with pursuing. Presuming that AGDC is the state entity assigned to represent the State of Alaska's interests in future work on the LNG project, AGDC's actions with regard to confidentiality and disclosure of information significantly impact all other participants in the project, and, if contrary to LNG industry standard practices regarding competition and confidentiality, would reduce AGDC's effective and efficient participation in the project.

While AGDC is a state corporation, its participation in a project such as AKLNG is not in a sovereign capacity but as a proprietary equity participant, like the other participants. Participation in a competitive LNG project is a unique opportunity for the State of Alaska and not an endeavor that is a standard state function in the United States. The legislature recognized this situation and to facilitate that unique role, the legislature provided AGDC with broad powers that allow AGDC to participate in and implement natural gas and LNG projects in a coordinated manner with private entity co-venturers. The proposed regulations, as detailed below, would not allow AGDC to function effectively and efficiently within the industry standards necessary for a competitive LNG project or other natural gas project.

In industry projects, when a participant or contractor wants to have its information held confidential, it does not have to prove to the receiving party if or how sensitive or confidential the information is. The parties either come to agreement on the terms for how the disclosing party's information will be held confidential, or the disclosing party does not disclose its information and the receiving party does not have the benefit of that information. The proposed regulations attempt to have AGDC, as a receiving party, mandate and control what information owned or disclosed by other parties is held confidential and under what terms. If AGDC were to decline to hold information owned or co-owned by third parties confidential, it would not have the same information available for making decisions that the other participants have and AGDC would not be able to effectively represent the State's interests in any natural gas project or LNG project that involves private parties.

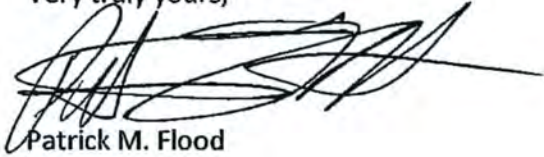
The legislature recognized that a state corporation operating in a proprietary role cannot effectively do so under the same requirements as a state agency engaged in public works projects or standard public functions does. Hence, the legislature exempted AGDC from the state procurement code and the state personnel code. AS 31.25.065; .140. The legislature has also granted AGDC the advantage of statutorily mandated expedited review and action by state agencies or entities [AS 31.25.007] and cooperation from other state agencies [AS 31.25.090(a)]. The legislature clearly wanted to put AGDC in an advantageous position to engage in activities usually conducted only by private entities. Further to that intent, the legislature authorized AGDC to "enter into confidentiality agreements necessary to acquire or provide information to carry out its functions" [AS 31.25.090 (f)] and to protect information under such agreements by providing that "[t]he portions of records containing information acquired or provided by the corporation under a confidentiality agreement are not subject to AS 40.25." [AS 31.25.090(g)] AGDC needs that broad authority in order to obtain information needed to effectively function as the State's representative in an Alaska liquefied natural gas project and should not restrict the scope it has successfully used historically by promulgating the proposed regulations.

Should AGDC determine to proceed forward with regulations regarding its authority to maintain information owned or co-owned by third parties as confidential, the regulations need to provide certainty regarding confidentiality to those parties with whom AGDC will be contracting or otherwise receiving information from. In addition to being overly narrow and presenting significant risk to third party information, the proposed regulations contain ambiguities and inconsistencies. Attachment 1 to this comment letter contains more specific comments on each section of the proposed regulations.

Leah Levinton  
Alaska Gasline Development Corporation  
October 21, 2015  
Page 3

ConocoPhillips Alaska, Inc. supports AGDC's role as an effective participant in AKLNG and appreciates this opportunity to comment on AGDC's proposed regulations.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Patrick M. Flood', with a long horizontal flourish extending to the right.

PMF:sb  
Encl.: Attachment 1

Attachment 1 to Comments Submitted by  
ConocoPhillips Alaska, Inc. Regarding Proposed Regulations  
By the Alaska Gasline Development Corporation

**I. Section By Section Comments.**

Confidentiality agreements 3 AAC . . . (a).

This proposed regulation contradicts AS 31.25.090(f) by not allowing confidentiality agreements for all types of information that AGDC may need to carry out its functions. This proposed regulation would allow AGDC to enter into confidentiality agreements with third parties but only for "specific information" in six categories. Under AGDC's authority and current practices, AGDC may protect from public disclosure all information "necessary to acquire or provide information to carry out its functions" [AS 31.25.090(f)] The proposed regulations, however, do not clearly and with certainty cover all of the types of information that (a) are currently held confidential; (b) other participants and contractors in an LNG project would in the ordinary course of business expect and rely on to be held confidential; or (c) AGDC as a participant with other parties in a competitive LNG project would need to hold confidential. As discussed in the general comments, in non-government activities, the party providing the information determines whether it should be held confidential or not. In this case, where AGDC would anticipate being a co-owner or licensee of significant types and volumes of information, it is critical to recognize the rights of third party owners, third party co-owners and licensors in confidential information.

Large natural gas projects in general and large LNG projects in particular are complex and involve numerous agreements and contracts that are often unique to each project; there is no encyclopedic list of documents or types of information that would be held confidential to a project. A few examples of information not clearly and with certainty included in the proposed regulations but held confidential in the private sector are prices received and accepted from competitive bid processes, marketing intelligence/information, project negotiations and agreements related to construction or operations, LNG purchase and sales negotiations and agreements, and internal project investigations, analyses and reports.

Areas of ambiguity and uncertainty in this proposed regulation section include:

1. Many agreements involved in private operations or projects include a section on confidentiality of information that may be created or received regarding numerous different areas subject to the agreement (such as an operating agreement). As written, the regulations do not explain the difference between a "confidentiality agreement" (as the statute references), which may be a provision or article in a broader agreement that requires confidential treatment, and a "contract . . . to protect the confidentiality of information belonging to a third party" (as the proposed regulation references). Additionally, it is not clear how information co-owned by AGDC and a third party would be treated.
2. In subsection (3), it is not clear who would determine if "disclosure . . . would cause commercial or proprietary harm to the third party owning the information." As discussed above in the general comments, the information owner decides how sensitive its information is and does not have to prove to the other parties before disclosure what harm may result from disclosure beyond the intended recipients. ADGC should not be the party to make that

determination. Even if there could be an acceptable process in place for AGDC to make the determination, a third party's risk and uncertainty with regard to confidential protection of its information would be greatly increased (that is, the third party would not necessarily know whether confidentiality would apply until after it entered into the agreement, for both information provided at the time the agreement was executed and information subsequently provided or created). AGDC should instead rely on a third party information owner or co-owner to assert confidentiality when it deems protection is necessary. Otherwise, the uncertainties could significantly limit the parties or contractors willing to enter into such agreements with the project participants and would undoubtedly be the source of chronic disputes over harm determinations.

Confidentiality agreements 3 AAC . . . (b).

Proposed subsection (b) provides that no contract entered into after December 1, 2015 to protect the confidentiality of information shall itself be held confidential. The rationale and date for such a requirement are unexplained. The statute refers to "confidentiality agreements" so it is unclear whether this proposed regulation that refers to a "contract . . . to protect the confidentiality of information" would apply only to contracts specific to confidentiality or to confidentiality agreements (including those parts of broader agreements that include mutually agreed confidentiality provisions). If the proposed regulation would apply to broader agreements that include confidentiality provisions, then it would appear that no agreement could be held confidential. That type of restriction contradicts AGDC's broad authority to enter into confidentiality agreements in order to acquire or provide information and would significantly impede AGDC's ability to effectively participate in an LNG project.

Confidentiality agreements 3 AAC . . . (c).

Proposed subsection (c) would provide that AGDC would continue to honor its obligations under "contracts . . . to preserve the confidentiality of information" entered into before December 1, 2015. Compliance with existing contracts and agreements is obligatory; hence this regulation raises the questions of why AGDC is now proposing to restrict its own authority to hold information confidential, and what types of information it is currently authorized to hold confidential would not be held confidential if the proposed regulations were to be promulgated. Again, AGDC needs to use the broad authority it has exercised to date to obtain information on the same terms as other project participants in order to effectively and efficiently represent the State of Alaska in a natural gas or LNG project.

Disclosure of the corporation's information 3 AAC . . .

This proposed regulation purports to protect "the corporation's trade secret" information from public disclosure. That protection is certainly necessary in a competitive LNG project, but it is not clear when trade secret information becomes trade secret information of the corporation (e.g., information created or acquired jointly with co-venturers). Presumably the corporation would treat trade secrets created or acquired jointly with its co-venturers in the same way but the regulation does not address that situation. The proposed regulation at subsection (b), if promulgated, should clarify that information created or acquired by the corporation jointly with other parties, including the LNG project participants, is protected as confidential information. Again, new restrictions imposed on the broad statutory authority already granted to AGDC would create uncertainty and confusion, and would impede AGDC's ability to obtain information necessary to efficiently and effectively represent the State's interests as a participant in a competitive LNG project.

Consideration of Confidential information 3 AAC . . .

This proposed regulation would allow confidential information to be provided to board members whether in executive session or not and for the board to authorize disclosure of confidential information. The AGDC board is already authorized to meet in executive session under the Open Meetings Act, but what the board members are intended to do when they “consider information that the corporation may or must keep confidential” is unclear and unexplained. The regulation does not indicate whether the board is to make decisions based on confidential information or to consider whether to hold information confidential or not. Furthermore, if this proposed regulation were to be promulgated, it must be clarified that the board cannot authorize a disclosure that is prohibited by an agreement with a third party, notwithstanding whether the confidentiality agreement was executed before or after the effective date of the regulations. This regulation would inject even more ambiguity and more uncertainty into AGDC’s ability to acquire information in order to effectively represent the State’s interests in a competitive project.

Limits on and review of confidential information 3 AAC . . . (a).

Subsection (a) of this proposed regulation asserts a policy of making as much information available to the public as possible but the boundaries and mechanisms are not specified. The process would rely on a presumption that information is available to the public absent “clear indication or demonstration to the contrary.” This is an ambiguous and subjective target. No process and standards are provided. The most effective and efficient method of providing the certainty necessary for information provided by or jointly owned with a third party is to provide that information be held confidential pursuant to an agreement with the third party (as provided in AS 31.25.090(f)) or as otherwise allowed by law. As written, even the existence of a confidentiality agreement is not recognized as sufficient to protect confidential information. The corporation is also directed to use the “least restrictive means possible” without any being identified. Conceivably, this could mean that all documents would be redacted to the minimum extent some unknown and undesignated official, employee or “professional and technical advisor”<sup>1</sup> of the corporation thought necessary without consideration of third party agreements or interests. Again, this approach to information management inserts great uncertainty in any communications or engagement by third parties with AGDC.

Missing in the entire set of proposed regulations is any required approval or even consultation with the party that owns or co-owns the confidential information. Hence, any third party that interacts with AGDC would be exposed to an increased risk of having information that it believed to be held confidential released to the public without notice.

Limits on and review of confidential information 3 AAC . . . (b).

Subsection (b) of this proposed regulation would provide that in response to a public records request, and periodically as the corporation may establish, a committee of director(s) and staff member(s) would review information in the corporation’s possession to determine if it is confidential. It is unknown which set of regulations are referenced in the first sentence of this section so the implications of those references are unknown.

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<sup>1</sup> See AS 31.25.060.

The committee would be considering applicable law and the "absent clear indication or demonstration to the contrary" standard (pursuant to subsection (a) above) for its determination of whether information "in the possession of the corporation" should be confidential or public. The proposed regulation appears to specifically include information owned by a third party and information co-owned by third parties, so long as the information is in the corporation's possession. Again, there is no requirement, at any time in the decision process, for obtaining consent or consultation with a party providing, licensing, owning or co-owning the information, only a presumption of "no confidentiality" with a goal of not finding any "clear indication or demonstration to the contrary" of the information being confidential. A state agency engaged in sovereign activity or a public works project may attempt to operate under those conditions, but information cannot be managed under the proposed conditions in a competitive LNG project if the project is to have any chance of acquiring the information necessary to efficiently and effectively progress and operate.

Limits on and review of confidential information 3 AAC . . . (c).

Subsection (c) would continue the policy of presuming information is not confidential by directing the corporation's president direct staff to review information already considered confidential and determine if the information is still confidential. Under this policy, no certainty exists that information provided to the corporation or jointly owned with the corporation will ever be held confidential for any length of time. As mentioned above, there is no provision in these proposed regulations about coordinating or consulting with any third party who owns or co-owns the information or otherwise relies on AGDC to continue the confidentiality of information. This lack of recognition of standard industry practices and the value of confidential information to a competitive project would chill and inhibit any third party interactions involving information a third party may wish to not put in the public domain. AGDC cannot engage as a participant in a competitive project of any kind with policies that put confidentiality at risk at all times, as the proposed regulations do.

Board action on contracts 3 AAC . . . .

This proposed regulation mandates that any contract submitted to the board for approval be made public at least ten days prior to the board meeting when the contract will be considered. Unless AGDC can delineate how a "contract" differs from an "agreement", this proposed regulation does not comply with AS 31.25.090; specifically, it contradicts the requirements of that section with regard to confidentiality agreements. AGDC has also not defined, or referenced any source that defines, which "contracts" must go to the board for approval and which do not require board approval.

**II. Areas Not Addressed by the AGDC Proposed Regulations.** Should AGDC promulgate regulations such as those currently proposed, it should consider addressing the following areas.

Information Owner Approval.

Nowhere in the entire set of proposed regulations is there any concept of a required consent, or even consultation with, a party that owns, or co-owns information that the party believes should be held confidential, prior to an AGDC act or failure to act that might disclose such information to the public. Hence, any third party interacting with AGDC who owns or co-owns information that it believes and relies upon to be held confidential would be subject to a release to the public without warning. AGDC would find it difficult to persuade third parties to business in that environment.

### Internal Information Control.

AGDC must assure its co-venturers and contractors, and parties licensing data or technology to AGDC, that the information in its custody or control is protected not just from external disclosure but from inappropriate internal disclosure. AS 31.25.040(b)(2) requires that AGDC "establish appropriate separation within the corporation by separating personnel and functions and by other means to the extent that the separation may be required by contract or applicable law for the purpose of screening and preventing the exchange of commercially sensitive information when developing an in-state natural gas pipeline, an Alaska liquefied natural gas project, and other transportation mechanisms to deliver natural gas in the state." The proposed regulations do not address this issue but should.

### Claims for Damages.

The proposed regulations appear to impose AGDC as the decision maker regarding whether information submitted or licensed to it by third parties or created as joint property with third parties is confidential or not. If AGDC (an entity not subject to the Administrative Procedure Act (AS 31.25.130(a))) insists on imposing itself as a decision maker, AGDC needs to address how and where to serve claims for breaches of agreements and damages arising from incorrect classification and unauthorized disclosure of such information.

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W. A. McMahon  
Senior Commercial Advisor

**ExxonMobil**

October 9, 2015

Ms. Leah Levington  
External Affairs Coordinator  
Alaska Gasline Development Corporation  
3201 C Street, Sixth Floor  
Anchorage, AK 99503

Written Questions about Proposed AGDC Confidentiality Regulations

Dear Ms. Levington,

ExxonMobil believes its interests are affected by the proposed Alaska Gasline Development Corporation (AGDC) confidentiality regulations. Please accept our written questions attached to this letter

We look forward to the answers provided by AGDC.

Regards,



Attachment

# ***AGDC Confidentiality Regulations***

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## **ExxonMobil General Questions**

1. The Heads of Agreement (HoA) for the Alaska LNG Project (AKLNG), signed by the State of Alaska in January 2014, was based on the intention of State of Alaska (State) participation in AKLNG on equal footing with ExxonMobil, BP and ConocoPhillips. How are the proposed AGDC confidentiality regulations consistent with this approach?
2. A participant in AKLNG will need the ability to enter into a broad range of confidentiality agreements and agreements containing confidentiality provisions, to participate in all aspect of AKLNG. Given the limitations of the proposed regulations, is the State considering the use of a different public entity to hold its interest in AKLNG?
3. In general, please explain the need, rationale and purpose for these regulations?
4. HB 4, as amended, provided AGDC will the ability to enter into confidentiality agreements to support its involvement in the AKLNG project, which have enabled AGDC to participate, to date, on an equal footing with the other AKLNG participants. Why now is AGDC proposing to limit its rights under existing law to its own detriment?
5. Why don't the proposed regulations take into account the advantage of the confidentiality authorizations provided to AGDC under SB138?
6. Has AGDC considered the harm to AGDC and the other AKLNG participants that will be caused by granting universal open access to the details of all of AGDC's agreements, including the agreements related to AKLNG? Has AGDC considered the difficulty this access will cause in negotiating, contracting and advancing claims?
7. If commercially sensitive LNG marketing information is made public, this may impact the competitive advantage the AKLNG participants may have in the LNG market. Has AGDC considered the potential competitive harm and disadvantage to the AKLNG participants if commercially sensitive LNG marketing information is made public?
8. Do the following Alaska public corporations publicly disclose their commercial agreements?
  - Permanent Fund Corporation
  - Alaska Industrial Development and Export Authority
  - University of Alaska
  - Alaska Aerospace CorporationWill the statutes creating these Alaska public corporations also be supplemented by passing regulations making their commercial contracts public?
9. Why do the proposed regulations expressly prohibit an agreements' terms and conditions from being held as confidential?

### **ExxonMobil Section by Section Questions**

10. Under part (b) of "Confidentiality agreements" is a "contract . . . to protect the confidentiality of any information" limited to contracts that are solely for that purpose?
11. Why limit the protection of AGDC information to the narrow categories of information that may be protected by confidentiality? What is the rationale/purpose behind such limitations?
12. Is the Boards' potential waiver of AGDC "trade secrets" subject to the confidentiality provisions of the agreements under which AGDC acquired those "trade secrets"?
13. Under part (a), (b) and (c) of "Consideration of confidential information", what is meant by "may or must" keep confidential?
14. Under part (b) of "Consideration of confidential information", is the Board bound by confidentiality provisions in the agreements AGDC enters into and how can the Board "authorize" the disclosure of confidential information belonging to a third party?
15. Under part (a) of "Limits on and review of confidential information", who determines if disclosure of a third party's information will cause that third party "commercial or competitive harm" to the third party owning the information?
16. In general, who determines under part (a) of "Confidentiality Agreements" that the information belonging to third parties meets one of the 6 described categories? Will AGDC and the State indemnify third parties if AGDC does disclose confidential information meeting one of those 6 categories?
17. In part (a) "Limits on and review of confidential information" why is there a presumption that information obtained by AGDC from a third party is not confidential and is therefore subject to an open records request? Also, please explain what is meant by "absent clear indication or demonstration to the contrary"? What needs to be made "clear" and who needs to "demonstrate to the contrary"?
18. In part (a) "Limits on and review of confidential information" if under the any of the "confidentiality agreements of the corporation" information in possession of the corporation would be confidential will this be a "clear indication" that such information is confidential?
19. In part (b) of "Limits on and review of confidential information", will the third parties who have disclosed information to AGDC be involved in the review of their information provided to AGDC to make the determination of whether it is confidential and not subject to an open records request?
20. In part (b) of "Limits on and review of confidential information", please explain how the "committee" will make the determination as to whether a third party's information is confidential? Will the "committee" be bound by the terms of the agreements signed by AGDC with such third parties in making that determination?
21. In part (c) of "Limits on and review of confidential information", please explain how the "President" will determine if the "need for confidentiality no longer exists"? Will the "President" make the determination as to whether there is no longer a need to keep a third party's information confidential? When the "President" periodically evaluates confidential information for potential public release and that information is

subject to confidentiality, would approval by the parties to those agreements be obtained prior to public release?

22. Will the "President" consult and agree with the relevant third party that the "need for confidentiality no longer exists"? Will the "President", in making the determination that "need for confidentiality no longer exists" be bound by the terms of the agreements signed by AGDC with such third parties in making that determination?
23. If there is a conflict between agreements containing confidentiality obligations and the provisions of the regulations, which one controls? Is AGDC going to provide a copy of the Regulations to each third party it does business or seeks to do business?
24. Can you please explain the rationale behind AGDC making all Board approved contracts publicly available? Has AGDC asked third parties with whom AGDC would like to enter into contracts with, if the third parties would enter into such contracts knowing that the terms and conditions of those contracts would become public?
25. Will these Regulations apply to both contracts where AGDC is purchasing a product or service, and contracts where AGDC may be selling a product or service?
26. Will these Regulations apply to contracts proposed to be entered into with the State itself?
27. Will the Regulations apply to contracts entered into by a Joint Venture in which AGDC has an ownership interest whether or not those Joint Venture contracts need to be approved by the AGDC or its Board?



# **TransCanada and Pre-FEED Supplemental Appropriations Summary**

**October 2015**

# TransCanada and Pre-FEED Supplemental Appropriations Summary

- How much funding for AKLNG has the state provided to date?
- What is included in the supplemental appropriation request?
- Why is the supplemental request \$157.6M versus \$108M?
- What changes have occurred in the Pre-FEED phase resulting in cost increases?
- How much will it cost to complete the future gasline phases?

# SOA AKLNG Appropriations to Date

Funding to Date \$90.5 M

**SB138 General Fund to LNG Fund (FY14-FY15) \$69,835.0**

- Capitalized the LNG Fund
- AGDC, AKLNG down stream cash calls, contractual service with agencies

**General Fund Appropriations (FY15) \$11,762.0**

- AEA in-state affordable energy study
- DNR North Slope Gas Commercialization
- DOR Tax Division

**Appropriations (FY16) \$8,987.0**

- DNR North Slope Gas Commercialization (in-state gas line fund)

**Authorization from LNG Fund (FY16)**

- Within original \$69,835.0 capitalization
- AGDC, DNR, DOTPF \$3,023.0

# State Gas Team--FY2016 Supplemental Summary

**Supplemental Request \$157.6 million plus \$5 million AGDC Statutorily Designated Program Receipts (SDPR):**

**Agency Operating Budgets**

**\$13,607.0**

DNR: \$2,126.0

DOR: \$1,381.0

DOL: \$10,100.0

**AGDC: Capital Budget**

**\$144,045.0**

Reimburse TransCanada: \$68,445.0

Fund State's remaining Pre-FEED share: \$75,600.0

**AGDC: Receipt Authority**

**\$5,000.0**

AKLNG reimbursement for work performed

# Alaska Gasline Development Corporation

## State Gas Team

### Anticipated changes to the scope of pre-FEED :

- Pre-FEED scope and schedule increase the budget \$182 million to \$694 million
- State share of new total is \$173 million -- \$66 million liquefaction plant, \$107 million mid-stream (GTP and pipe)
- Moving work ahead into pre-FEED is important to have the best information available to complete internal review and make FEED decision
- A project of this magnitude matures through the stage-gate development process. Work activities are often shifted between stages in order to facilitate better design and decision making
- Scope changes are designed to improve project economics, permitting outcomes and the quality of information available for FEED evaluation:
  - Component level optimization to lower costs and increase efficiency (\$57 million)
  - Accelerate regulatory and pre-bid work on FEED contracting (\$66 million)
  - Increase scope of geotechnical and geohazard work at GTP and LNG sites; complete weather delayed off-shore field work (\$29 million)
  - Bring 48" pipe deliverables up to 42" level of development (\$30 million)

# Pre-FEED Scope and Budget Changes



|  | <b>Expectation Before<br/>2016 Work Plan &amp;<br/>Budget</b> | <b>W/New Pre-FEED<br/>Scope &amp; Budget<br/>Change</b> |
|--|---|---|
| TC Buyout                                    | \$ 68.4   | \$ 68.4   |
| Pick-Up Remaining Cash Calls                 | \$ 29.6   | \$ 29.6   |
| Allowance for Mid-Stream Scope Changes       | \$ 8.8  | \$ 31.0   |
| Allowance for AGDC Down Stream Scope Changes | \$ -  | \$ 15.0   |
|  | <b>\$ 106.8</b>   | <b>\$ 144.0</b>   |

# Department of Natural Resources

## State Gas Team

**DNR North Slope Gas Commercialization Office FY16 work scope, per SB138 and other legislation, includes these components:**

- Fiscal stability commercial agreement negotiations with Producers
- Royalty In Kind (RIK)/Royalty In Value (RIV) analysis and decision
- In-state gas coordination and marketing of in-state gas, assuming RIK and Trans Alaska Gas (TAG)
- Marketing of LNG for export, assuming RIK and TAG
- Negotiate upstream agreements – gas supply and balancing
- Negotiate governance structure
- Negotiate midstream terms including system use; expansion capacity and use
- Lease modifications

**Personal Services (\$646.0):** Increase funding for existing Marketing Lead position to attract global LNG marketing expertise; assist the State in building successful gas marketing organization to remain competitive. Add a new Marketing Analyst to assist with negotiations and pre-marketing work (December-June).

**Contractual (\$1,480.0):** RSA to DNR (\$580.0) for Department resource support, primarily from the Division of Oil and Gas for upstream expertise and other commercial/lease support. Meet contractual needs (\$900.0) anticipated for FERC resource report reviews and drafting, facilities review for commercial aspects, commercial analysis and support, and TC Developmental Cost audit.

# Department of Revenue

## State Gas Team

**DOR FY16 work scope, per SB138 and other legislation, includes these components:**

- Identify and report range of state financing alternatives for Project
- Evaluate municipality, native corporation, resident investment options
- Identify impact and benefits of project on Alaskan communities
- Recommend changes to property tax statutes for Project infrastructure
- Negotiate property tax (Impact payments and Flow Related Property Tax)
- Coordinate Municipal Advisory Gas Project Review (MAGPR) Board and prepare reports to legislature
- Consult on fiscal stability negotiations
- Consult on commercial structure and governance
- Consult on upstream agreement negotiations
- State lead on Project Integrated Finance team and Project Tax team
- Co-State lead on Project Sponsor team and Venture Alignment Memorandum of Understanding (VAMOU) team
- Coordinate and implement FEED financing plan

# Department of Revenue

## State Gas Team

**Personal Services (\$794.0):** Funding for work scope on fiscals, financing options, governance, production tax, federal tax implications; property tax, and revenue aspects of marketing; coordinate MAGPR Board activities; TC Development Cost audit services.

**Travel and Supplies (\$87.0):** Other related expenses and audit travel expenses performing work services for AKLNG.

**Contractual Budget (\$500.0):** Fund State of Alaska share of “bankability” review of Project financing options and commercial structure.

# Department of Law State Gas Team

## DOL FY16 work scope:

- Represent the State's interest moving the process to a project
- Provide legal support to agencies and AGDC for all commercial agreements and other decisions

## Contractual (\$10,100.0):

- Contract services with law firms for drafting, negotiating and reviewing AKLNG contracts with the Producers
- Contract services to provide regulatory and legal support for state participation in AKLNG project

## Law firms under contract to DOL are:

- Greenberg Traurig
- Milbank, Tweed, Hadley & McCloy

# Alaska Gasline Development Corporation

## State Gas Team

### **AGDC FY16 work scope, per SB138 and other legislation, includes these components:**

- Manage State's equity participation in Alaska LNG project including LNG & Marine facilities in Nikiski, and if TC exits, the pipeline and Gas Treatment Plant
- Develop means for delivering North Slope natural gas in-state

### **AGDC Capital Budget (\$144,045.0):**

- \$68,445.0 – Funds to reimburse TransCanada and “buy-out” their mid-stream interest
- \$75,600.0 – State's full 25% share of remaining pre-FEED

**AGDC Receipt Authority (\$5,000.0):** Statutory Designated Program Receipts (SDPR) will allow AGDC to be reimbursed for Alaska LNG related field work conducted on behalf of the project

# Remaining State Investment in AKLNG

|  | J                 | A | S | O | N | D | J                     | F | M | A | M | J | J                        | A | S | O | N | D | J    | F | M | A | M | J | J    | A | S | O | N | D | J                     | F | M | A | M | J | J | A | S | O | N | D | J | F | M | A | M | J | J | A | S | O | N | D | J | F | M | A | M | J | J | A | S | O | N | D |
|--|-------------------|---|---|---|---|---|-----------------------|---|---|---|---|---|--------------------------|---|---|---|---|---|------|---|---|---|---|---|------|---|---|---|---|---|-----------------------|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Calendar Year  | 2015              |   |   |   |   |   | 2016                  |   |   |   |   |   | 2017                     |   |   |   |   |   | 2018 |   |   |   |   |   | 2019 |   |   |   |   |   | 2020                  |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Fiscal Year  | FY16              |   |   |   |   |   | FY17                  |   |   |   |   |   | FY18                     |   |   |   |   |   | FY19 |   |   |   |   |   | FY20 |   |   |   |   |   | FY21+                 |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Reimburse & Buy-out TC                                   | \$68.5M           |   |   |   |   |   |                       |   |   |   |   |   |                          |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   |                       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| AGDC: pickup from TC, scope changes (pipe, GTP)          |                   |   |   |   |   |   | \$60.5M (was \$38.0M) |   |   |   |   |   |                          |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   |                       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| AGDC: Fund pre-FEED scope changes (LNG)                  |                   |   |   |   |   |   | \$15.0M               |   |   |   |   |   |                          |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   |                       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| FY16 Supplemental/State agencies (DNR, DOR, Law)         |                   |   |   |   |   |   | \$13.6M               |   |   |   |   |   |                          |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   |                       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Total Special Session Request                            | \$157.6M Pre-FEED |   |   |   |   |   |                       |   |   |   |   |   |                          |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   |                       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| <b>FEED Estimates - SOA Participation</b>                |                   |   |   |   |   |   |                       |   |   |   |   |   |                          |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   |                       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| State Agencies Operating                                 |                   |   |   |   |   |   |                       |   |   |   |   |   | \$100M                   |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   |                       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| AGDC Corp Operating & Contractual                        |                   |   |   |   |   |   |                       |   |   |   |   |   | \$100M                   |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   |                       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| SOA Share of AKLNG FEED & LLC Buy-In                     |                   |   |   |   |   |   |                       |   |   |   |   |   | \$675M FEED & LLC Buy-in |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   |                       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| <b>Project Construction Estimate - SOA Participation</b> |                   |   |   |   |   |   |                       |   |   |   |   |   |                          |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   |                       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| SOA Share of Project Construction                        |                   |   |   |   |   |   |                       |   |   |   |   |   |                          |   |   |   |   |   |      |   |   |   |   |   |      |   |   |   |   |   | \$12-16B Construction |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |

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- GF Appropriation of \$157.6 M to acquire TransCanada’s interest and complete pre-FEED
- Under success scenario, FEED would be initiated in FY2017 – SOA costs estimated at \$875M
- SOA’s 25% share of project construction estimated at \$12-16 billion. These costs can largely be financed and secured with project revenue.

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## **In Conclusion—Moving From Process to Project**



**The FY2016 Supplemental Budget Request reflects our collective focus on getting Alaska's gas to Alaskans and LNG to global markets to generate revenue and diversifying Alaska's economy.**

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# In Conclusion—Moving From Process to Project

Questions?



# State of Alaska

Bill Walker, Governor

Office of Management and Budget

PO Box 110020

Juneau AK 99811-0020

(907) 465-4660, fax 465-3008

## FY2016 Supplemental Request for State Agencies - \$13.6 Million

### Background – Roles and Responsibilities

The AKLNG state gas team consists of representatives from the Department of Natural Resources (DNR), Department of Revenue (DOR), Department of Law (DOL), and Office of the Governor (GOV), as well as subject matter experts from other state agencies and external consultants. The AKLNG state gas team is primarily responsible for:

- negotiating critical commercial agreements for the Alaska LNG Project with the Producer parties (ExxonMobil, BP, and ConocoPhillips);
- developing a plan to market and dispose of the State's share of project gas for in-state use and LNG exports;
- evaluating, and if it's in the best interest of the State, modify existing lease structures to accommodate the State taking tax-as-gas and royalty in-kind;
- negotiating Property Tax for the Payment in Lieu of Taxes (PILT) and Impact Payments during construction;
- assuring the project allows for adequate expansion for new discovery and alternative gas supplies; and
- assuring the pipeline is adequately designed to provide supply to meet in-state gas demand (demand is determined by the Alaska Gasline Development Corporation).

In addition to the state agencies, the Alaska Gasline Development Corporation (AGDC) is a party to the Alaska LNG Project and deals with specific project and infrastructure issues.

### FY2016 AKLNG State Gas Team Supplemental Request Summary

The coming months are critical for the Alaska LNG Project. The AKLNG state gas team continues to work diligently in crafting agreements to move the project forward and begin to plan for the next phase of the project, specifically in marketing the State's share of gas.

Under SB 138, the DNR Commissioner was given the authority to participate in negotiation of contracts for marketing of the state's gas and in consultation with the DOR Commissioner take custody of gas delivered to the state under AS 43.55.014(b) and manage project services and disposition and sale of that gas. The need for a marketing organization within DNR is an important step in preparing for successful sale of gas under the Alaska LNG Project or an alternative project. Gas sales contracts typically need to be negotiated before a LNG project can proceed into construction. With assistance provided by expert consultants Black & Veatch on staffing needs and market rates for key personnel, the DNR North Slope Gas Commercialization (NSG) is requesting funds to begin developing a gas marketing organization required to attract the necessary expertise to compete with global marketing organizations. Further detail on the marketing structure is provided later in this document.

The DNR NSG did not receive the full \$13,186.7 requested for FY2016. The project workload has increased significantly over the past several months in preparation for a special session and the currently appropriated FY2016 budget for the NSG is insufficient to cover projected expenses and the need to begin ramp up of a

marketing effort. We expect the workload to remain steady through the remainder of FY2016 and therefore are submitting a supplemental budget during the fall special session.

Should the AKLNG state gas team not receive supplemental funding, important project work will come to a halt. Instead of moving the project forward, critical DOL and DNR contracts would not be able to continue and many subject matter experts from the DNR and DOR would be laid off. Further, the State will be unable to compete with international gas marketers. It is important the DNR begin to develop the capability during the second half of FY2016 to be fully positioned to sign sales agreements which will underpin a Final Investment Decision in 2018 or 2019 to proceed to construction.

### Department of Natural Resource's NSG LNG Supplemental Request

The FY2016 projected supplemental request for DNR is estimated at **\$2,126,000**.

#### New DNR NSG Marketing Structure

Please note the Marketing Lead is not a new position, it is a current vacant position but an increase in salary will be required to attract a candidate with the level of global LNG marketing experience required to help the State build a successful gas marketing organization to remain competitive. Projections are for December 1, 2015 – June 30, 2016.

| Position          | Description  | FY16 Projected (salary + benefits) |
|-------------------|--|------------------------------------|
| Marketing Lead    | Existing Position – additional funding for level of expertise required           | \$480,000                          |
| Marketing Analyst | New Position Request – manage marketing portfolio & risk under direction of Lead | \$166,000                          |
| <b>TOTAL</b>      |  | <b>\$646,000</b>                   |

#### Additional DNR FY16 NSG Contractual Services

DNR was given procurement exemptions under SB 138 section 22. DNR's exemption is specific to contracts for professional and technical services to support the development of agreements and contracts under AS 38.05.020(b)(10) and (11) to help facilitate coordination of contract work for a large integrated project such as this. It is anticipated that an additional **\$1,479,800** will be required in contractual services.

| Budget Item                     | FY16 Allocated   | FY16 Projection  | FY16 Supplemental Request |
|---------------------------------|------------------|------------------|---------------------------|
| DNR Contractual Services        | \$7,115.0        | \$8,015.0        | \$900.0                   |
| Other DNR Agency AKLNG Expenses | \$0.0            | \$579.8          | \$579.8                   |
| <b>TOTAL</b>                    | <b>\$7,115.0</b> | <b>\$8,594.8</b> | <b>\$1,479.8</b>          |

Below is a list of existing contracts. Some may need to be extended and additional contracts are currently being negotiated or have been identified for work related to FERC resource reporting reviews and drafting, facilities review for commercial aspects, commercial analysis and support, and audits associated with termination of TransCanada.

#### **FY16 Existing Contracts:**

| Contractor     | Contract Admin | Contract Period          | FY16 Projected |
|----------------|----------------|--------------------------|----------------|
| Audie Setters  | DNR            | Sept 2014 – October 2015 | \$170,000      |
| Black & Veatch | DNR            | Sept. 2014 – June 2016   | \$2,200,000    |
| Greengate LLC  | DNR            | July – September 2015    | \$300,000      |
| Nan Thompson   | DNR            | July – September 2015    | \$200,000      |
| Pingo          | DNR            | January 2015 – July 2016 | \$240,000      |
| Simon Lisiecki | DNR            | May 2015 – June 2016     | \$100,000      |

| Contractor      | Contract Admin | Contract Period      | FY16 Projected     |
|-----------------|----------------|----------------------|--------------------|
| Steve Swaffield | DNR            | Aug 2014 – Dec 2015  | \$120,000          |
| Steve Wright    | DNR            | Aug 2014 – June 2016 | \$336,000          |
| Subtotal        |                |                      | <b>\$3,666,000</b> |

**Other FY16 DNR AKLNG Project Related Personal Services – RSA to DNR**

An additional \$580,000 will cover the significant workload associated with the AKLNG Project placed on other Divisions, primarily the Division of Oil and Gas as outlined in the table below:

| Position                           | Description                                      | FY16 Projected (salary + benefits) |
|------------------------------------|--|------------------------------------|
| Deputy Commissioner                | Project support – 50 percent of time             | \$129,217                          |
| Petroleum Reservoir Engineer – DOG | Upstream Team support – 10 percent of time       | \$25,174                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Petroleum Reservoir Engineer – DOG | Upstream Team support – 10 percent of time       | \$21,575                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$24,750                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Commercial Analyst – DOG           | Upstream Commercial support – 80 percent of time | \$158,890                          |
| Commercial Analyst – DOG           | Upstream Commercial support – 90 percent of time | \$144,656                          |
| <b>TOTAL</b>                       |  | <b>\$579,844</b>                   |

**Department of Revenue’s LNG Supplemental Request**

The supplemental budget request for Revenue includes both operating and capital budget requests. The total projected supplemental request for this project from Revenue is estimated at \$1,381,000 for the remainder of FY2016.

**FY16 DOR AKLNG Project Related Personal Services**

The personal services funding will support Revenue’s work on fiscals, project financing, governance, and the revenue aspects of marketing and taxes.

| Position                 | Description   | FY16 Projected (salary + benefits) |
|--------------------------|---|------------------------------------|
| Deputy Commissioner      | Focuses on fiscals, finance, governance and tax deliverables – 90 percent of time | \$214,934                          |
| Audit Master             | Focuses on upstream deliverables - 90 percent of time                             | \$192,505                          |
| Audit Master             | Focuses on property tax, some upstream deliverables - 75 percent of time          | \$179,111                          |
| Commercial Analyst       | Focuses on fiscals, finance, and property tax deliverables - 50 percent of time   | \$86,906                           |
| Chief Economist          | Focuses on marketing and finance deliverables - 10 percent of time                | \$18,695                           |
| Petroleum Economist      | Focuses on revenue aspects of marketing deliverables - 10 percent of time         | \$13,216                           |
| Petroleum Economist      | Focuses on property tax deliverables - 25 percent of time                         | \$36,062                           |
| State Investment Officer | Focuses on finance deliverables - 5 percent of time                               | \$18,632                           |
| State Investment Officer | Focuses on finance deliverables - 5 percent of time                               | \$18,632                           |
| State Investment Officer | Focuses on finance deliverables - 5 percent of time                               | \$14,744                           |
| <b>TOTAL</b>             |   | <b>\$793,437</b>                   |

**FY16 DOR Travel and Contractual Services**

Revenue is also requesting \$87,000 for travel expenses and other related expenses related to performing work services for AKLNG. Revenue is also requesting \$500,000 for contractual costs to fund AKLNG Project “Bankability” review of project financing.

**Department of Law’s LNG Supplemental Request**

**FY16 Law Contractual Services**

The supplemental budget request for Law includes a \$10,100,000 operating budget requests for contractual services with other law firms to assist in drafting, negotiating and reviewing AKLNG contracts with the producers, to provide legal and regulatory support for state participation in the project. Currently under contract are Greenberg Traurig and Milbank, Tweed, Hadley & McCloy.

| <b>Budget Item</b> | <b>FY16 Allocated</b> | <b>FY16 Projection</b> | <b>Difference</b>  |
|--------------------|-----------------------|------------------------|--------------------|
| Milbank            | 2,300.0               | 10,000.0               | 7,700.0            |
| Greenberg Traurig  | 2,000.0               | 4,400.0                | 2,400.0            |
| Jones Day          | 100.0                 | 100.0                  | 0.0                |
| DOL Internal costs | 200.0                 | 200.0                  | 0.0                |
| <b>TOTAL</b>       | <b>\$4,600.0</b>      | <b>\$14,700.0</b>      | <b>-\$10,100.0</b> |

\*Law’s allocation includes \$3 million from DNR, and \$700.0 from the FY16 regular budget, and \$900.0 remaining from a FY2014 capital appropriation to AGDC.

**DNR Costs Associated with TransCanada Buyout – RSA from AGDC**

State is faced with a December 31, 2015 deadline to make a decision on whether to buy back TransCanada’s share and take a direct equity participation in the AKLNG midstream. To do so would require termination of the PA. If the Legislature agrees that AGDC take control of the Midstream component of the Alaska LNG Project, the TransCanada Alaska Midstream Limited Partnership (TAMLP) partnership interests will be acquired for \$1 and TransCanada will be owed for its accrued costs in the Project, which are estimated to be ~\$68,445,000 at the end of 2015.

The amount owed to TransCanada is the responsibility of DNR under the current Precedent Agreement between DNR and TransCanada. Once the agreement is terminated, AGDC will require additional operational funding to carry the midstream costs through the end of FY2016.

**Department of Natural Resources**  
**Use and Availability of 48-inch Pipe in North America**  
**October 31, 2015**

Pipeline with a 48-inch diameter is used frequently all over the world. It is a proven technology and procurement and construction have been done many times for both gas and oil in North America for over 40 years.

- As part of the 48-inch pipe engineering study underway by the AKLNG Project, 48-inch pipe was ordered (5 or 6 miles) for material testing and is on its way.
- The Project has found only one mill in the US that can make the 42-inch pipe in the wall thickness desired.
- No project of this size would ever single source this much pipe from one mill because one mill probably can't produce that amount in the time frame needed. It would present a huge risk factor for an entire project schedule to rely upon a single source.
- The availability of 48-inch pipe is probably no more of an issue than the heavy wall 42-inch pipe.
- Advanced, cold weather specification have been developed and successfully used on numerous TransCanada projects in Canada.
- From recent data gathered on emerging LNG projects in British Columbia, it appears all of these projects are being designed with 48-inch diameter pipe.
- Following is a list of **existing** 48-inch gas pipelines in North America:
  - TransCanada Canadian Mainline – 8,770 miles
  - TransCanada NGTL Mainline Expansions - 20 – 30 mile increments
  - Net Midstream Mexico Pipeline – 120 miles
  - Williams/Transco South Coast Loop – 4.8 miles
  - Williams/Spectra Gulfstream Pipeline – 210 miles
  - North Baja Pipeline Expansion – 80 miles
  - Los Ramos Pipeline System – 1,021 miles
  - Union Gas Dawn to Parkway Corridor – 257 miles
- Following is a list of **planned** 48-inch gas pipelines in North America:
  - TransCanada Merrick Mainline Pipeline – 161 miles
  - TransCanada Coastal Gaslink Pipeline – 415 miles
  - TransCanada Prince Rupert Transmission – 559 miles

- Spectra/BG Group Western Connector- 528 miles
- Cheniere Corpus Christi Pipeline – 23 miles
- **Existing and proposed 48-inch oil and gas pipelines outside of North America:**
  - Abu Dhabi Crude Oil Pipeline – 424 km
  - Haute De France II Gas Pipeline – 174 km
  - Maghreb-Europe Gas Pipeline – 1,306 km
  - Nord Stream Pipeline System – 1,224 km
  - Dutch – Germany North – South Pipeline – 484 km
  - India East – West Gas Pipeline – 1,400 km
  - China’s Second West – East Gas Pipeline – 8,700 km
  - Trans Adriatic – 760 km
  - South Caucasus Pipeline Expansion – 490 km
- **Major North American Pipe Mills with 48-inch capability**
  - Berg Steel Pipe
  - TMK
  - EVRAZ
  - JSW Steel
  - Stupp Corporation
  - Jindal Tubulars
- North American pipe mills are likely to struggle to be competitive with Japanese, Korean, and Indian mills due to their higher costs
- Trans Alaska Pipeline System, built almost 40 years ago across Alaska is 48-inch pipe

# Alaska LNG™

Fueling Alaska's Future



30 October 2015

## Project Update

# Alaska LNG – Project Overview

*An integrated liquefied natural gas export project providing access to gas for Alaskans*

**Gas Treatment Plant (GTP)**

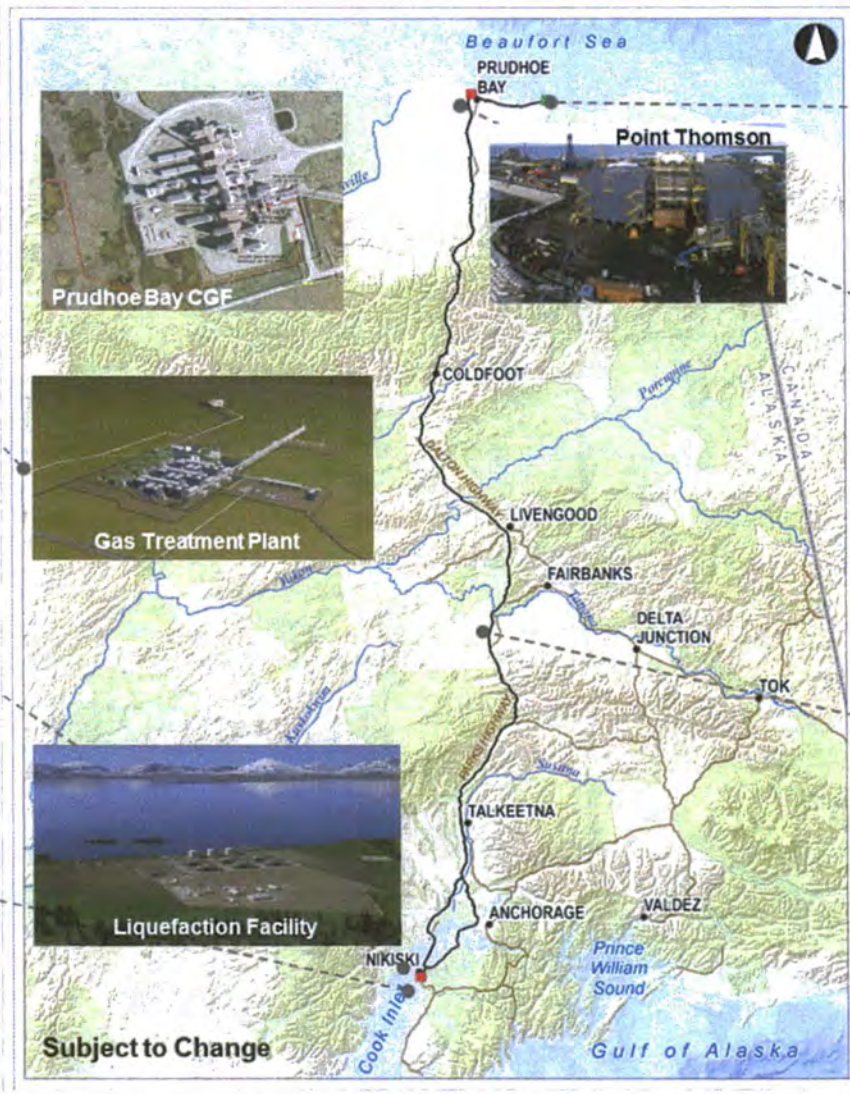
- 3.3 BCFD peak winter rate
- Three trains with compression, dehydration and chilling for gas conditioning (remove impurities)
- CO<sub>2</sub> removed and compressed for injection at PBU

**LNG Storage & Marine Terminal**

- LNG storage tanks
- Two jetties to accommodate 15-20 LNG carriers per month

**Liquefaction Facility**

- Natural gas is cooled to -260 degrees to condense the volume 600 times
- 3 trains dehydrate, chill and liquefy gas to produce up to 20 million tons of LNG each year



**Point Thomson Gas Expansion\***

- New wells
- New gas processing facilities

**Prudhoe Bay Tie-In\***

- Gas delivery to new gas treatment plant (GTP)
- Integration with existing CGF
- Injection of CO<sub>2</sub> from GTP

**Gas Pipeline**

- 800+ mile 42" diameter gas pipeline from gas treatment plant to liquefaction facility
- 3.3 BCFD capacity
- 8 compressor stations
- ~ 5 in-state off-take points

\* Prudhoe Bay and Point Thomson Modifications/New Facilities are managed by Prudhoe Bay Unit and Point Thomson Unit Operators, respectively, and are closely coordinated with the Alaska LNG Project

Artists renditions of LNG and GTP



# Alaska LNG – Project Overview

## Safety, Health and Environment Report:

- Building culture of caring – 1 minor vehicle incident, 3 first aid, 2 near miss

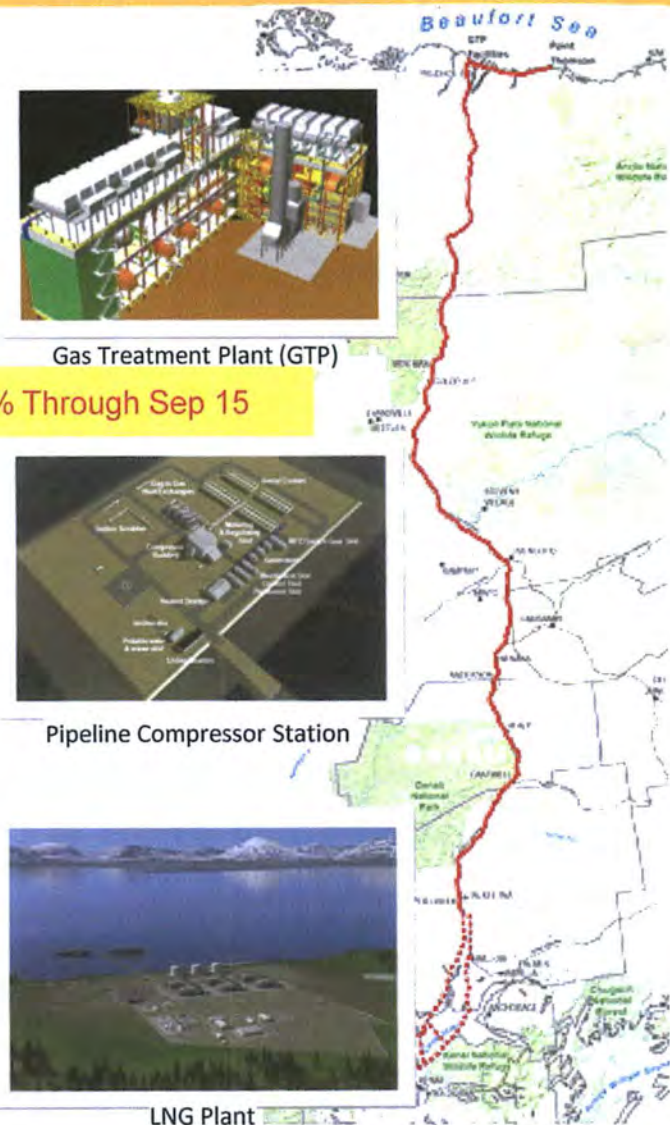
## Executive Summary:

\$303M Through Sep 15

- Spend: ~~\$243M~~ on pre-FEED th **83% Through Aug 15**
- Initial design scope ~~~75%~~ complete, 2015 field work ~~~50%~~ complete
- Finalizing project design/execution basis (cost and schedule estimate) **100% Through Sep 15**
- Ongoing collaboration with regulators at local, State and Federal levels
- Community open-house sessions continuing with FERC participation
- Progressing with **Submitted** SoA request for a 48" pipeline system
- Developing 2016 Work Program and Budget

## Key Messages:

- Alaska LNG is an integrated LNG project – **plants plus pipeline**
  - Regulated under FERC Section 3; allows design integration
  - Integrated design includes ~ 5 off-take points for in-state supply
- Focus on **lowest cost of supply** to compete in a global market
- Alignment, risk and cost reduction (ARC)** remain key to success



# Project Team

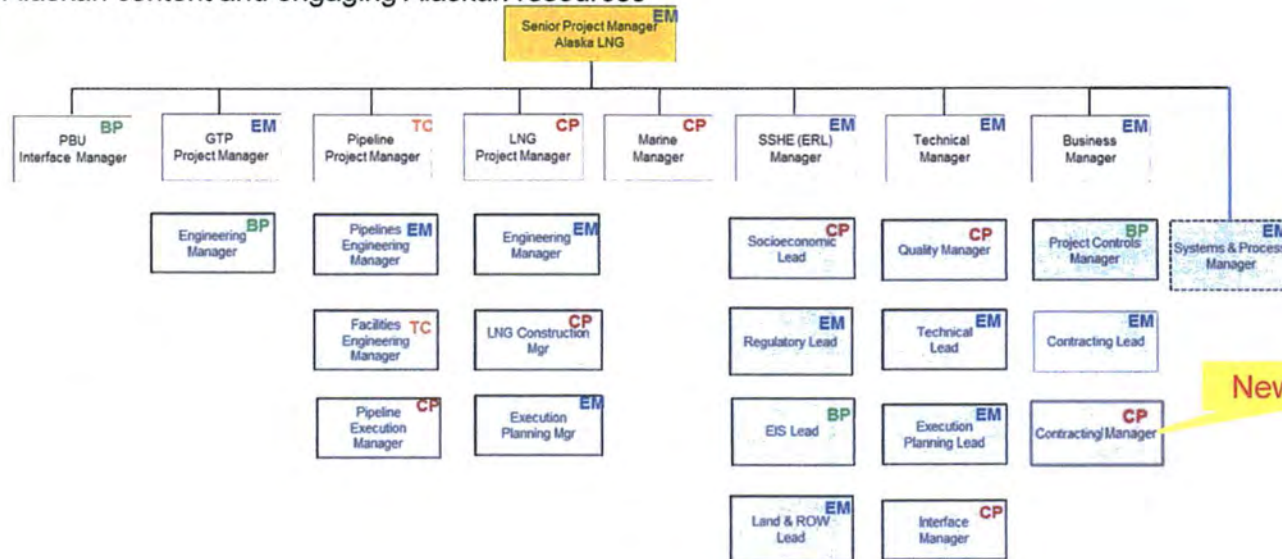
- Fully integrated project team
  - All companies represented at all levels – “best player plays”
  - Leadership team in place (27 roles, over 800 years experience)
  - Leverage skills to meet common goal of delivering Alaska LNG
- Teams “co-located” to ‘take work to the people’
  - Integrate teams into contractors’ offices for key work scopes
  - All offices include representatives from each company
- Building project organizations
  - Over 100 full time employee positions filled
  - 3 offices: Anchorage, Calgary and Houston
  - Expect several hundred contractors for each project
  - Working to award contracts, start contractors in 4Q 14
  - Strong focus on Alaskan content and engaging Alaskan resources

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Alaska LNG Project Leadership Team



Awarded



New Role

## AKLNG Project Team ---- Pre-FEED Project Scope (under JVA)

JVA Project Team Scope

- Integrated Project Design Basis
- Train sizes and configuration
- Finalize Plot Plans
- Driver-compressor selection
- Air emissions and modeling
- Finalize Process Design
- Generate data for Resource Reports
- Finalize Pipeline Size and Route
- Cost & Schedule Deliverables
- FEED Execution Plan
- Regulatory/Permitting Plan
- ITT and FEED Contracting Plan

## Other Activities being executed by Co-Venturers & State of Alaska

Commercial Work by CoVs

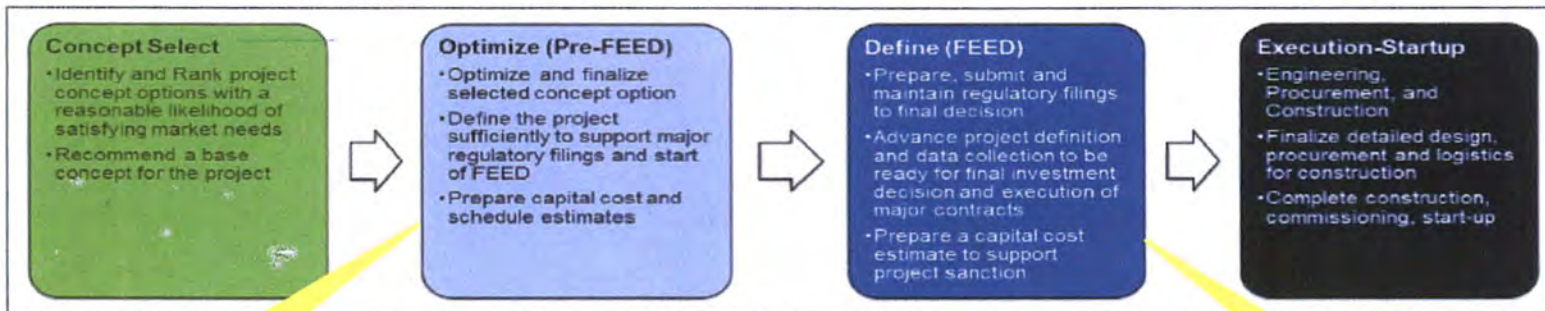
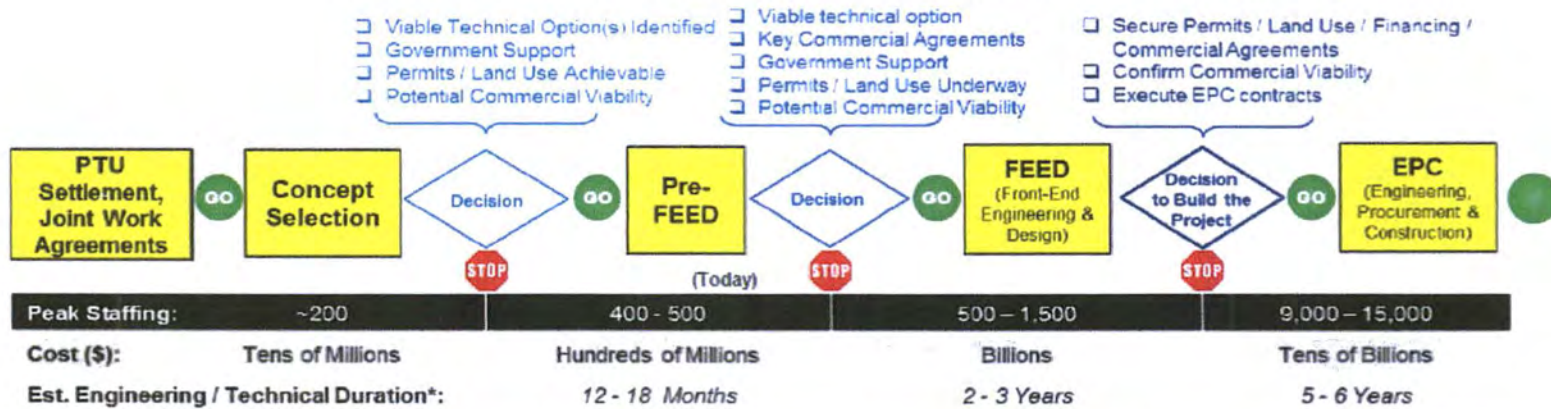
- SoA - Gas Fiscals, PILT, RIK
- Governance for FEED and beyond
- Long Term Organization, including roles and responsibilities
- FERF Filings
- Commercial / Fiscal / Regulatory Agreements
- Gas supply / balancing
- Upstream Agreements
- Others.....

### Keys to Success (ARC)

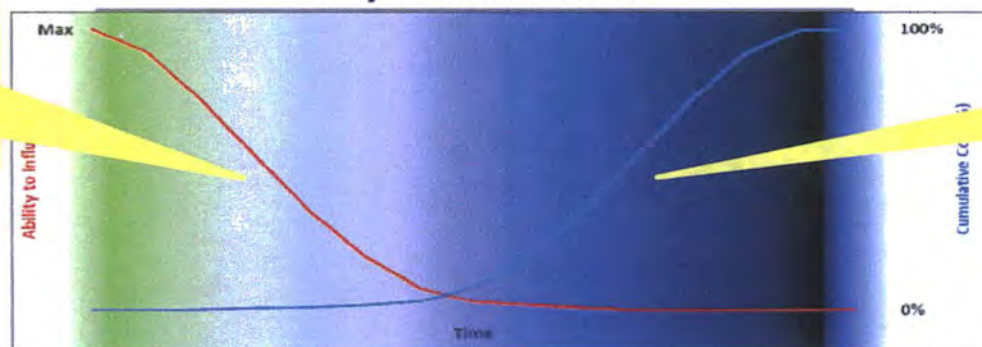
- Alignment
- Risk reduction - reducing the range of uncertainty (perceived risks)
- Cost reduction and predictability

# Project Development Phases

## Alaska LNG – Phased/Gated Project Management Process (Oct 12)



Project Influence Curve



On Schedule to complete Pre-FEED by MY16, FEED decision by MY17, consistent with HOA

Key is to prepare for project success in FEED / EPC to minimize Cost of Supply

# Alaska LNG by-the-numbers

Alaska LNG™

## Technical and ~~Cost~~ \$303M Through Sep 15

- ~~\$243M~~ + on pre-FEED through August 15
- 570+ acres purchased in Nikiiki, Alaska 135
- 130+ full-time personnel on Alaska LNG Project
- 200+ people in the field (80 scientists)
- 950+ acres of topographic survey
- 15,500+ acres of cultural surveys
- 148,000+ feet of shallow seismic completed
- 250 boreholes drilled
- 100+ environmental site assessments completed
- 2,000+ helicopter flying hours, 87,000+ miles driven
- 1,100+ field check points set/confirmed

## Regulatory

- 2 DoE conditional export licenses (FTA / non-FTA)
- 10,000+ pages of regulatory filings

## Engagement

- 90+ community outreach events
- 100s of Alaska entities involved in logistics and labor studies
- ~700 Alaska businesses – information sessions
- 40+ meetings with Alaska Native regional and village corporations and tribal entities



# Alaska LNG

Fueling Alaska's Future

AK-LNG.COM

Questions

**BILL WALKER**  
Governor



P.O. Box 110001  
Juneau, AK 99811-0001  
(907) 465-3500

**STATE OF ALASKA**  
OFFICE OF THE GOVERNOR  
JUNEAU

**Question and Answer:**  
**Representative Neuman - October, 29 2015**

**Representative Neuman:**

Why does DNR need an \$800 thousand dollar plus employee?

Please provide more detail on the roles/responsibilities envisioned for this person and how that compares to industry standards.

**Department of Natural Resources Response:**

AS 38.05.020(b)(11) and (14), enacted through SB138, directs the Commissioner of the Department of Natural Resources (DNR) to take custody, market and dispose of the state's share of royalty gas and, in consultation with the Department of Revenue (DOR) Commissioner, gas delivered to the state under AS 43.55.014(b), tax-as-gas (TAG).

DNR's request for an additional appropriation to cover costs associated with a Marketing Lead/Senior Commercial Director position (total request for \$840,000 – includes the additional \$480,000 requested above the \$360,000 originally allocated in the FY16 budget – for the remaining 7 months of FY16).

In preparing the supplemental budget appropriation request, DNR informally consulted with head hunters and utilized prior recruitment discussions to help inform its request. Typical annual consultation for a Senior Marketing Commercial Director ranges from \$600,000 - \$900,000 (\$300,000-400,000 in Base + \$300,000-500,000 Bonus) for professionals primarily in Houston or US expatriates working in Europe/Middle East. Because the State cannot provide bonuses, it is anticipated that the bonus may need to be paid up front in order to attract candidates with the necessary qualifications.

DNR has assumed the high end of the range to reflect the senior level of the position and to be competitive against other North American export projects. Additionally, DNR has assumed a 20% premium to reflect the Alaska locational differences and potentially short-term nature of the project. An additional 40% has been added for benefits, total annual cost:

$\$900,000 \times (1+0.2+0.4) = \$1,440,000$ , prorated for 7 months for ~\$840,000  
Base Salary  $\times$  (Base + 20% Alaska differential + Benefits)

It is anticipated that the Marketing Lead will be responsible for:

- Leading negotiations of the marketing agreements and other related commercial agreements with the Alaska LNG project parties (ExxonMobil, BP, and ConocoPhillips).
  - o DNR has been in discussions with each of the lessees/producer parties, as part of the lease modification process laid out in AS 38.05.180(ii) and is in the process of receiving proposals and assessing what each party is proposing with regard to the state's royalty and tax-as-gas volumes.
  - o As mentioned in previous discussions with the legislature, joint-venture marketing with one or more of the parties is under consideration, but any decision to enter a joint venture marketing arrangement would require a determination of the risk tolerances of each party and whether the proposed joint venture would be a suitable fit for the State's needs.
  
- Lead marketing activities and build customer relationships with the targeted LNG buyers.
- Negotiate commercial agreements such as Memorandums of Agreement (MOA), Heads of Agreement (HOA), term sheets, Sales Purchase Agreements (SPAs), etc. Sales Purchase Agreements are complex and may be in place for 15-20 years – it is important to get them right.
- Develop marketing plans for the State's share of LNG export or in-state use.
- Manage communications with key project stakeholders, State, DNR, and project partners.
- Develop the State's LNG marketing team, build the organization and manage the resources.

DNR is looking for someone that has at least 15 years of experience in LNG project development activities, including at least 10 years in LNG marketing and contract negotiation. Additional qualifications that may be desirable include diverse LNG marketing knowledge and experience globally, particularly in the traditional Asia Pacific market.

Once commercial aspects of the project are resolved and a decision to enter into FEED is made, consistent with its responsibilities under SB 138 DNR may need to ramp up a marketing organization to begin actively negotiating and selling the state's gas volumes in either an equity or JV marketing organization. If the State decides to enter into any joint marketing arrangement, adequate State representation in any joint marketing venture will be critical to ensure the state's interests are fully accommodated. If the State ends up with more than one joint venture marketing agreement, the State will need marketers in each of the ventures to ensure firewalls and anti-trust issues are not violated.

While DNR is examining joint venture marketing options as part of the lease modification process, it also has been going out to the market and building buyer awareness of the project, establishing its own relationships with potential buyers of LNG, and gathering feedback from the market to present to decision makers with the assistance of a contractor who has fulfilled the marketing lead position to date. However, consistency and project reliability will be key when speaking with prospective buyers over the next 4-6 years. To show our commitment and reliability, it is imperative the DNR hire a state marketing lead and analyst to provide continuity as this project moves forward as well as

independent advice to the State on potential risks and rewards that it must consider in any marketing arrangement.

Without buyers and sales agreements in place prior to the Final Investment Decision (FID), the project is not viable and will not get the financing needed for construction. Additionally, if sales agreements are not negotiated in the state's interest, anticipated revenues may not be realized or the state may be at risk for not having enough money to pay parties who help finance construction costs.

# TRANSCANADA'S PARTICIPATION IN AK LNG: KEY ISSUES

**Presentation to House Finance Committee**  
**Juneau, Alaska > Thursday, October 29**

Janak Mayer, Chairman & Chief Technologist › [janak.mayer@enalytica.com](mailto:janak.mayer@enalytica.com)  
Nikos Tsafos, President & Chief Analyst › [nikos.tsafos@enalytica.com](mailto:nikos.tsafos@enalytica.com)

<http://enalytica.com>

## VIEW FROM 2014: WHY TRANSCANADA?

- Experience** Long history work on an Alaska gas pipeline projects
- Continuity** Leverage AGIA work and agree to dissolve AGIA partnership amicably
- Governance** TC would help SOA negotiate terms to make infrastructure as expandable as possible
- Expansion** TC would actively pursue new gas to be shipped through the pipe
- Execution** TC would make a successful project more likely (on time and lowest cost)
- Finance** TC would relieve SOA from cash calls during development phase

Even so, the agreement came under scrutiny in several areas

- Tariff cost** Question whether TC tariff was competitive to market norms / SOA cost of debt
- Risk/Reward** TC took on limited risk (only risk was SOA credit health)
- Voting rights** TC held most of the control (SOA could direct TC voting only in limited areas)
- Back-in rights** In original deal, TC retained full back-in rights (amended to provide clean off-ramp)

## WHERE WE **AGREE** WITH ADMINISTRATION AND WHERE **NOT**

Where we **agree** with administration statements

The State of Alaska (SOA) will pay TransCanada (TC) no matter what

SOA retains risk, but TC retains most decision making (TC's only risk is deterioration of SOA credit)

SOA credit rating will be hit regardless of whether TC is in the project or not

SOA has several financing options—no need to panic about having higher cash calls

This is the only clean off-ramp that SOA has; failure to pass this bill means harder to sever ties with TC

Not having Alaska Gasline Inducement Act (AGIA) makes a big difference in SOA calculations

Non-alignment in voting and non-visibility of information undermine original case for TC in AK LNG

Where we **differ from or wish to supplement** administration statements

The strictly financial case for severing relationship with TC is not as compelling as has been argued

Decision should focus on strategic, not financial considerations: expansion plans and AK LNG vision

# IS THE FINANCIAL UPSIDE TRULY COMPELLING?

“The State could potentially achieve up to **~\$400 million** incremental annual cash flows, based on the State’s expected lower cost of capital.”

“Under all scenarios of State credit rating downgrade down to A-/A3, the State **cost of debt remains below** the TC cost of capital.”

The economic benefit of replacing TC could vary based on the SOA’s credit rating

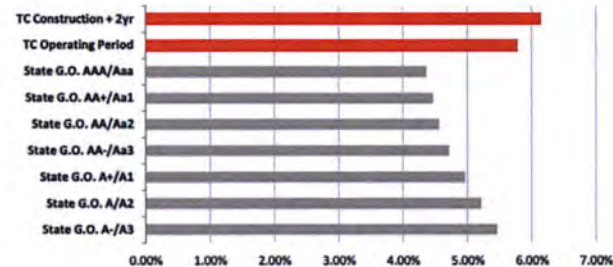
- The State could potentially achieve up to **~\$400 million incremental annual cash flows**, based on the State’s expected lower cost of capital
- The State’s cost of capital would increase with any credit downgrades
- Even if the State’s credit rating deteriorates and results in a higher cost of capital for the State, it is still expected that the State will achieve additional annual cash flows without TC



## TC Cost of Capital vs. State Debt Interest Rate

The interest rate on State debt would depend on the credit rating. The table below compares:

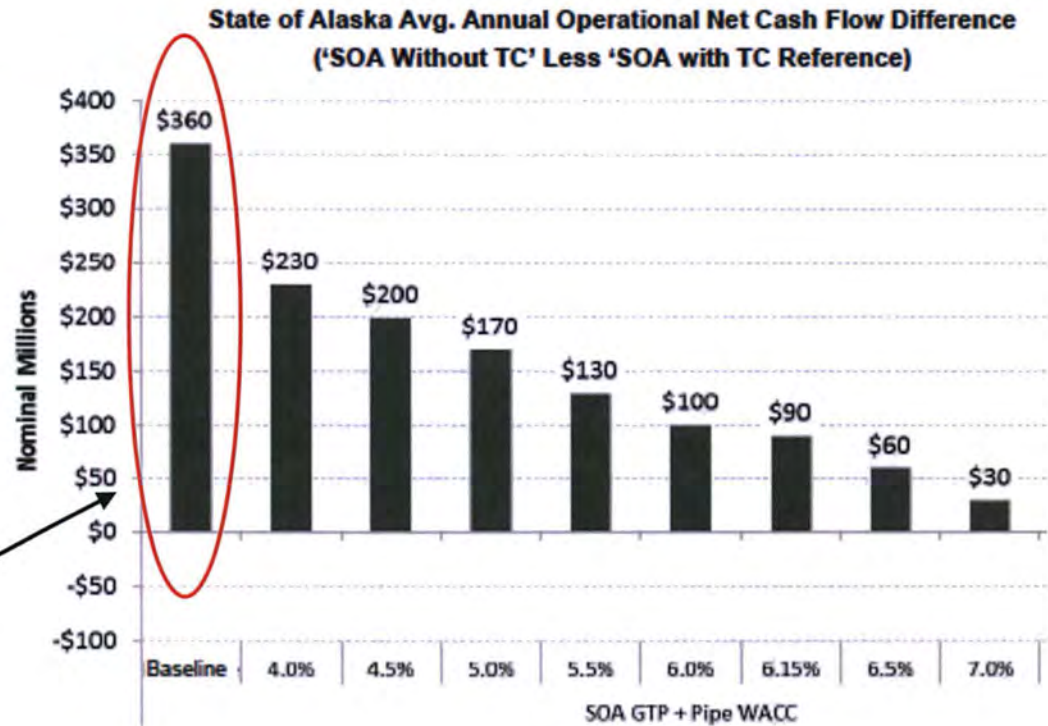
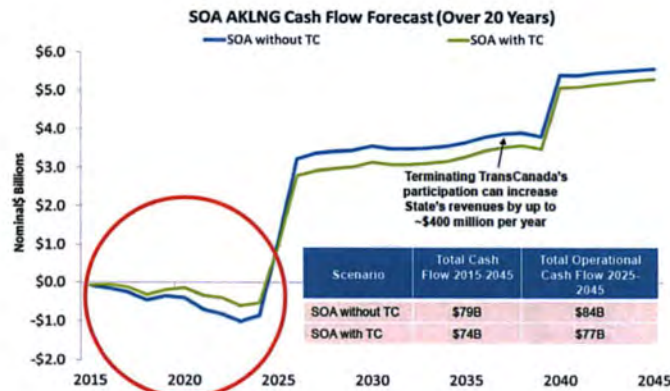
- TC weighted average cost of capital under the PA, calculated as of Sept 11, 2015
- Interest rates on taxable State G.O. debt, estimated by FirstSouthwest as of Sept 11, 2015



- Under all scenarios of State credit rating downgrade down to A-/A3, the State cost of debt remains below the TC cost of capital
- Note that, following a rating downgrade during the construction period, the State credit rating and cost of capital will likely recover once the Project is operational; TC cost of capital is fixed at FID for the term of the FTSA

SOURCE: “TRANSCANADA’S AKLNG PARTICIPATION: FINANCING ISSUES,” OCTOBER 24, 2015; “TRANSCANADA’S AKLNG PARTICIPATION,” OCTOBER 25, 2015

# \$360MM ASSUMES +\$2BN UPFRONT EQUITY; NPV<sub>10</sub> ≈ 0



\$2bn in additional outlays to generate the publicized \$360mm in annual additional revenues

SOURCE: "TRANSCANADA'S AKLNG PARTICIPATION," OCTOBER 25, 2015

## SOA COST OF DEBT LIKELY **HIGHER** THAN TODAY

Assuming that SOA issues \$13–\$15 bn in debt, it can expect **credit downgrade / higher borrowing costs**

These numbers **assume high** oil prices and revenues through 2038

It is not hard to see a scenario where SOA cost of debt gets **much closer to TC tariff** (now 5.8% to 6.15%)

Of course, SOA has **other financing options** (e.g. project finance, tax-exempt debt, equity, etc.)

| RATING<br>(MOODYS/S&P) | DEBT SERVICE LIMIT<br>(% OF GFUR) | INTEREST RATE<br>ON TAXABLE BONDS | MAX NEW DEBT SOA<br>CAN ISSUE (IN MILLIONS) |
|------------------------|-----------------------------------|-----------------------------------|---|
| AAA/AAA                | 5%                                | 4.49%                             | 3,851                                       |
| AA1/AA+                | 8%                                | 4.59%                             | 6,382                                       |
| AA2/AA                 | 10%                               | 4.69%                             | 8,009                                       |
| AA3/AA-                | 12%                               | 4.84%                             | 9,549                                       |
| A1/A+                  | 17%                               | 5.09%                             | 13,361                                      |
| A2/A                   | 20%                               | 5.34%                             | 15,387                                      |

SOURCE: FIRST SOUTHWEST, "AKLNG DEBT SIZING (AS OF JUNE 3, 2015)"

# TC INFLECTION POINT OPENS UP **BROADER QUESTIONS**

**How can SOA best protect its interests in AK LNG?**

No AGDC secondee in 135-strong project management team

Unclear decision-making / division of labor within SOA

AK LNG can back-fill TC exit; can AGDC step up?

**How will SOA ensure expansions / a full pipeline?**

AGDC plan to pursue expansions is unclear

Need not just technical but chiefly commercial expertise

**What is the optimal capitalization structure for SOA?**

Should SOA rely so heavily on debt (e.g. 100% debt)?

What are the merits of equity and what form might it take?

**What is SOA's vision for AK LNG?**

What if partners withdraw (strengthens case for TC)

How much do withdrawal agreements raise risks for SOA?



“Would you tell me, please, which way I ought to walk from here?”

“That depends a good deal on where you want to get to,” said the Cat.

SOURCE: LEWIS CARROLL, ALICE'S ADVENTURES IN WONDERLAND

Amendment No. 01

WHEREAS, The Alaska Gasline Development Corporation ("AGDC") and Rigdon H. Boykin (the "Contractor") have entered into a Master Services Agreement (the "Agreement") effective May 28, 2015, with a term that extended until September 1, 2015;

WHEREAS, AGDC and the Contractor hereby agree to extend the term of the Agreement in accordance with the terms of the Agreement and the terms provided herein;

Therefore, AGDC and the Contractor agree that paragraph 32 of the Agreement is amended to provide that the Agreement shall expire on September 30, 2015.

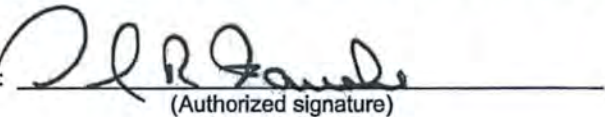
Except as specifically amended herein, all other terms and conditions of the Agreement remain unchanged and in full force and effect.

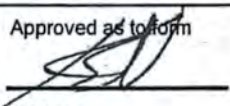
IN WITNESS WHEREOF, the parties have executed this amendment on the dates set out below. This amendment takes effect on the date of its execution by AGDC.

Agreed to and accepted by the CONTRACTOR

By:  (Authorized signature) 8-20-15 Date  
Rigdon H Boykin (Printed name/title)

Agreed to and accepted by the ALASKA GASLINE DEVELOPMENT CORPORATION

By:  (Authorized signature) 8-20-15 Date  
DANIEL R FAUSKE President (Printed name/title)

Approved as to form  
  
LEGAL

Amendment No. 02

WHEREAS, The Alaska Gasline Development Corporation ("AGDC") and Rigdon H. Boykin (the "Contractor") have entered into a Master Services Agreement (the "Agreement") effective May 28, 2015, with a term that extended until September 30, 2015;

WHEREAS, AGDC and the Contractor hereby agree to extend the term of the Agreement in accordance with the terms of the Agreement and the terms provided herein;

Therefore, AGDC and the Contractor agree that

1. Paragraph 32 of the Agreement is amended to provide that the Agreement shall expire on December 31, 2015.
2. Paragraph 1 of Exhibit E of the Agreement is amended to provide that in addition to the Contractor's monthly fee, the Contractor will be reimbursed for actual expenses, including per diem, up to \$10,000.00 per month. In no event will AGDC be obligated to pay, or liable for, an amount greater than \$850,000.00.

Except as specifically amended herein, all other terms and conditions of the Agreement remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the parties have executed this amendment on the dates set out below. This amendment takes effect on the date of its execution by AGDC.

Agreed to and accepted by the CONTRACTOR

By: *Rigdon H Boykin*  
(Authorized signature)

9/27/15  
Date

Rigdon H Boykin  
(Printed name/title)

Agreed to and accepted by the ALASKA GASLINE DEVELOPMENT CORPORATION

By: *Bruce Tangeman*  
(Authorized signature)

9/27/15  
Date

Bruce Tangeman  
(Printed name/title)

Approved as to form  
*BT*  
LEGAL



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

Questions and Answers:  
House Finance - October, 28 2015

1. Does the PILT amount change if TransCanada is not participating in the project? If so, by how much? If not, do the producers just pay more?

Department of Revenue Response:

The Impact Payments have been proposed at a value equal \$800 million over the project construction period, currently anticipated to be five years. The Municipal Advisory Gas Project Review Board has not completed its review of the proposed Impact Payments amount. Under the anticipated terms of a Firm Transportation Services Agreement (FTSA) with TC, Impact Fees and Property Taxes incurred by TC would be passed-through to State for payment in the TC tariff. In addition, TC income taxes would also be passed through to the State in the TC tariff. Note that the Impact Fees and Property Taxes would be assessed by the State against the Project property owner (not the Project equity participants). The Project property owner would then issue a cash call to the Project Participants to fund their proportionate share of the Impact Fees and Property Taxes. This allocation will not change with a TC buyout – the State will pay its proportionate share either directly without TC, or indirectly through TC. Whether this would affect municipalities will depend on how the Legislature determines to allocate the Impact Fee and Property Tax receipts from the Project property owner. The MAGPR Board is currently considering allocation options as well as acceptable target Impact Fee and Property Tax levels.

- a) Where are we in the process? Is there a draft PILT plan? If so, can you forward a copy to the committee.

The Department of Revenue (DOR) is the lead agency in the Administration's efforts to communicate with and facilitate the efforts of the Municipal Advisory Gas Project Review Board (MAGPRB), a 12-member board authorized by SB 138, passed in 2014, and assembled by Administrative Order No. 269 on March 25<sup>th</sup>, 2014. The MAGPRB is a key component, representing directly and indirectly impacted municipalities and local stakeholders, in recommending possible options to address and mitigate the impacts of new infrastructure associated with the Alaska LNG project. The MAGP Board is a transparent collaborative public process chaired by Commissioner of Revenue. The Board meets on a regular basis, with the last meeting held on 10 9 15. The Commissioner of Revenue anticipates the next MAGPR Board meeting take place after

the Special Session to continue discussions. All discussion materials can be found on the MAGPR Board website: <http://dor.alaska.gov/MAGboard>

- Current Work:
  - Stemming from the September 23 and October 9th meetings, the Commissioner of Revenue presented tentative proposal between the state and the producers on a target amount for Impact Fees (\$800 million) and a Flow Rate Property Tax value proposal (\$15.7 billion) to the MAGPR Board for consideration. The MAGPR Board is currently considering the target Impact Fee and Property Tax levels, and discussions have commenced on an allocation methodology for distribution of Impact Fees and Flow Rate Property Tax receipts among the State stakeholders.
- Next Steps for the MAGPR Board include:
  - Continue Discussions to Finalize Overall Structure and Target Amounts
    - Impact payments during construction and
    - Flow-related property tax
- Collaborate and Provide recommendations on allocation of payments among State and local jurisdictions
  - Utilize FERC/NEPA pre-filing process of socioeconomic impacts for FERC Resource Report #5
- Begin process of drafting 2015 MAGPRB Annual Report due December 15, 2015  
Propose modified legislation to change property tax statutes introduced in SB100 and HB183.

2. **Can you provide a copy of the contract with Rigdon Boykin?**

Attached, please find Rigdon's executed contract, and contract amendments 1 and 2.

3. **Is AOGCC being assessed AKLNG-related charges by AGDC, a state department or the Governor's Office? If so, how much, and by whom?**

**AGDC Response:**

AGDC is not a gas owner and does not have any direct dealings with AOGCC, so the commission isn't being assessed any fees by AGDC. Our AKLNG joint venture partners, who have North Slope oil & gas leases, have recently filed gas off-take petitions with AOGCC in support of the project. However, those are done by the individual companies, not the project itself. If there are fees or assessments associated with those petitions, best to direct that question to the producers directly (BP, ConocoPhillips and ExxonMobil).

4. If TransCanada is still at the table on December 4 and votes “no” on the 2016 project budget, does that constitute a default by TransCanada and eliminate the need to pay the 7.1% interest on TransCanada’s development costs?

**Department of Natural Resources Response:**

If TransCanada does not vote as directed by DNR or does not vote at all, it would be a Default Event under the PA, which TC would have to cure or to commence to remedy within 30 days after breach. If TC fails to cure the Default Event, DNR has the option to terminate the PA without the obligation to pay the 7.1% interest on TransCanada’s development costs. Please note that if TransCanada’s development costs (without the 7.1%) are not paid when due under the PA, the State would still be obligated to pay a higher interest rate of LIBOR + 10% during payback on any amount outstanding after the payment due date.

**AGDC Master Services Agreement**  
**Contract Number: 15-078**

This Master Services Agreement, including all task orders (as defined in Exhibit B hereto, the "Task Orders"), if any, issued hereunder and including the exhibits attached hereto, (collectively, the "Agreement") is made between Rigdon H. Boykin (the "Contractor") and the Alaska Gasline Development Corporation ("AGDC").

For good and valuable consideration in hand paid, receipt of which is hereby acknowledged, the Contractor and AGDC agree as follows:

1. INCORPORATION BY REFERENCE. The following documents (each, an "Exhibit" and, collectively, the "Exhibits") are incorporated by reference into this Agreement.

- a. Exhibit A: RESERVED
- b. Exhibit B: Scope of work
- c. Exhibit C: RESERVED
- d. Exhibit D: RESERVED
- e. Exhibit E: Invoicing, and Payment
- f. Exhibit F: RESERVED
- g. Exhibit G: Subcontractor Rider

2. CONTRACTOR'S DUTIES. This Agreement is for services specified in Exhibit B.

The Contractor shall diligently perform for AGDC all of its duties under this Agreement in accordance with Exhibit B or other instructions by AGDC. All work performed by the Contractor is subject to inspection, evaluation, and approval by AGDC. AGDC may employ all reasonable means to ensure that the work progresses and is performed in compliance with this Agreement.

The Contractor shall have no liability for defects in the services attributable to the Contractor's reliance upon or use of data, design criteria, drawings, specifications, or other information furnished by AGDC or by third parties retained by AGDC; provided, however, that the Contractor shall at all times and in all circumstances use judgment reasonable to the Contractor's level of expertise and knowledge in conducting work under this Agreement to discover and alert AGDC to any such defects. The Contractor, unless otherwise provided in any Exhibit to this agreement shall not be responsible for the verification of any documents or other information provided by AGDC and relied upon by the Contractor in performing the services.

In performing the services, the Contractor may be required to make certain assumptions or forecasts of conditions, events, or circumstances that may occur in the future. The Contractor will take reasonable efforts to assure that assumptions and forecasts made are reasonable and the basis upon which they are made follow generally accepted practices for such assumptions or projections under similar circumstances.

3. **SUBCONTRACTORS.** Subject to compliance with the provisions of this paragraph, the Contractor may engage subcontractors to perform services required by this Agreement or otherwise to support the Contractor's performance of services under this Agreement. The Contractor shall notify AGDC in writing of the name of each subcontractor to be engaged by the Contractor under this paragraph and the work anticipated to be performed by the subcontractor. A subcontractor may not begin work under this paragraph before (a) the Contractor and subcontractor have executed a Subcontractor Rider in the form set forth in Exhibit G; (b) the Contractor has delivered to AGDC the completed, signed Subcontractor Rider; and (c) the Contractor and subcontractor have entered into a contract or other agreement and attached the executed Subcontractor Rider to such contract or other agreement. All compensation and reimbursement payments to a subcontractor are the responsibility of the Contractor, and AGDC is not responsible for, and will not make, payments owed by the Contractor to the subcontractor.

4. **TRAVEL.** AGDC will reimburse the Contractor for travel expenses incurred or paid in conducting work under this Agreement.

5. **NO ADDITIONAL WORK OR MATERIALS.** AGDC is responsible only for payment of work and provision of materials as provided in this Agreement.

6. N/A

7. N/A

8. **COMPENSATION.** AGDC will pay the Contractor as provided in Exhibit E. AGDC is not responsible for payment for, and will not pay for, work performed or materials provided before the date on which both AGDC and the Contractor have signed this Agreement. All costs associated with the Agreement must be stated in U.S. currency.

9. **REIMBURSEMENT.** Any costs or expenses the Contractor incurs performing the Contractor's duties under this Agreement will be reimbursed by AGDC except as provided in this Agreement.

10. **TERMINATION BY CONTRACTOR.** The Contractor may terminate this Agreement at any time but not sooner than sixty days after the Contractor has given written notice to AGDC.

11. **TERMINATION BY AGDC.** AGDC, by written notice to the Contractor given at any time on or before the date of termination, may terminate this Agreement at any time.

Regardless of whether AGDC has notified the Contractor of the termination of this Agreement under this paragraph, AGDC may take any action that, in its discretion, is reasonable to protect itself from the Contractor's breach of this Agreement.

Failure of AGDC to exercise its right to terminate this Agreement for the Contractor's breach does not waive that right or any other right under this Agreement.

AGDC is liable only for payment in accordance with the compensation and other provisions of this Agreement for services rendered before the effective date of any termination of this Agreement.

12. **TERMINATION NOT A RELEASE.** Termination of this Agreement by AGDC as permitted by this Agreement does not release the Contractor from any obligations or liability under the Agreement unless AGDC expressly releases the Contractor in writing. Upon termination of the Agreement by AGDC, the Contractor must assist in an orderly transfer of the Contractor's entire work product, including all work product of any subcontractor or vendor of the Contractor, related to this Agreement to the offices of AGDC or to any successor or custodian designated by AGDC in writing. Notwithstanding the termination

of this Agreement, the Contractor shall preserve and protect all such files, notes, draft reports, and other work product, including maintaining the confidentiality of the same, and the Contractor's duty to preserve and protect all such material shall survive the termination of this Agreement until such time as the Contractor shall have delivered all such material to AGDC and AGDC shall have acknowledged receipt of same in writing to the Contractor.

13. INDEMNIFICATION. The Contractor shall indemnify, save harmless and defend AGDC and the State, its officers, agents, and employees from all liability, including costs and expenses, for all actions or claims resulting from injuries or damages sustained by any person or property arising directly or indirectly as a result of any error, omission, or negligent act of the Contractor, its subcontractors, or anyone directly or indirectly employed by the Contractor in the performance of this Agreement.

All actions or claims, including costs and expenses, resulting from injuries or damage sustained by any person or property arising directly or indirectly from the Contractor's performance under this Agreement which are caused by the joint negligence of AGDC and the Contractor shall be apportioned on a comparative-fault basis. Any such joint negligence on the part of AGDC must be a direct result of active involvement by AGDC.

"Contractor" and "AGDC" as used within this article, include the employees, agents and other contractors who are directly responsible, respectively, to each.

14. NO ASSIGNMENT OR DELEGATION. This Agreement is a personal services agreement, and the Contractor may not assign or delegate this Agreement, or any part of it, or any right to any compensation or reimbursement paid under it, except with the express written consent of AGDC, which AGDC will not unreasonably withhold; provided, however, that the Contractor may, subject to the provisions of paragraph 3 above, subcontract portions of the services to approved subcontractors.

15. NOTICE. Any notice given to AGDC or to the Contractor under this Agreement must be in writing and must be sent by registered mail or certified mail, return receipt requested, or by email to the address described in the "Notice" section of Exhibit E.

The Contractor and AGDC will promptly notify each other of any changes in their respective addresses (including email addresses).

16. OWNERSHIP, PRESERVATION, RETENTION, AND DELIVERY OF RECORDS. All records related to work performed by the Contractor for AGDC under this Agreement, including but not limited to documents, reports, recommendations, analysis, work produced in any form including intellectual property, computerized data files, and other media or papers of whatever kind or description and all information and materials made available to Contractor by AGDC (each, a "Record" and, collectively, the "Records"), regardless of whether the Records are developed or originated by the Contractor or by a subcontractor or vendor of the Contractor or by AGDC, are the sole property of AGDC.

Nothing contained in this Section shall be construed as limiting or depriving the Contractor of its rights to use its basic knowledge and skills to design or carry out other projects or work for itself or others, whether or not such other projects or work are similar to the work to be performed pursuant to this Agreement.

AGDC shall not acquire any rights to any of the Contractor's, its subcontractors', or its vendors' proprietary computer software that may be used in connection with the services provided under this Agreement.

The Contractor, upon AGDC's written request, shall deliver all Records to AGDC or as AGDC otherwise dictates in writing. The Contractor may not condition the delivery of Records in any manner whatsoever. The Contractor must reproduce, at no cost to AGDC, any Records that the Contractor has retained on microfilm or otherwise condensed. The Contractor acknowledges that time is of the essence with respect to any request for Records described in this paragraph. The Contractor agrees that, immediately upon receipt of any such request, the Contractor shall take reasonable steps necessary to provide for delivery of the requested Records at the earliest possible time, which, unless otherwise agreed to by AGDC in writing, shall be no later than 30 days after receipt of the request. In addition to all other remedies available to AGDC for breach of this provision, AGDC may withhold payment of any amount owed to the Contractor until such time as the Contractor delivers the requested Records to the satisfaction of AGDC.

Unless all Records have been delivered to AGDC, the Contractor shall preserve and retain all Records in its possession relating to the performance of this Agreement until the end of the later of (a) five years after the expiration or earlier termination of this Agreement, or (b) receipt by the Contractor of notice from AGDC of the final resolution of any audit findings, claims, or litigation related to the Agreement with respect to an audit, claim, or litigation for which AGDC received notice before the expiration or earlier termination of this Agreement.

17. EXAMINATION OF RECORDS. The Contractor shall permit any person designated by AGDC, at any reasonable time during regular business hours, and upon twenty-four hour notice, to examine and make audits of any and all of the Records.

18. PRIOR AGREEMENTS. This Agreement supersedes any and all prior agreements and understandings between AGDC and the Contractor relating to the subject matter of this Agreement. However, the provisions of this paragraph do not operate to release the Contractor or AGDC from any responsibilities or liability that may have arisen under any prior agreement.

19. N/A

20. PERMITS; LICENSES. The Contractor shall be solely responsible and financially responsible for obtaining all required permits, licenses, and approvals to comply with municipal, state and federal authority to operate the Contractor's own business. The Contractor, as part of its services, may assist AGDC with obtaining permits and approvals for project work performed under this Agreement; however, the Contractor shall not be financially responsible for the costs of such project-related permits and/or approvals.

21. SAFETY. The Contractor shall establish and implement, and shall take reasonable steps to assure that each of the Contractor's subcontractors establish and implement, safety procedures and practices to minimize injuries and illness to employees and others in the conduct of work under this Agreement (the "Safety Procedures").

22. CONFIDENTIALITY. The Contractor acknowledges that all information owned by AGDC is to be treated as confidential and proprietary unless AGDC specifically notifies the Contractor otherwise in writing. The Contractor agrees to protect and keep confidential all such information and will undertake to maintain the same standard of care and security to protect the confidentiality of the information as the Contractor uses to protect its own confidential and proprietary information and, in addition, shall take such reasonable steps as AGDC may require of the Contractor for that purpose. In no event may the

Contractor display any AGDC information on any website that is available to any person other than the Contractor, its subcontractors, and AGDC without prior written permission from AGDC.

The Contractor's confidentiality obligation hereunder shall not extend to information which is a part of the public domain before the disclosure of such information by the Contractor.

The Contractor shall not be restricted in any way from releasing information in response to a subpoena, court order, or other legal process, or as may be legally compelled by any tribunal or governmental or regulatory authority, but, in such event, the Contractor shall immediately notify AGDC of the demand for information before the Contractor responds to such demand.

The Contractor agrees to limit distribution of the information owned by AGDC to those of its employees who are performing work under the Agreement. The Contractor may not distribute information owned by AGDC to other parties without the express written consent of AGDC. The Contractor agrees that, upon completion of this Agreement or at any other time requested by AGDC, it will return the originals and all copies of any information owned by AGDC that is then in the Contractor's possession to AGDC. For purposes of this MSA "information owned by AGDC" means (a) the Records and (b) all information provided to the Contractor by AGDC or by another person at the request of AGDC.

**23. COPYRIGHT AND OTHER INTELLECTUAL PROPERTY RIGHTS.** The Contractor acknowledges that the work product developed under this Agreement is a work for hire specifically commissioned by AGDC. The Contractor agrees that AGDC is entitled to the copyright and all other intellectual property rights (such as, but not limited to, patents, trademarks, and service marks) in all technical materials, reports, drawings, manuals, or other work product developed pursuant to this Agreement and the Contractor hereby releases and waives any claim it may have to such copyright. At all times, each party shall retain all of its intellectual property rights with respect to property not described in the preceding sentence.

**24. LIENS.** The Contractor shall pay for all services, labor, materials, and equipment used in the execution of this Agreement and will maintain all materials, equipment, and Records free of all liens. The Contractor will, upon completion of each Task Order and before final payment is due, furnish AGDC with reasonable evidence that all services, labor, materials, and equipment have been paid in full and that any prior liens with respect thereto have been released.

25. N/A

**26. INDEPENDENT CONTRACTOR.** The Contractor and any agents, employees, officers, and subcontractors of the Contractor act in an independent capacity and are not officers or employees or agents of AGDC in the performance of this Agreement.

**27. GOVERNING LAW.** This Agreement is governed by the laws of the State of Alaska. Any actions brought as a result of this Agreement shall be brought in the courts for the State of Alaska in the Third Judicial District in Anchorage, Alaska.

**28. NO CONSEQUENTIAL DAMAGES.** Neither the Contractor nor AGDC may seek or be entitled to loss of anticipated profits or any special, indirect, or consequential damages for work resulting from this Agreement and any subsequent Task Orders.

**29. OFFICIALS NOT TO BENEFIT.** The Contractor must comply with all applicable State or federal laws regulating ethical conduct of public officers and employees.

30. CAPTIONS, SEVERABILITY. The captions and headings of the paragraphs of this Agreement are for convenience only and are not to be used to interpret or define the provisions of this Agreement. If any provision of this Agreement conflicts with applicable law, the conflict does not affect the other provisions of this Agreement which can be given effect without the conflicting provision. The provisions of this Agreement are declared to be severable.

31. EQUAL OPPORTUNITY EMPLOYMENT. The Contractor certifies that it complies with the applicable portions of 42 U.S.C. 1971, 1975 and 2000 of the Civil Rights Act of 1964 and the civil rights laws in the Alaska Statutes, AS 18.80 2 AAC 12.120 (a) (4). The Contractor further certifies that subcontracting will be allocated to meet goals established to eliminate and prevent discrimination.

32. TERM. This Agreement shall expire on September 1, 2015. AGDC, at its sole discretion, may extend this Agreement from the original expiration date set forth above by providing written notice to the Contractor before the original Agreement expiration date or before the then current Agreement expiration date.

33. FUNDING. The Contractor acknowledges that AGDC is an agency of the State of Alaska and, therefore, is only able to make payments for any purpose, including for the purpose of making any payments that may be due under this Agreement, to the extent that AGDC receives appropriations for such purpose.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates set out below. This Agreement takes effect on the date of its execution by AGDC.

Agreed to and Accepted by CONTRACTOR

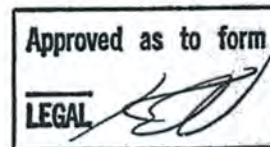
By: Rigdon H Boykin  
(Authorized signature)  
Rigdon H Boykin  
(Typewritten name/title)

May 26, 2015  
Date

Agreed to and Accepted by ALASKA GASLINE DEVELOPMENT CORPORATION

By: Bruce Tangeman  
(Authorized signature)  
Bruce Tangeman / V.P. Finance + Admin  
(Typewritten name/title)

5/28/15  
Date



**EXHIBIT A  
RESERVED**

## **EXHIBIT B**

### **Scope of Work**

The Contractor shall provide oil and gas consulting services concerning natural gas resources, project development and project financing. Services shall include assistance in integrating the activities of AGDC with respect to the ASAP and AKLNG projects with the work of the Governor's Office, the Department of Natural Resources, the Department of Revenue, and the Department of Law. In addition the Contractor will assist in and coordinate the negotiations of the State and AGDC with the producers participating in AKLNG and possible partners in ASAP. It is understood that the Contractor is not admitted to the Bar of the State of Alaska and will not render opinions or give advice with respect to the laws or Constitution of the State of Alaska.

The Contractor shall remain in good standing with the Internal Revenue Service, the Alaska Department of Labor, the Alaska Department of Commerce, Community and Economic Development, the Fair Labor Standards Act, OSHA and other applicable authorities.

**EXHIBIT C  
RESERVED**

**EXHIBIT D  
RESERVED**

## **EXHIBIT E**

### **Invoicing and Payment**

#### **NEW CONTRACTORS / VENDORS SETUP**

New Contractors will need to be set up in AGDC systems for payment of invoices. AGDC accounting will coordinate receiving the following forms from new Contractors.

- Vendor Set Up Form
- W-9, if required
- Automated Clearing House Transmission Request Form
- Alaska Business License

#### **INVOICING ITEMS TO NOTE / REQUIREMENTS**

1. Contractor shall be paid a fixed fee of \$120,000.00 per month commencing June 1, 2015 for the month of June and continuing on the first day of each month thereafter until termination of this contract or November 1, 2015, whichever occurs first. If this contract is still in effect on November 1, 2015, payment will equal \$100,000.00 per month from and after November 1, 2015, until termination; provided, however, that in no event will AGDC be obligated to pay, or liable for, an amount greater than \$500,000.00
2. Contractor shall be reimbursed for all reasonable living expenses in Alaska and travel expenses for one trip to South Carolina per month. Direct costs will be reimbursed based on submitted receipts and without mark-up,
3. AGDC does not pay local, state, or federal taxes on work performed under the Contract.
4. Contractors shall invoice monthly,
5. It is expected that most services under this contract will be performed in Anchorage, Juneau and at offices of project participants (primarily in Houston). Travel between such locations is authorized.
6. **Disputed Invoice Amounts:** AGDC may exclude unallowable amounts that are incorrectly billed on an invoice when making payments. In the event AGDC disputes any invoice item, AGDC shall give Contractor written notice of such disputed item and work with the Contractor to resolve the item. AGDC may short pay invoices for disputed items and would expect that AGDC and the Contractor will make every reasonable effort to timely resolve any disputed items.

#### **INVOICE SUBMITTAL**

Invoices and supporting documentation shall be submitted to AGDC as follows:

E-mail to: [accounting@agdc.us](mailto:accounting@agdc.us)

Or

Mail to: AGDC

Attn: Accounting

3201 C Street, Suite 200

Anchorage, Alaska 99503

#### **INVOICE PAYMENT**

Payments (other than disputed amounts described in paragraph 6 above) are due the Contractor no later than thirty calendar days following AGDC's receipt of an invoice.

**NOTICE**

Unless and until AGDC otherwise notifies the Contractor in writing, the Contractor shall send all notices required under the Agreement to the following address in accordance with paragraph 15 of the Agreement:

Alaska Gasline Development Corporation  
Attn: (Contract Manager)  
3201 C Street, Suite 200  
Anchorage, Alaska 99503

Alternatively, and in accordance with the provisions of paragraph 15, of the Agreement, the Contractor may send notices and otherwise communicate to AGDC by email using the email address provided to the Contractor by the Contractor's contact person at AGDC.

Unless the Contractor otherwise notifies AGDC in writing, AGDC shall send all notices required under the Agreement to the Contractor at the address or email address provided by the Contractor in writing to AGDC.

**EXHIBIT F  
RESERVED**

**EXHIBIT G**  
**Subcontract Rider**

This Subcontractor Rider is entered into by and between \_\_\_\_\_ (the "Contractor") and \_\_\_\_\_ (the "Subcontractor") and is dated \_\_\_\_\_, 20\_\_.

WHEREAS, the Contractor has entered into a contract (the "Contract") with the Alaska Gasline Development Corporation ("AGDC"), a public corporation of the State of Alaska organized and existing under AS.31.25; and

WHEREAS, pursuant to the Contract, the Contractor will perform certain work as described in the Contract; and

WHEREAS, the Contractor now wishes to enter into a subcontract with the Subcontractor (the "Subcontract") to provide for work from the Subcontractor in furtherance of the Contract; and

WHEREAS, the Contractor and the Subcontractor will attach this Subcontractor Rider to any contract or agreement between them for the provision of such services;

NOW, THEREFORE, THIS SUBCONTRACTOR RIDER WITNESSETH:

1. The Subcontractor agrees that all payments and reimbursements owed to the Subcontractor under the Subcontract are the responsibility of the Contractor and that AGDC has no liability or responsibility under the Contract or under the Subcontract for any such payments.
2. The Subcontractor agrees that AGDC has no liability or responsibility for any other term or provision of the Subcontract, and the Subcontractor shall not attempt to pursue remedies for any portion of the Subcontract against AGDC.
3. In performing work under the Subcontract, the Subcontractor may receive or view information that belongs to AGDC. The Subcontractor agrees that it will treat all such information as confidential unless and until it receives written notification otherwise from AGDC. The Subcontractor further agrees to observe all the requirements imposed on the Contractor under paragraph 22 of the Contract (relating to confidentiality).
4. The Subcontractor agrees to indemnify AGDC to the same extent and in the same manner as required of the Contractor pursuant to paragraph 13 of the Contract (relating to indemnification).
5. The Subcontractor agrees that no part of the Subcontract may be assigned or delegated without the express and prior written consent of AGDC.
6. All records related to work performed by the Subcontractor under this Subcontract are property of AGDC and shall be subject to the terms of paragraphs 16 (relating to ownership of records) and 17 (relating to examination of records) of the Contract as though "Contractor" in those paragraphs means "Subcontractor" and "Contract" means "Subcontract."

7. The Subcontractor shall maintain insurance as required of the Contractor under paragraph 19 of the Contract (relating to insurance) and in accordance with the terms and conditions of said paragraph 19.

8. Any notices or other communications required to be sent to AGDC for purposes of this Subcontractor Rider shall be sent as follows:

Alaska Gasline Development Corporation  
3201 C Street, Suite 200  
Anchorage, Alaska 99503

9. The Contractor and the Subcontractor agree to attach this Subcontractor Rider as an appendix or exhibit to the Subcontract and to cause this Subcontractor Rider, by such attachment, to become part of the Subcontract. The Contractor and the Subcontractor agree that, to the extent there is a conflict between the terms of this Subcontractor Rider and any other terms of the Subcontract, the terms of this Subcontractor Rider shall control.

10. The Contractor and the Subcontractor agree that AGDC is a third party beneficiary to this Subcontractor Rider and shall have all the rights and powers that a party to this Subcontractor Rider would have in the enforcement of the terms hereof and the pursuit of remedies.

CONTRACTOR

SUBCONTRACTOR

By: \_\_\_\_\_

By: \_\_\_\_\_





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# Alaska LNG Project Participation

House Finance Committee

October 27, 2015



# Authority Granted in SB 138

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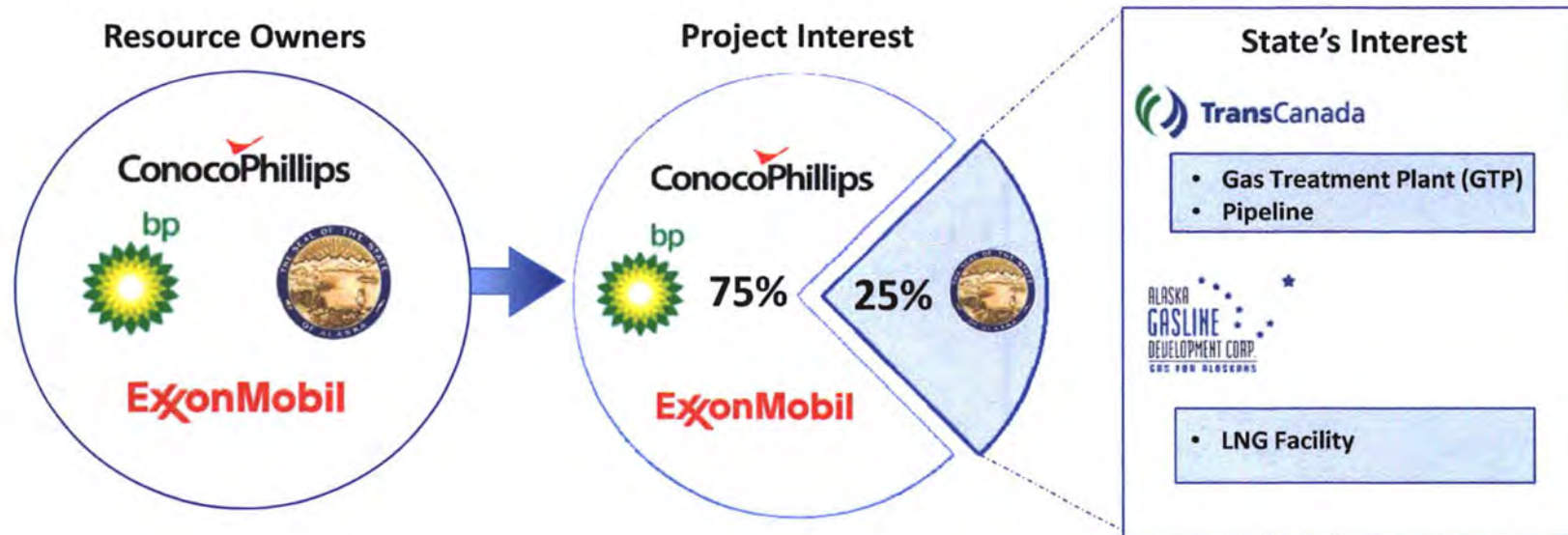
- AGDC has primary responsibility for developing an Alaska LNG project on the state's behalf [AS 31.25.005 (1)]
- AGDC may acquire a direct ownership interest in any component of an Alaska LNG project [AS 31.25.080 (a)(23)]
- AGDC may enter into contracts related to treating, transporting, liquefying or marketing gas - *in consultation with DNR & DOR* [AS 31.25.080 (a)(24)]
- AGDC shall assist DNR & DOR to [AS 31.24.005 (2) & (3)]:
  - Maximize the value of the state's gas resources
  - Provide economic benefits in the state
  - Provide revenue to the state

# AGDC's Role in Alaska LNG

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- Signatory to the Joint Venture Agreement governing the Alaska LNG project
- Hold the state's 25% equity interest in the LNG facility (downstream component) of the integrated project
- Member of the Sponsor Group, Management Committee (ManCom) and the Project Steering Committee (PSC)
- Participate in integrated project decisions
- Participate in commercial negotiations related to marketing, expansion, third-party access and domestic gas supply
- Plan and develop off-takes for in-state gas deliveries

# Alaska LNG Project Participation



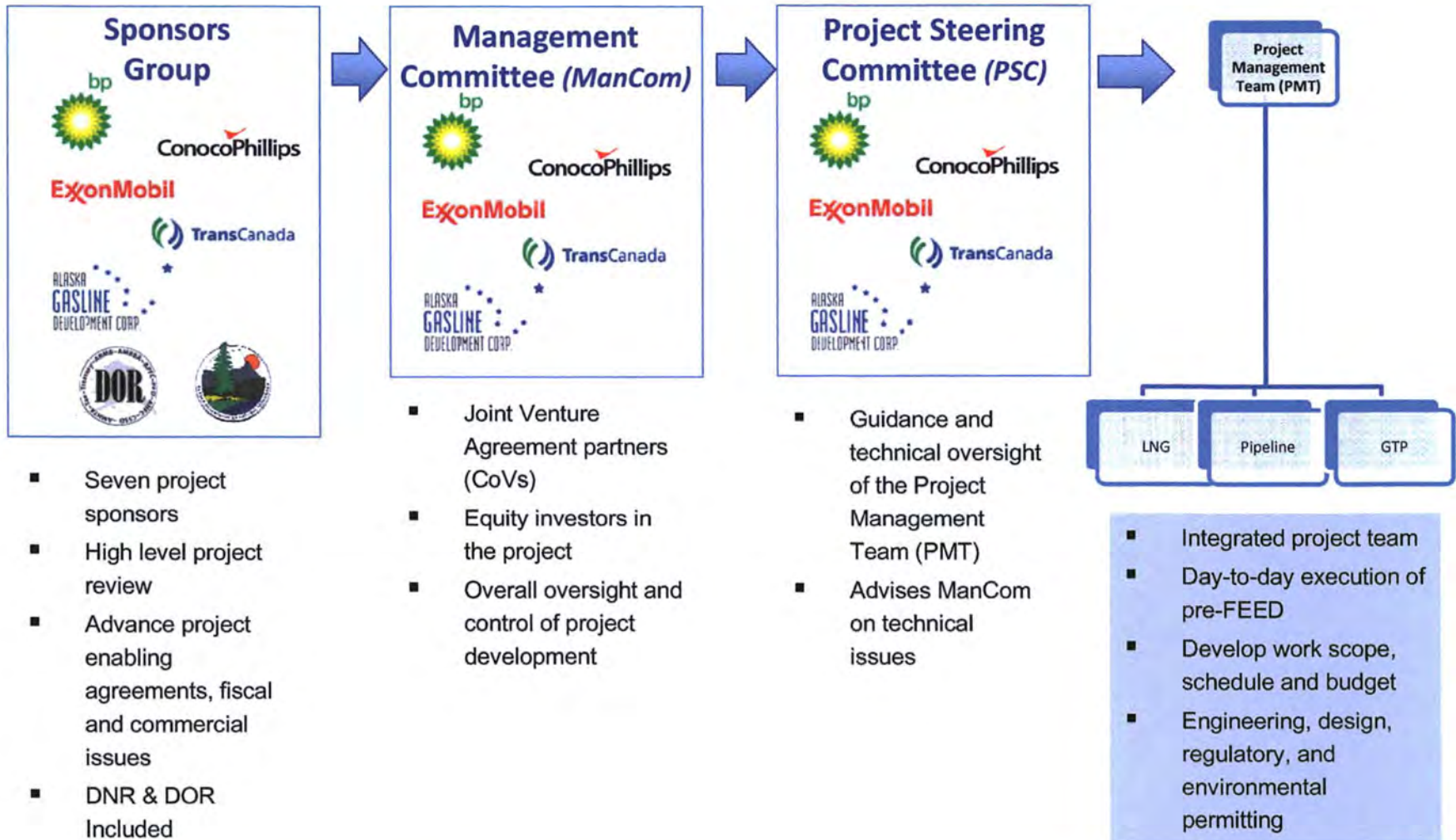
- AGDC holds State's interest in downstream: LNG Facility
- TransCanada holds State's interest in mid-stream: Pipeline & GTP

# Governance Related Issues

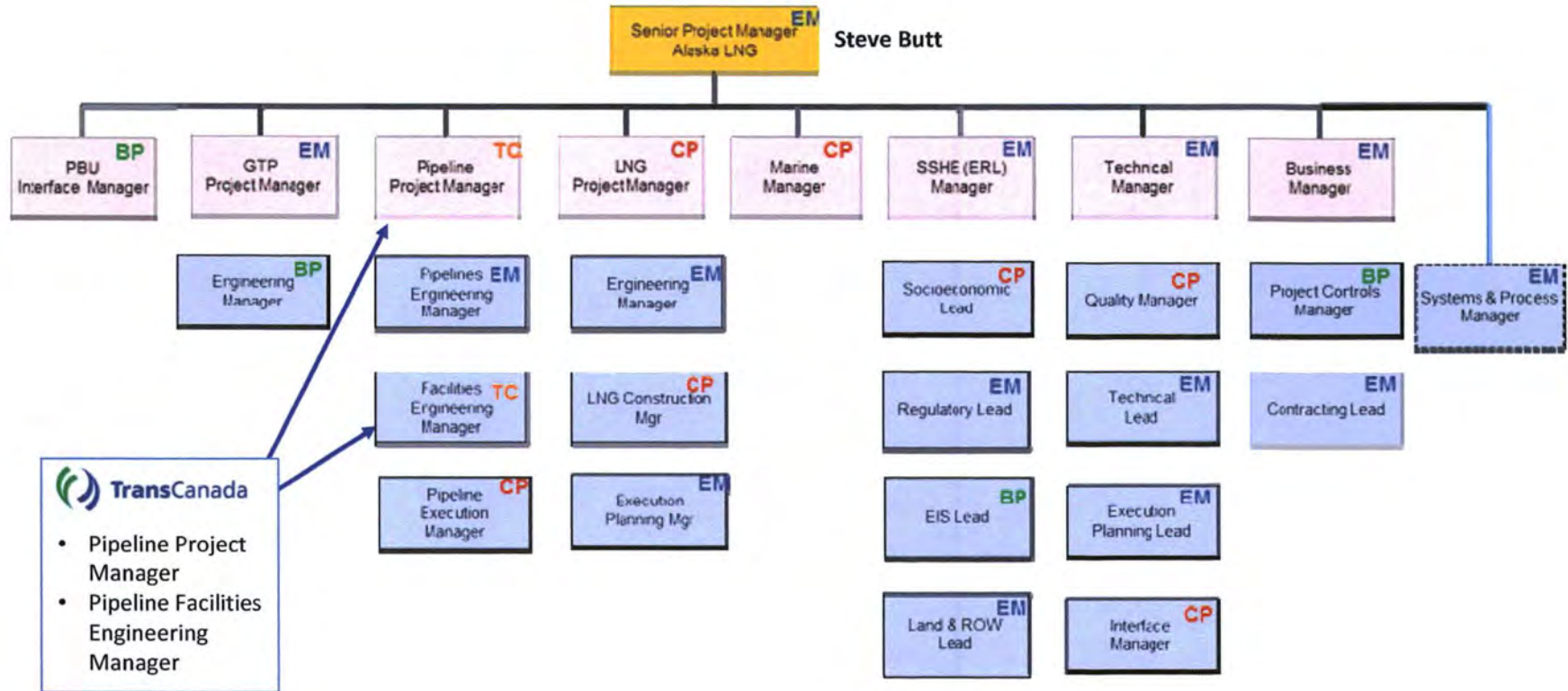
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- **Equity Alignment:** State's share of gas in the project (25%) is not equal to its current equity in the integrated project:
  - State, through AGDC, holds 25% in the downstream (LNG plant)
  - TC holds 25% in the midstream (pipeline & GTP)
  - State's resulting equity in the integrated project is ~ 12.5%
  
- **Voting Rights:** State doesn't have full voting participation in all project decisions:
  - State, through AGDC, votes on downstream issues
  - TC votes on mid-stream issues
  - If TC exits, AGDC would have full voting rights on each project component and in all integrated project decisions

# Project Governance



# Project Management Team (PMT)



TransCanada currently has two individuals in the leadership structure of the PMT

# Project Management Team (PMT)

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- Project Management Team (PMT) created by Alaska LNG co-venture partners (CoVs) to lead day-to-day project development
- PMT is lead by ExxonMobil's Steve Butt and staffed with other CoV employees who have been seconded to the project
- CoVs nominate employees based on skills and experience
  - PMT evaluates nominees and Management Committee approves
  - Positions are filled using a "best player plays" approach
  - Seconded's salary and expenses covered by project
- AGDC is active at all governance levels – Sponsors, ManCom and PSC
- AGDC does not currently have employees seconded to PMT
- PMT hires engineering and specialist contractors to advance design efforts
  - Vast majority of project work is done by contractors under the supervision of the PMT

# Project Management Team (PMT)

## Staffing Principles

- Leverage existing company strengths - ensure “right person, right job” or “best player plays”
- Joint Venture Agreement (JVA) parties can nominate employees for any position
- Ensure all parties are represented at leadership levels
- Locate teams for maximum effectiveness; co-located with major contractors where appropriate
- Appointments to leadership roles require unanimous approval of the parties

| Project Secondees   | EM        | CP        | TC        | BP       | Total      |
|---|-----------|-----------|-----------|----------|------------|
| Leadership Team<br><i>Senior Project Manager and direct reports</i> | 5         | 2         | 1         | 1        | 9          |
| Key Positions   | 10        | 4         | 1         | 3        | 18         |
| Other Positions   | 73        | 20        | 10        | 5        | 108        |
| <b>Total</b>  | <b>88</b> | <b>26</b> | <b>12</b> | <b>9</b> | <b>135</b> |

# TransCanada's Role Alaska LNG

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- Hold the state's 25% interest in the project's mid-stream: pipeline and gas treatment plant (GTP)
- Fund pre-FEED cash calls associated with the state's mid-stream interest
- 12 secondees, primarily pipeline Subject Matter Experts (SME), in the Project Management Team
  - Leadership team, Pipeline Project Manager (1 of 9)
  - Key role, Pipeline Facilities Engineering Manager (1 of 18)
  - Environmental, Regulatory, & Land (ERL) (1 of 32)
  - Gas Treatment Plant sub-project (1 of 17)
  - Pipeline sub-project (8 of 36)

# TransCanada's Role Alaska LNG

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- TransCanada (TC) is not expected to build the pipeline, that will be managed by the PMT
- If TC exits the project, the PMT will seek nominations for the vacated positions
- TC has offered to allow its PMT employees to remain during a transition period
- All CoVs, including AGDC, can nominate employees to fill those positions
- AGDC has individuals qualified to nominate for Pipeline and GTP openings

# AGDC Technical Team - Skills

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AGDC's technical staff:

- Senior credentialed professionals with industry and mega-project backgrounds
- Arctic pipeline and facilities design, construction, and operations experience
- Alaska-specific design and construction experience
- Major capital project management expertise
- Working knowledge of technical and regulatory assets owned by AGDC

# AGDC Technical Team - Results

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AGDC completed development of the Alaska Stand Alone Pipeline (ASAP) Project:

- Completed Pre-FEED and FEED for North Slope gas treatment facility, 733-mile mainline, and 30-mile Fairbanks lateral pipeline
- Completed Class 3 cost estimate and project execution plan
- Delivered on time and under budget
- Core technical team still engaged on an interim basis pending state policy decisions

# AGDC Ability to Assume TC's Role

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- Currently holds state's interest in LNG facility – a complex and expensive component in the integrated project
- Already assumed TC's role in coordinating the FERC NEPA process
- Engaging on mid-stream technical issues currently
- Technical staff available to fill PMT positions as necessary:
  - Subject Matter Experts (SME) based in Alaska
  - Key roles in prior Alaska pipeline projects, including TAPS
  - Dedicated professionals committed to SOA interests

# Alaska LNG Appropriations To Date

| (\$ thousands)                                   | <u>Appropriated</u><br><u>FY14-FY15</u> | <u>FY14-FY16</u><br><u>Spending</u> | <u>Difference</u> |
|--|---|-------------------------------------|-------------------|
| <b>SB138 to AKLNG Fund</b>                       | <b>\$69,835</b>                         |                                     |                   |
| <b>RSA to Department of Revenue</b>              | <b>(\$2,500)</b>                        | <b>(\$2,500)</b>                    | <b>\$0</b>        |
| <b>RSA to Department of Transportation</b>       | <b>(\$70)</b>                           | <b>(\$70)</b>                       | <b>\$0</b>        |
| <b>AKLNG Project Cash Calls</b>                  | <b>(\$57,850)</b>                       | <b>(\$51,382)</b>                   | <b>\$6,468</b>    |
| <b>AGDC Operating</b>                            | <b>(\$3,406)</b>                        | <b>(\$4,396)</b>                    | <b>(\$990)</b>    |
| <b>External Contractual Services</b>             | <b>(\$6,008)</b>                        | <b>(\$5,235)</b>                    | <b>\$773</b>      |
| <b>Reimbursement Due From AKLNG Project</b>      |   | <b>\$2,750</b>                      | <b>\$2,750</b>    |
| <b>Additional Contractual Work for TC Pickup</b> |   | <b>(\$5,900)</b>                    | <b>(\$5,900)</b>  |
|  | <b>\$0</b>                              | <b>(\$66,733)</b>                   | <b>\$3,101**</b>  |
|  |   |                                     | <b>(\$2,801)</b>  |

\*\* Funding available for the AGDC's Alaska LNG participation operating budget component to begin FY17 work

# AGDC Special Session Appropriations

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## Capital Appropriation (\$144,045.0)

- \$68,445.0 – Reimburse TransCanada and “buy-out” their mid-stream interest
- \$75,600.0 – Fund state’s full 25% share of remaining pre-FEED

## Receipt Authority (\$5,000.0): Statutory Designated Program Receipts (SDPR)

- Allow AGDC to be reimbursed for Alaska LNG related field work conducted on behalf of the project

# AGDC Special Session Appropriations

|  | Expectation Before 2016 WP&B | W/New Pre-FEED Scope & Budget Change |
|--|------------------------------|--------------------------------------|
| TC Buyout                              | \$ 68.4                      | \$ 68.4                              |
| Pick-Up Remaining Cash Calls           | \$ 29.6                      | \$ 29.6                              |
| Allowance for Mid-Stream Scope Changes | \$ 8.8                       | \$ 31.0                              |
|  | \$ 38.4                      | \$ 60.6                              |
|  | \$ 106.8                     | \$ 129.0                             |
| Allowance for DownStream Scope Changes | \$ -                         | \$ 15.0                              |
|  | \$ 106.8                     | \$ 144.0                             |

**TC Buyout**  
 \$46.9 - Cash Calls thru 2015  
 \$21.5 - Development & Carrying Costs  
 \$68.4 - Total Reimbursement & Buyout

**Expectation Before 2016 WP&B**

**W/New Pre-FEED Scope & Budget Change**

**Cash Calls 2016 to Pre-FEED Conclusion**  
 \$31 - Go Forward Midstream (Pipe/GTP)

\$15 - Go Forward Downstream (LNG)

30% contingency on \$29.6 pick-up

# Pre-FEED Scope & Budget Changes

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Pre-FEED scope and schedule will increase by \$182 million to \$694 million:

- State's total share is \$173 million -- \$66 million liquefaction plant, \$107 million mid-stream (GTP and pipe)
- Advancing work into pre-FEED is important to have the best information available to complete internal review and make FEED decision
- Project is maturing through the stage-gate development process
- Moving some activities from FEED to Pre-FEED to facilitate better design and decision making

# Pre-FEED Scope & Budget Changes

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Scope changes are designed to improve project economics, permitting outcomes and the quality of information available for FEED evaluation:

- Component level optimization to lower capital costs and improve project economics (\$57 million)
- Increase scope of geotechnical and geohazard work at GTP and LNG sites (\$29 million)
- Increase regulatory and pre-bid work on FEED contracting; complete weather delayed off-shore field work (\$66 million)
- Bring 48” pipe deliverables up to 42” level of development (\$30 million)

# Questions?

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**Joe Dubler**

*VP, Commercial Operations*

**Frank Richards**

*VP, Engineering & Program Development*

Alaska Gasline Development Corporation (AGDC)

*3201 C Street, Suite 200*

*Anchorage, Alaska 99503*

*(907) 330-6300*



unit gas transmission line, a gas pipeline, the gas treatment plant, a liquefied natural gas plant, and a marine terminal . . . .”<sup>3</sup>

AGDC’s statutory purpose therefore includes developing and advancing the AKLNG Project.

## **2. AGDC’s Powers and Duties Provide Express Authority for AGDC to Acquire TransCanada’s AKLNG Interest**

Senate Bill 138 also amended AGDC’s powers and duties to provide AGDC with authority to acquire an ownership interest in the AKLNG Project components. Paragraph 23 of AS 31.25.080(a) provides that AGDC may, “except as provided in (g) of this section, acquire an ownership or participation interest in an Alaska liquefied natural gas project, natural gas treatment facilities, natural gas pipeline facilities, liquefaction facilities, marine terminal facilities related to the infrastructure of an Alaska liquefied natural gas project . . . .”<sup>4</sup> This provision provides AGDC with explicit authority to acquire TransCanada’s interest in the gas treatment and pipeline facilities. This paragraph also provides AGDC with authority to hold the State of Alaska’s interest in the AKLNG Project liquefaction facilities, which AGDC has held since 2014, as was clearly intended by the legislature.

Subsection (g) of AS 31.25.080 provides that TransCanada’s interest may not be acquired by an “entity or subsidiary” of AGDC that is advancing an in-state natural gas pipeline, such as the Alaska Stand Alone Pipeline (ASAP):<sup>5</sup> “The power in (a)(23) of this section may not be exercised by an entity or subsidiary of the corporation that is advancing the development of an in-state natural gas pipeline . . . .”<sup>6</sup> This subsection does not prohibit the corporation from acquiring TransCanada’s AKLNG interest, even if AGDC continues to work on the in-state Alaska Stand Alone

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<sup>3</sup> AS 31.25.390(7). “Gas pipeline,” “gas treatment plant,” “liquefied natural gas plant,” “marine terminal,” “Point Thomson unit gas transmission line,” and “Prudhoe Bay unit gas transmission line” are defined terms. AS 31.25.390(7)(A)-(F). The AKLNG Project components satisfy those definitions.

<sup>4</sup> AS 31.25.080(a)(23).

<sup>5</sup> See Senate Bill 138 Sectional Analysis, at 2 (noting that SB 138 “adds a new subsection to AS 31.25.080 to direct that an entity or subsidiary of the corporation pursuing the in-state natural gas pipeline may not pursue an AK LNG project (AS 31.25.080(a)(23))”).

<sup>6</sup> AS 31.25.080(g).

Pipeline (ASAP). If subsection (g) was interpreted to prohibit the corporation from acquiring an interest in components of the AKLNG Project while the corporation completed work on ASAP, AGDC would also have been prohibited from holding the interest in the liquefaction facility that they have held since 2014. Such a reading would be contrary to legislative intent.

### **3. AGDC’s Liquefied Natural Gas Project Fund Can be Used to Pay for Future Expenses Associated with TransCanada’s Interest**

Senate Bill 138 also established the Alaska liquefied natural gas project fund in AGDC, which can be used for any of the powers and duties discussed above. AGDC may use money appropriated to the Alaska liquefied natural gas project fund “without further appropriation . . . for purposes related to an Alaska liquefied natural gas project . . . .”<sup>7</sup> AGDC may therefore use money appropriated to this fund for future AKLNG Project cash calls and expenses associated with the TransCanada interest it acquires.

In summary, Senate Bill 138 amended AGDC’s statutory purpose, powers and duties, and funds to provide AGDC with the authority and ability to acquire TransCanada’s interest in the AKLNG Project gas treatment and pipeline facilities. No statutory amendments are necessary for AGDC to acquire TransCanada’s interest in the AKLNG Project.

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<sup>7</sup> AS 31.25.110.

# RIGHTS TO TERMINATE

## TC can terminate if:

- Terms of Key Project Agreements unacceptable to TC
- State fails to execute the FTSA by December 31, 2015, including if parties cannot agree on FTSA terms
- Regulatory approvals are unacceptable to TC
- JVA is terminated or expires without entry into a FEED Agreement
- Transporter Condition(s) are not satisfied
- State refuses to approve TC request to increase budget
- State defaults
- Discriminatory change in law that cannot be reasonably mitigated

## State can terminate if:

- Terms of Key Project Agreements unacceptable to State
- TC fails to execute the FTSA by December 31, 2015, including if parties cannot agree on FTSA terms
- Prior to positive FEED decision, State can terminate with 90 days notice
- Regulatory approvals are unacceptable to the State
- JVA is terminated or expires without entry into a FEED Agreement
- TC withdraws from JVA
- Shipper Condition(s) are not satisfied
- TC defaults

# TERMINATION OUTCOMES

## If TC Terminates PA:

### Development Costs

- State must pay TC's development costs

### Carrying Costs

- State pays carrying costs on development costs if the State is the cause of the TC's termination decision (e.g. State default or legislature fails to approve FTSA on terms acceptable to TC)
  - State does not pay carrying costs if termination is caused by TC's actions (e.g. TC decides not to execute FTSA).
- State must pay carrying costs on the development costs if the PA expires.
- The applicable carrying cost is 7.1%

### Late Fees

- State must be prepared to pay TC development costs as soon as about 40 days after terminating the PA, and after no more than about 70 days
  - Higher interest rate for late payments (LIBOR plus 10%) starts accruing 90 days after payment due date

## If SOA Terminates PA:

### Development Costs

- State must pay TC's development costs

### Carrying Costs

- State must pay carrying costs on development costs (except if TC defaults)
- State must pay carrying costs on the development costs if the PA expires.
- The applicable carrying cost is 7.1%

### Late Fees

- State must be prepared to pay TC development costs as soon as about 40 days after terminating the PA, and after no more than about 70 days
  - Higher interest rate for late payments (LIBOR plus 10%) starts accruing immediately after payment due date

# State of Alaska

*Bill Walker, Governor*

*Office of Management and Budget*

*PO Box 110020*

*Juneau AK 99811-0020*

*(907) 465-4660, fax 465-3008*

## **FY2016 Supplemental Request for State Agencies - \$13.6 Million**

### **Background – Roles and Responsibilities**

The AKLNG state gas team consists of representatives from the Department of Natural Resources (DNR), Department of Revenue (DOR), Department of Law (DOL), and Office of the Governor (GOV), as well as subject matter experts from other state agencies and external consultants. The AKLNG state gas team is primarily responsible for:

- negotiating critical commercial agreements for the Alaska LNG Project with the Producer parties (ExxonMobil, BP, and ConocoPhillips);
- developing a plan to market and dispose of the State's share of project gas for in-state use and LNG exports;
- evaluating, and if it's in the best interest of the State, modify existing lease structures to accommodate the State taking tax-as-gas and royalty in-kind;
- negotiating Property Tax for the Payment in Lieu of Taxes (PILT) and Impact Payments during construction;
- assuring the project allows for adequate expansion for new discovery and alternative gas supplies; and
- assuring the pipeline is adequately designed to provide supply to meet in-state gas demand (demand is determined by the Alaska Gasline Development Corporation).

In addition to the state agencies, the Alaska Gasline Development Corporation (AGDC) is a party to the Alaska LNG Project and deals with specific project and infrastructure issues.

### **FY2016 AKLNG State Gas Team Supplemental Request Summary**

The coming months are critical for the Alaska LNG Project. The AKLNG state gas team continues to work diligently in crafting agreements to move the project forward and begin to plan for the next phase of the project, specifically in marketing the State's share of gas.

Under SB 138, the DNR Commissioner was given the authority to participate in negotiation of contracts for marketing of the state's gas and in consultation with the DOR Commissioner take custody of gas delivered to the state under AS 43.55.014(b) and manage project services and disposition and sale of that gas. The need for a marketing organization within DNR is an important step in preparing for successful sale of gas under the Alaska LNG Project or an alternative project. Gas sales contracts typically need to be negotiated before a LNG project can proceed into construction. With assistance provided by expert consultants Black & Veatch on staffing needs and market rates for key personnel, the DNR North Slope Gas Commercialization (NSG) is requesting funds to begin developing a gas marketing organization required to attract the necessary expertise to compete with global marketing organizations. Further detail on the marketing structure is provided later in this document.

The DNR NSG did not receive the full \$13,186.7 requested for FY2016. The project workload has increased significantly over the past several months in preparation for a special session and the currently appropriated FY2016 budget for the NSG is insufficient to cover projected expenses and the need to begin ramp up of a

marketing effort. We expect the workload to remain steady through the remainder of FY2016 and therefore are submitting a supplemental budget during the fall special session.

Should the AKLNG state gas team not receive supplemental funding, important project work will come to a halt. Instead of moving the project forward, critical DOL and DNR contracts would not be able to continue and many subject matter experts from the DNR and DOR would be laid off. Further, the State will be unable to compete with international gas marketers. It is important the DNR begin to develop the capability during the second half of FY2016 to be fully positioned to sign sales agreements which will underpin a Final Investment Decision in 2018 or 2019 to proceed to construction.

**Department of Natural Resource's NSG LNG Supplemental Request**

The FY2016 projected supplemental request for DNR is estimated at **\$2,126,000**.

**New DNR NSG Marketing Structure**

Please note the Marketing Lead is not a new position, it is a current vacant position but an increase in salary will be required to attract a candidate with the level of global LNG marketing experience required to help the State build a successful gas marketing organization to remain competitive. Projections are for December 1, 2015 – June 30, 2016.

| <b>Position</b>   | <b>Description</b>   | <b>FY16 Projected (salary + benefits)</b> |
|-------------------|--|---|
| Marketing Lead    | Existing Position – additional funding for level of expertise required           | \$480,000                                 |
| Marketing Analyst | New Position Request – manage marketing portfolio & risk under direction of Lead | \$166,000                                 |
| <b>TOTAL</b>      |  | <b>\$646,000</b>                          |

**Additional DNR FY16 NSG Contractual Services**

DNR was given procurement exemptions under SB 138 section 22. DNR's exemption is specific to contracts for professional and technical services to support the development of agreements and contracts under AS 38.05.020(b)(10) and (11) to help facilitate coordination of contract work for a large integrated project such as this. It is anticipated that an additional **\$1,479,800** will be required in contractual services.

| <b>Budget Item</b>              | <b>FY16 Allocated</b> | <b>FY16 Projection</b> | <b>FY16 Supplemental Request</b> |
|---------------------------------|-----------------------|------------------------|----------------------------------|
| DNR Contractual Services        | \$7,115.0             | \$8,015.0              | \$900.0                          |
| Other DNR Agency AKLNG Expenses | \$0.0                 | \$579.8                | \$579.8                          |
| <b>TOTAL</b>                    | <b>\$7,115.0</b>      | <b>\$8,594.8</b>       | <b>\$1,479.8</b>                 |

Below is a list of existing contracts. Some may need to be extended and additional contracts are currently being negotiated or have been identified for work related to FERC resource reporting reviews and drafting, facilities review for commercial aspects, commercial analysis and support, and audits associated with termination of TransCanada.

**FY16 Existing Contracts:**

| <b>Contractor</b> | <b>Contract Admin</b> | <b>Contract Period</b>   | <b>FY16 Projected</b> |
|-------------------|-----------------------|--------------------------|-----------------------|
| Audie Setters     | DNR                   | Sept 2014 – October 2015 | \$170,000             |
| Black & Veatch    | DNR                   | Sept. 2014 – June 2016   | \$2,200,000           |
| Greengate LLC     | DNR                   | July – September 2015    | \$300,000             |
| Nan Thompson      | DNR                   | July – September 2015    | \$200,000             |
| Pingo             | DNR                   | January 2015 – July 2016 | \$240,000             |
| Simon Lisiecki    | DNR                   | May 2015 – June 2016     | \$100,000             |

| Contractor      | Contract Admin | Contract Period      | FY16 Projected     |
|-----------------|----------------|----------------------|--------------------|
| Steve Swaffield | DNR            | Aug 2014 – Dec 2015  | \$120,000          |
| Steve Wright    | DNR            | Aug 2014 – June 2016 | \$336,000          |
| Subtotal        |                |                      | <b>\$3,666,000</b> |

**Other FY16 DNR AKLNG Project Related Personal Services – RSA to DNR**

An additional \$580,000 will cover the significant workload associated with the AKLNG Project placed on other Divisions, primarily the Division of Oil and Gas as outlined in the table below:

| Position                           | Description                                      | FY16 Projected (salary + benefits) |
|------------------------------------|--|------------------------------------|
| Deputy Commissioner                | Project support – 50 percent of time             | \$129,217                          |
| Petroleum Reservoir Engineer – DOG | Upstream Team support – 10 percent of time       | \$25,174                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Petroleum Reservoir Engineer – DOG | Upstream Team support – 10 percent of time       | \$21,575                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$24,750                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Petroleum Geologist – DOG          | Upstream Team support – 10 percent of time       | \$25,194                           |
| Commercial Analyst – DOG           | Upstream Commercial support – 80 percent of time | \$158,890                          |
| Commercial Analyst – DOG           | Upstream Commercial support – 90 percent of time | \$144,656                          |
| <b>TOTAL</b>                       |  | <b>\$579,844</b>                   |

**Department of Revenue’s LNG Supplemental Request**

The supplemental budget request for Revenue includes both operating and capital budget requests. The total projected supplemental request for this project from Revenue is estimated at \$1,381,000 for the remainder of FY2016.

**FY16 DOR AKLNG Project Related Personal Services**

The personal services funding will support Revenue’s work on fiscals, project financing, governance, and the revenue aspects of marketing and taxes.

| Position                 | Description   | FY16 Projected (salary + benefits) |
|--------------------------|---|------------------------------------|
| Deputy Commissioner      | Focuses on fiscals, finance, governance and tax deliverables – 90 percent of time | \$214,934                          |
| Audit Master             | Focuses on upstream deliverables - 90 percent of time                             | \$192,505                          |
| Audit Master             | Focuses on property tax, some upstream deliverables - 75 percent of time          | \$179,111                          |
| Commercial Analyst       | Focuses on fiscals, finance, and property tax deliverables - 50 percent of time   | \$86,906                           |
| Chief Economist          | Focuses on marketing and finance deliverables - 10 percent of time                | \$18,695                           |
| Petroleum Economist      | Focuses on revenue aspects of marketing deliverables - 10 percent of time         | \$13,216                           |
| Petroleum Economist      | Focuses on property tax deliverables - 25 percent of time                         | \$36,062                           |
| State Investment Officer | Focuses on finance deliverables - 5 percent of time                               | \$18,632                           |
| State Investment Officer | Focuses on finance deliverables - 5 percent of time                               | \$18,632                           |
| State Investment Officer | Focuses on finance deliverables - 5 percent of time                               | \$14,744                           |
| <b>TOTAL</b>             |   | <b>\$793,437</b>                   |

**FY16 DOR Travel and Contractual Services**

Revenue is also requesting \$87,000 for travel expenses and other related expenses related to performing work services for AKLNG. Revenue is also requesting \$500,000 for contractual costs to fund AKLNG Project “Bankability” review of project financing.

**Department of Law’s LNG Supplemental Request**

**FY16 Law Contractual Services**

The supplemental budget request for Law includes a \$10,100,000 operating budget requests for contractual services with other law firms to assist in drafting, negotiating and reviewing AKLNG contracts with the producers, to provide legal and regulatory support for state participation in the project. Currently under contract are Greenberg Traurig and Milbank, Tweed, Hadley & McCloy.

| <b>Budget Item</b> | <b>FY16 Allocated</b> | <b>FY16 Projection</b> | <b>Difference</b>  |
|--------------------|-----------------------|------------------------|--------------------|
| Milbank            | 2,300.0               | 10,000.0               | 7,700.0            |
| Greenberg Traurig  | 2,000.0               | 4,400.0                | 2,400.0            |
| Jones Day          | 100.0                 | 100.0                  | 0.0                |
| DOL Internal costs | 200.0                 | 200.0                  | 0.0                |
| <b>TOTAL</b>       | <b>\$4,600.0</b>      | <b>\$14,700.0</b>      | <b>-\$10,100.0</b> |

\*Law’s allocation includes \$3 million from DNR, and \$700.0 from the FY16 regular budget. and \$900.0 remaining from a FY2014 capital appropriation to AGDC.

**DNR Costs Associated with TransCanada Buyout – RSA from AGDC**

State is faced with a December 31, 2015 deadline to make a decision on whether to buy back TransCanada’s share and take a direct equity participation in the AKLNG midstream. To do so would require termination of the PA. If the Legislature agrees that AGDC take control of the Midstream component of the Alaska LNG Project, the TransCanada Alaska Midstream Limited Partnership (TAMLP) partnership interests will be acquired for \$1 and TransCanada will be owed for its accrued costs in the Project, which are estimated to be ~\$68,445,000 at the end of 2015.

The amount owed to TransCanada is the responsibility of DNR under the current Precedent Agreement between DNR and TransCanada. Once the agreement is terminated, AGDC will require additional operational funding to carry the midstream costs through the end of FY2016.

**State of Alaska  
AKING Integrated  
State Gas Team  
10.26.15**

**Color Key:**  
Green = State Employees  
Blue = Contractors/Consultants  
Orange = AGDC

