

09 - 09 - 15

ALASKA

LNG

PROJECT

UPDATE

<TARGET><BILL></BILL><SUBJECT>09-09-15 ALASKA LNG
PROJECT UPDATE</SUBJECT><COMM>HRES29</COMM></TARGET>

Introductory Remark

Good evening Madame Chair and Senators and Representatives. For the record my name is Dan Fauske and I am the President of your gas-line company, the Alaska Gasline Development Corporation. We are here tonight to present the quarterly Legislative update mandated by Senate Bill 138.

You just heard the technical update from Steve Butt and I think you will agree that the AKLNG Technical Team is doing well progressing the design, engineering, and permitting on the AKLNG Project.

However, the State team is very concerned about the lack of progress on many of the key commercial and fiscal issues. The process we are currently involved in assumes that all parties are equally motivated to getting a project built as soon as possible within reasonable engineering and design constraints. That may have been an unreasonable assumption given the different alternatives and economic considerations of each party. In the State Gas Team's opinion, the progression of the following key agreements will not allow them to be completed in time for a special session this fall:

- Gas balancing negotiations are at a virtual standstill with little progress amongst all parties having been made in the last several months. This is a critical issue that needs to be resolved for the process to move forward;
- Commercial agreements including governance and operating agreements are being negotiated but are not on schedule for a review by the Legislature in this calendar year;
- A Tax Stability Agreement, historically referred to as a fiscal agreement, has yet to be agreed, and there is little common ground between the Parties;
- Provisions for withdrawal by a party which would allow the State to proceed without interruption or delay if a party wanted to withdraw have yet to be agreed. In addition there is no agreement on milestones to insure that the parties are reasonably progressing the project. The failure to meet the milestones with out good cause would result in a loss of the fiscal stability provisions.

Without these foundation agreements, it will not be possible for the State Gas Team to present a project to the Legislature for review this fall. The State Gas Team does not intend to bring an incomplete package to the Legislature and expect a decision from you on a change to the Constitution to give the Producers the tax certainty they desire.

However, there are policy decisions including issues related to the State's participation and interim funding necessary for continuing the State's participation that may need to be resolved by a special session before the end of this calendar year.

On behalf of the State Gas Team, I thank you for your continued support of AGDC and the State's participation in the AKLNG Project.

1. AGDC views the conditions / milestones required to make a decision to proceed to FEED are primarily technical in nature and must include successful delivery of key Pre-FEED work products and deliverables. Those work products are now targeted for completion in early to mid 2016.

2. The deliverables for Pre-FEED are all necessary for a positive FEED decision, and those are clearly addressed by the Pre-FEED Joint Venture Agreement. While those are mostly technical deliverables, there are also commercial agreements that will need to be completed to ensure there is a commercial foundation in place for FEED.

Anticipating that there may be a concern by one or more Producers to make any commitment to enter FEED until the constitutional amendment authorizing the Fiscal Agreement has been passed during the November 2016 General Election, the SOA has offered that if the Producers make a conditional commitment to enter FEED in advance of the general election, the State will fund its share of FEED expenditures, estimated to be \$400-500M, to meet all FEED cash calls through the election, which will be the condition precedent for all Parties to enter FEED officially without further conditions.

3. The State has achieved tentative alignment on a property tax structure subject to MAGPR review that includes:

- Impact payments during construction
- Flow-related property tax mechanism after startup
- MAGPR meeting scheduled Sept 23 in Fairbanks to review property tax proposal
- To discuss alternative legislation to implement property tax structure

4. A decision on TC's role in the equity of the project must be made quickly. The failure to make that decision will substantially impair the ability of the parties to move the Process forward. TC's participation in the project is very expensive for the State of Alaska and reduces alignment between the SOA and the Producers. If TC is in the project, the SOA cannot act as a full partner with the producers, and its information and control over the entire project is reduced. While AGDC currently owns 25% of the LNG facilities, if the SOA terminates the TC relationship, AGDC will own 25% of the entire project. Uncertainty over the status of TC is holding up governance and LLC agreements. DNR retained B&V to do an extensive study of the pros and cons of terminating TC's status in the project. That project has been completed and has concluded that it may be advantageous to the SOA for the relationship to be terminated. If this decision is made, it will be brought before the Legislature and the report and analysis will be provided at that time.

5. No. As stated in my introductory statement, we are very concerned with the lack of agreement on Fiscal Terms. The Governor and his administration firmly believe that inadequate progress has been made in advancing and completing a fiscal agreement for the AKLNG Process.

6. We support bringing a resolution on a Constitutional Amendment to the Legislature only if it is accompanied by key fiscal and commercial agreements that fully describe the State's participation in the Project.

7. Rigdon Boykin is leading the State's Gas Team and is briefing the Governor and me daily. Questions about the team's day-to-day activities and engagement can be directed to me or Joe Dubler.

8. The costs for AGDC for the FEED segment of the AKLNG Process will need to be funded through Legislative Appropriations. It is anticipated that amount could approach \$1 billion. Appropriation authority lies with the Legislature, but it is likely that those appropriations will need to be made from either the Earnings Reserve of the Permanent Fund or the Constitutional Budget Reserve. Once the parties have made a positive Final Investment Decision, a project financing will likely provide the majority of the remaining investment by the State.

9. The process we are currently involved in allows the pace of the project to be dictated by any party. Because of this the State needs to ensure that if the process fails for any reason, the State will be able to continue progressing a project to commercialize North Slope gas. The only way for it to commercialize North Slope gas is if it has access to that gas, which is an underlying principle of the withdrawal process.

Specifically, the State will require the following from each withdrawing party:

- (i) such party's equity in the project company and in the LLC Members' Agreement;
- (ii) Each Producer must agree to sell gas or ship gas through the project; and
- (iii) All rights to receive project data/assets (technical or otherwise) produced during the Pre-FEED process up to the point of withdrawal.

10. In the State Gas Team's opinion a gas balancing agreement among all producers will not occur in time to meet a special session deadline for this fall.

11. DNR to answer.

Concluding Remark

I once again thank you for your continued support of the AKLNG Project. I believe that all of us share the goal of commercializing North Slope gas through a large-scale LNG export project. The timing of large infrastructure projects is critical to their

success, particularly when competing in the global LNG market. We therefore must move a Project expeditiously to completion. I assure you that, even though we are disappointed with the lack of progress in the current process, the State Gas Team continues to effectively represent Alaska's best interests.

Alaska LNG™

Fueling Alaska's Future



SEPTEMBER 2015

Project Update

Alaska LNG – Project Overview

Alaska LNG™

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

Gas Treatment Plant (GTP)

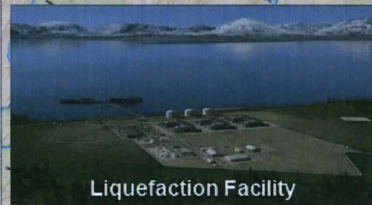
- 3.3 BCFD peak winter rate
- Three trains with compression, dehydration and chilling for gas conditioning (remove impurities)
- CO₂ removed and compressed for injection at PBU



Gas Treatment Plant

LNG Storage & Marine Terminal

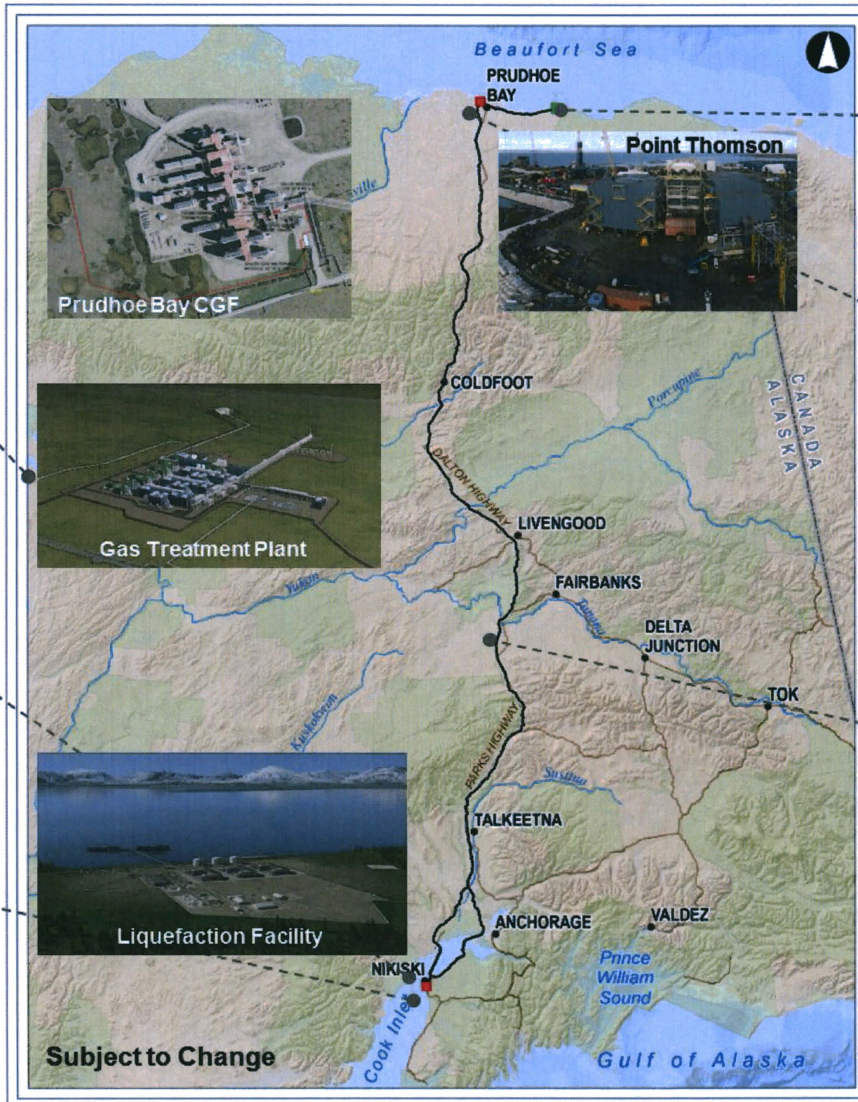
- LNG storage tanks
- Two jetties to accommodate 15-20 LNG carriers per month



Liquefaction Facility

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



Subject to Change

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 CO₂ 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



TransCanada

Alaska LNG – Project Overview

Alaska LNG™

Safety, Health and Environment Report:

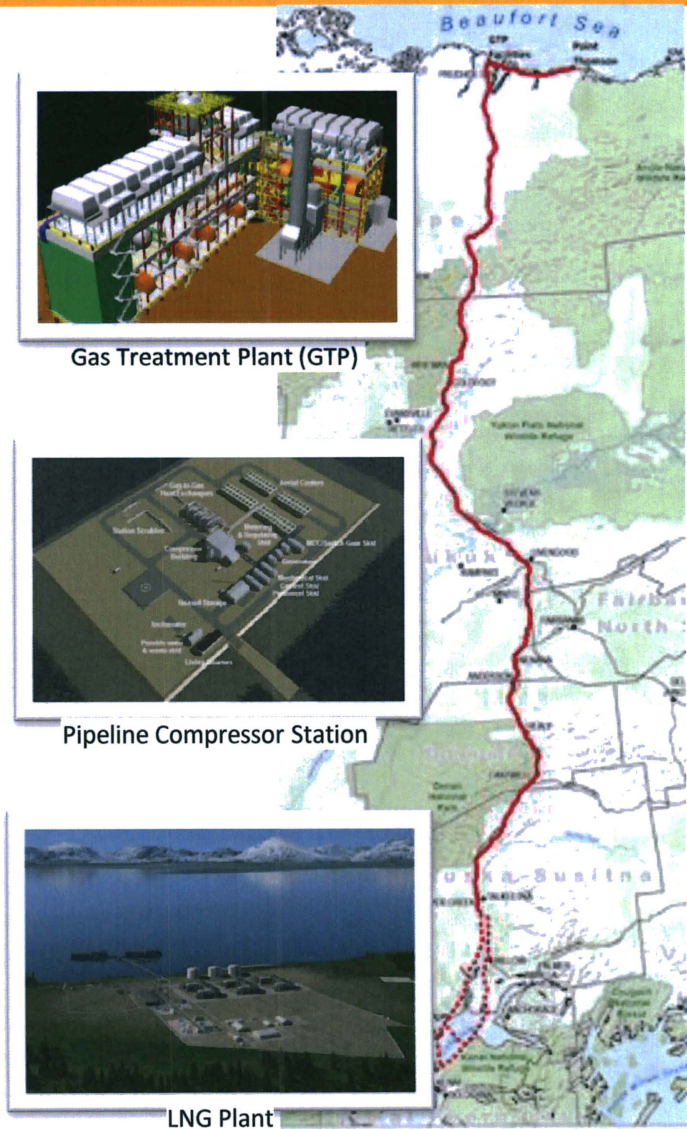
- * Building culture of caring – tracking near misses and first aids

Executive Summary:

- * Spend: \$243M on pre-FEED through July 2015
- * Initial design scope ~75% complete, 2015 field work ~50% complete
- * Finalizing project design/execution basis (cost and schedule estimates)
- * Ongoing collaboration with regulators at local, State and Federal levels
- * Community open-house sessions continuing with FERC participation
- * Progressing work to evaluate 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



Gas Treatment Plant (GTP)

Pipeline Compressor Station

LNG Plant

LNG Plant and Marine Terminal Update **Alaska LNG™**

Initial design scope 72% complete through end of July

Actively acquiring land, purchased ~600 acres in Nikiski

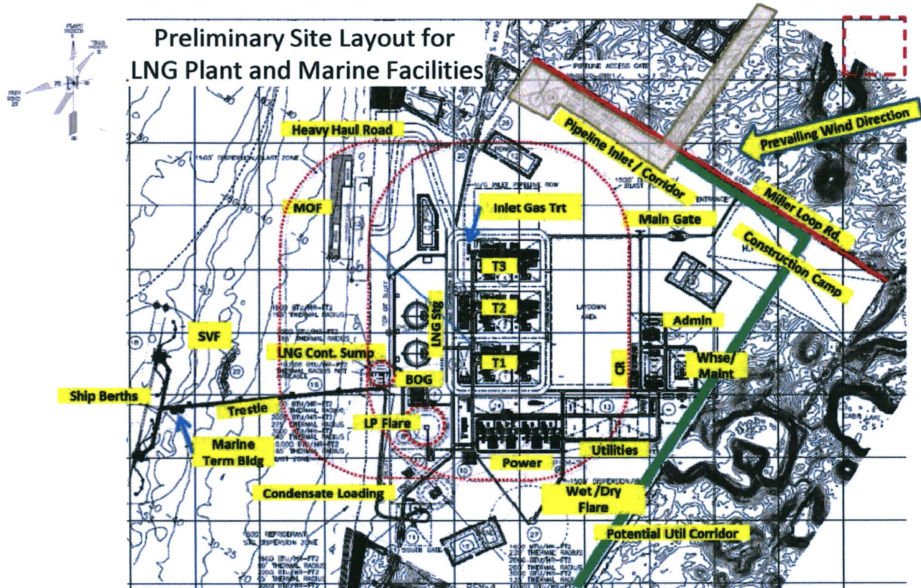
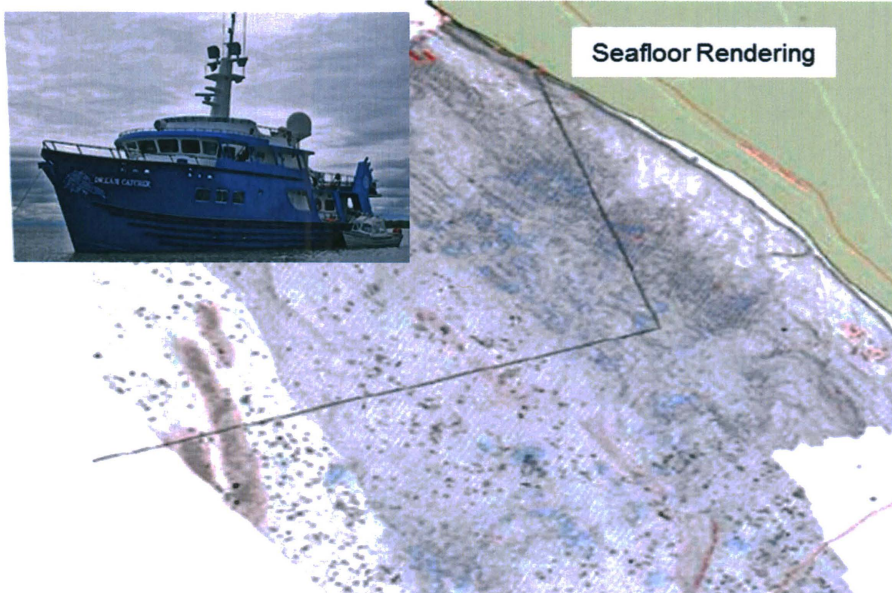
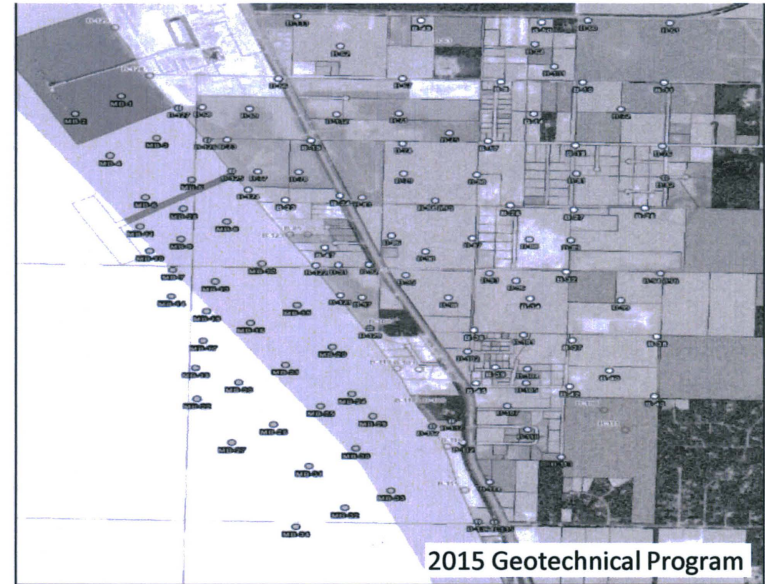
Evaluating alternative layouts, driver selection complete

Continuing to improve marine facility design and operations

- ✦ Collecting sea floor and metocean data
- ✦ Incorporating findings from navigation simulation

Continuing geotechnical assessment onshore and offshore

Focusing on fabrication / modularization to reduce costs



Pipeline Update

Initial design scope 78% complete through end of July

Pipeline materials design and testing in progress

- ✦ Evaluating weld development / procedures
- ✦ Evaluating alternative coating designs / applications
- ✦ Ordering 48" test materials (targeted 1st arrival 1Q16)

Working with federal pipeline regulator (PHMSA) to confirm design basis and align on special permit conditions

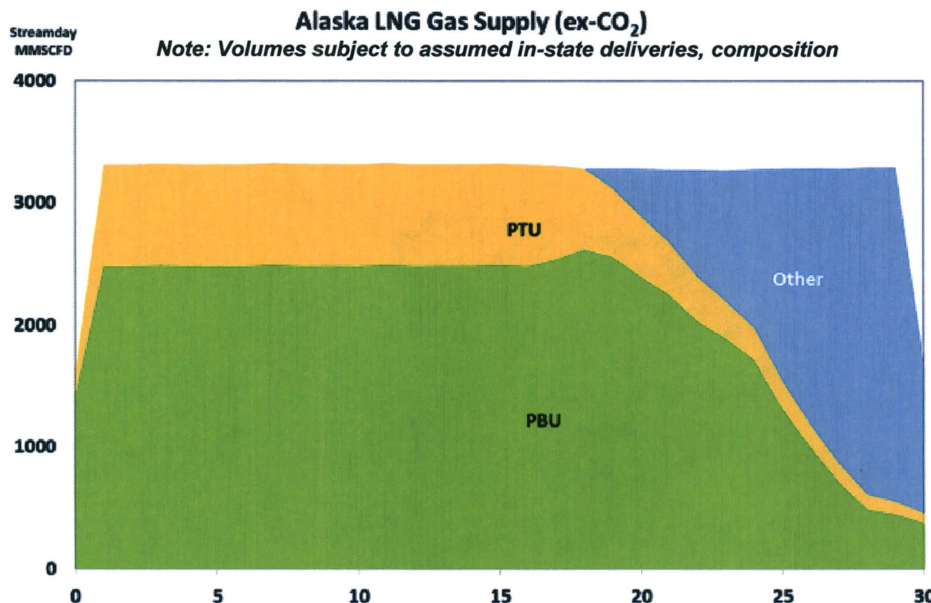
Continued data exchange / collaboration with AGDC on route, design, execution planning and in-state offtakes

Evaluating cost / schedule impacts of a 48" pipeline system



42" Pipeline Testing Program

| | 42" PIPELINE | 48" PIPELINE |
|-------------------------------|---|---|
| Design Peak Capacity from GTP | 3.3 BCFD | 3.3 BCFD |
| Peak to LNG (Annual Average) | 2.8 BCFD (2.7 BCFD) <i>(Net of fuel and in-state gas)</i> | 2.8 BCFD (2.7 BCFD) <i>(Net of fuel and in-state gas)</i> |
| Capex / Opex | Lowest capex | Higher capex, lower opex |
| Compression | Base: 8 stations - Operating redundancy | Base: 4 - 5 stations - Less fuel |
| Expansion | Single train expansion with 10 additional stations | Single train expansion with 5 additional stations |
| Construction Risk | More construction risk than typical pipelines in U.S. - pipe 22% heavier than other NA gas pipelines | More construction risk than 42", 59% heavier than typical - more equipment, gravel, truckloads - CI crossing complexity |
| N American Content | Available for non-strain based design sections (~ 80 - 90%) | No relevant experience suitable for Alaska today |
| Schedule | Base Case | Potential 6-8 month impact to FEED decision |



Gas Treatment Plant Update

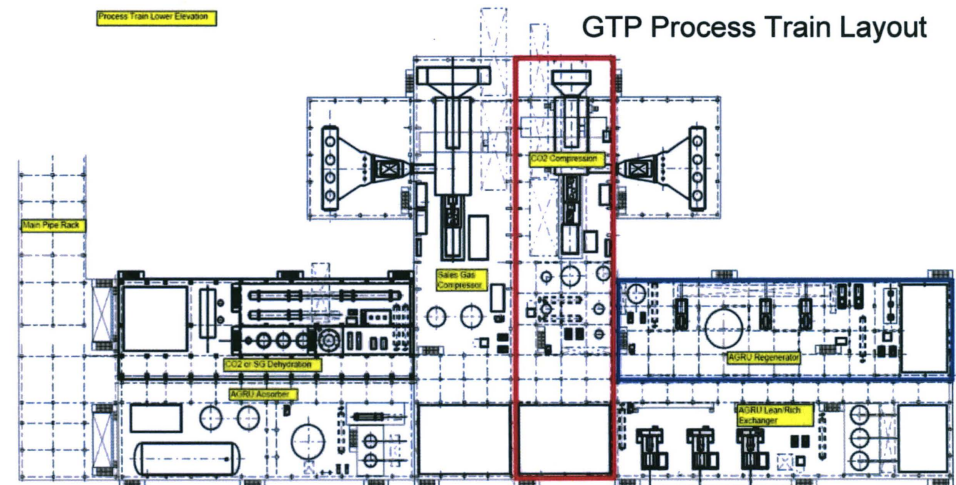
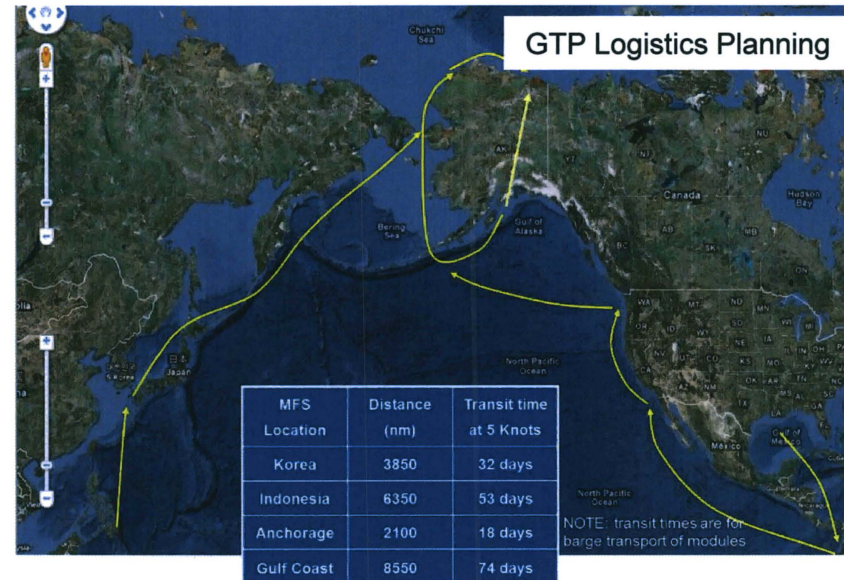
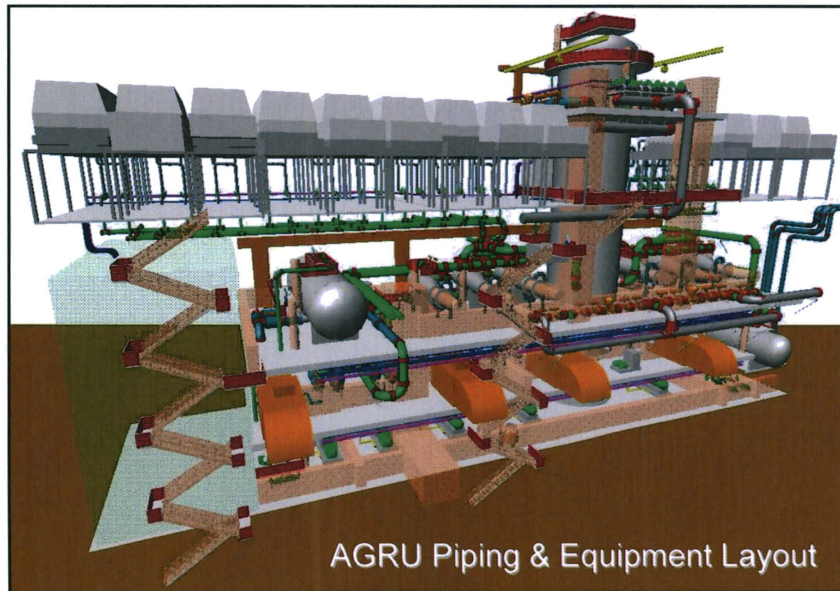
Initial design scope 86% complete through end of July

Completed geotechnical assessment, confirmed soils, access to gravel, water resources

Using 3D modeling of Acid Gas Rejection Unit (AGRU), CO₂ compression piping and equipment layout for cost estimates and constructability.

Working integrated design issues with PBU

Working with FERC to define engineering information required to complete NEPA process



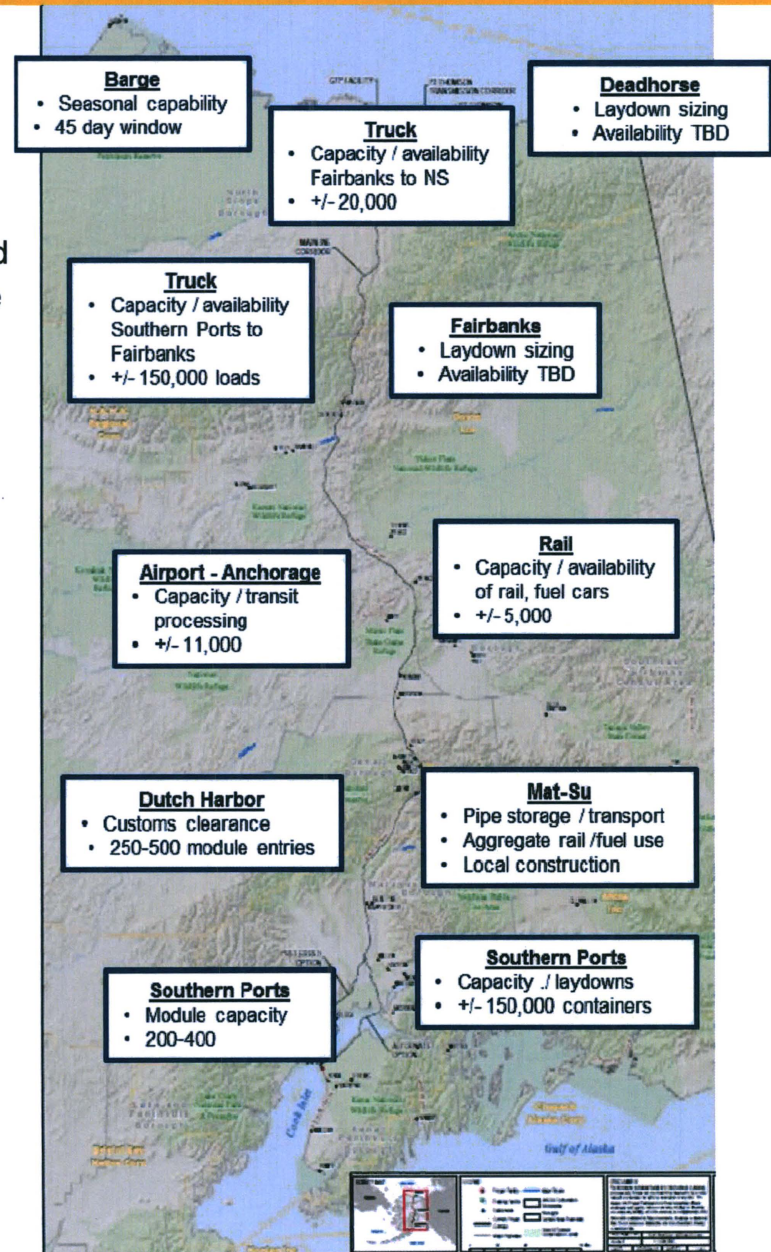
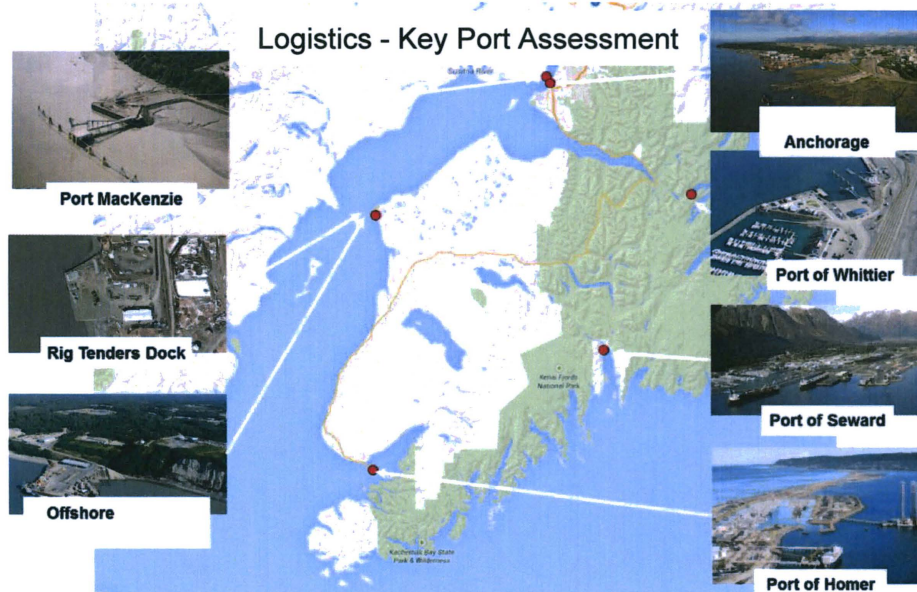
Integrated Logistics Update

Initial logistics and infrastructure analysis complete (roads, trucks, ports, marine vessels, airports, rails, fuel, etc.)

Preliminary findings include:

- ✦ Sufficient capacity in key ports with some modernization already planned
- ✦ Potential pinch points identified with Alaska based trucking, railroad pipe cars, air transport capacity for personnel, camp infrastructure and the Alaska Marine Highway – developing plans to resolve
- ✦ Jones Act compliant vessels for pipe, break-bulk cargo are limited

Modeling costs / schedule implications of existing infrastructure



Integrated Labor Update

Progressing labor analysis with key stakeholders:

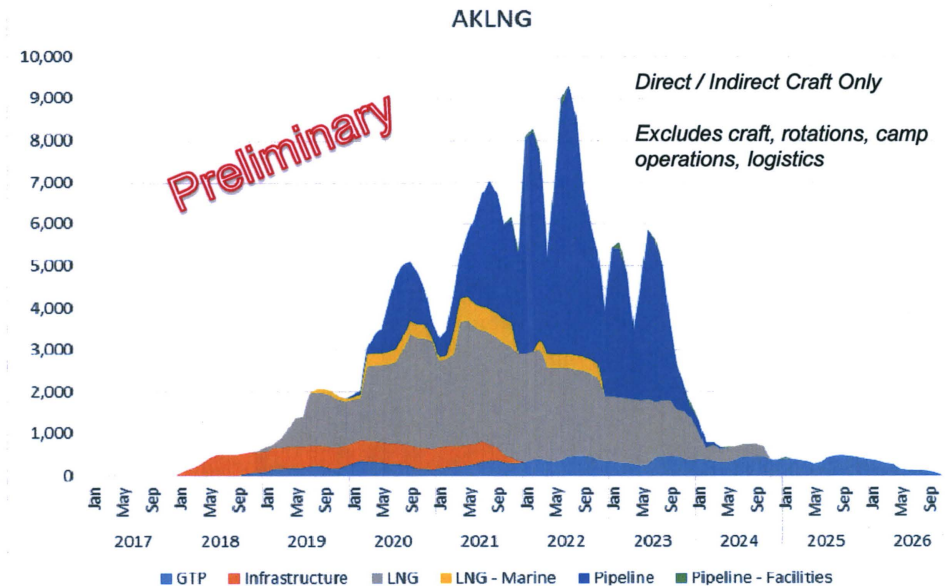
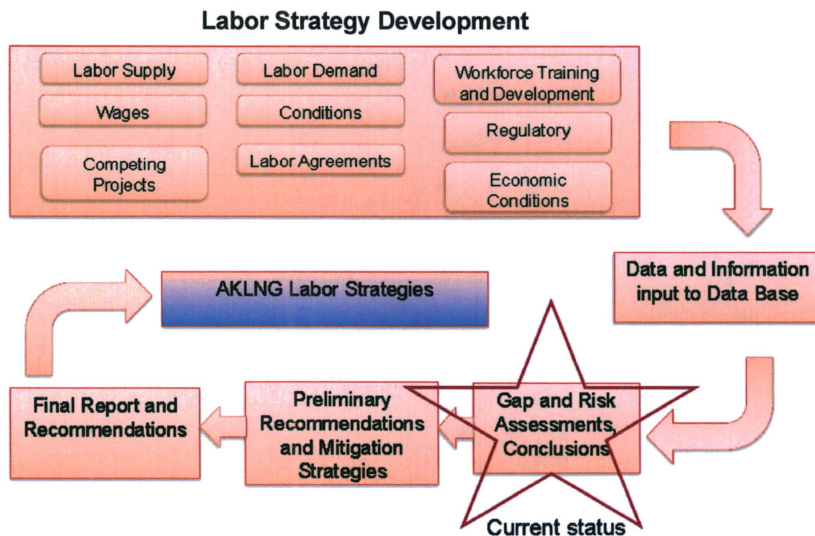
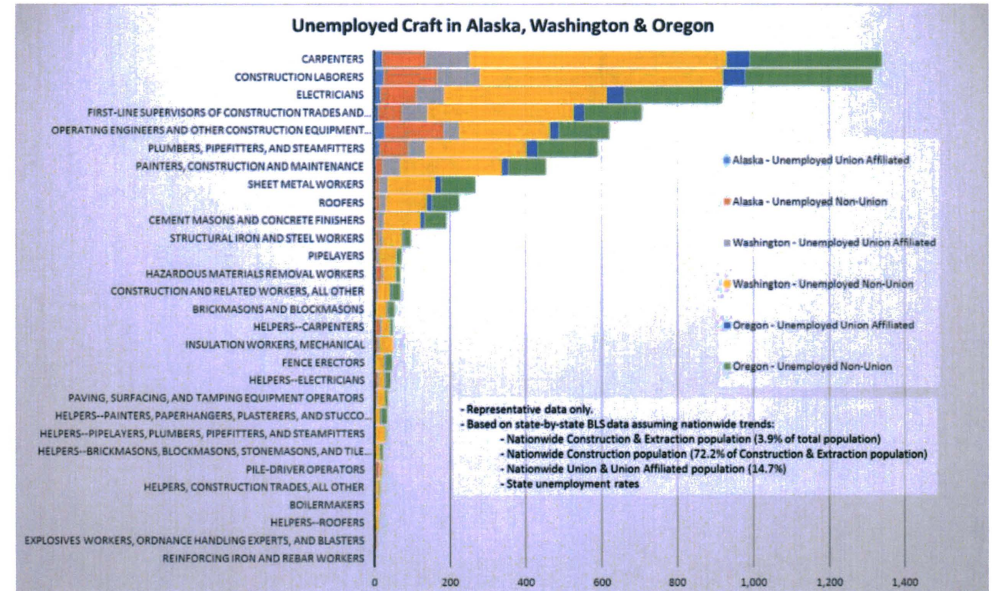
- ✦ Labor unions and merit based associations,
- ✦ Alaska Department of Labor, State representatives
- ✦ Alaska Native regional and village corporations
- ✦ Federal officials, national databases

Initial Focus on 9 Key Craft Types: Boilermakers, Carpenters, Electricians, Insulators, Iron Workers, Laborers, Operating Engineers, Pipefitters, Teamsters

Maximize use of qualified Alaska Hires

Work in progress (complete by YE15), early findings:

- ✦ Construction demand significantly greater than currently available Alaskan workforce
- ✦ Access to all sources of Alaskan labor required
- ✦ Risk from competing industrial demand to be mitigated



Summer Field Season / Regulatory Work Alaska LNG™

200+ people / 225,000+ hours in the field

- ✦ Collected engineering, environmental, social, and cultural data to support regulatory filings and permitting
- ✦ Supported the routing and siting of Project facilities

Engineering and Field Work to support National Environmental Policy Act (NEPA) underway

- ✦ Developing second draft Resource Reports 1-12 with updated analysis of project impacts (1Q2016 submittal)
- ✦ Timing allows stakeholder input for October 2016 filing

Pre-Filing

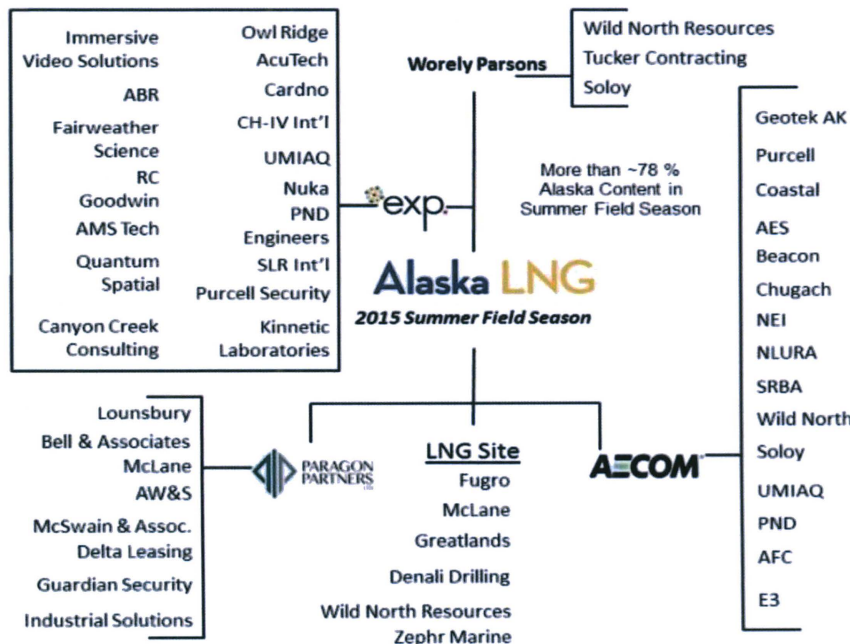
Draft Resource Reports

1. Project Description
2. Water Use & Quality
3. Vegetation & Wildlife
4. Cultural Resources
5. Socioeconomics
6. Geological Resources
7. Soils
8. Land Use, Recreation & Aesthetics
9. Air & Noise Quality
10. Alternatives
11. Reliability & Safety
12. PCB Contamination
13. LNG Information

Filing – planned October 2016

Natural Gas Act Section 3 Application

- Exhibit A – Articles of incorporation and bylaws
- Exhibit B – Statement of corporate and financial relationships
- Exhibit C – State authorization
- Exhibit D – Agreement between the applicant and border facilities
- Exhibit E – Safety and reliability statement
- Exhibit E-1 – Earthquake hazards and engineering
- Exhibit F – “Final” Resource Reports**
- Exhibit G – Location of facilities
- Exhibit H – Statement regarding additional federal authorizations



External Engagement

Community

- ✦ 90+ community sessions in last 12 months
- ✦ Community meetings continuing to support summer field program
- ✦ FERC scoping meetings planned for fall 2015
- ✦ Legislative & media tours: 4
- ✦ Communications tools: newsletter, ak-lng.com, toll-free line

Alaska Businesses

- ✦ Using Alaska vendors, equipment, residents provides access to valuable local expertise, can reduce cost
- ✦ Business information sessions in Barrow, Fairbanks, Kenai and Anchorage in April with ~ 700 participants
- ✦ Over 500 businesses registered at ak-lng.com
- ✦ Labor & logistics studies

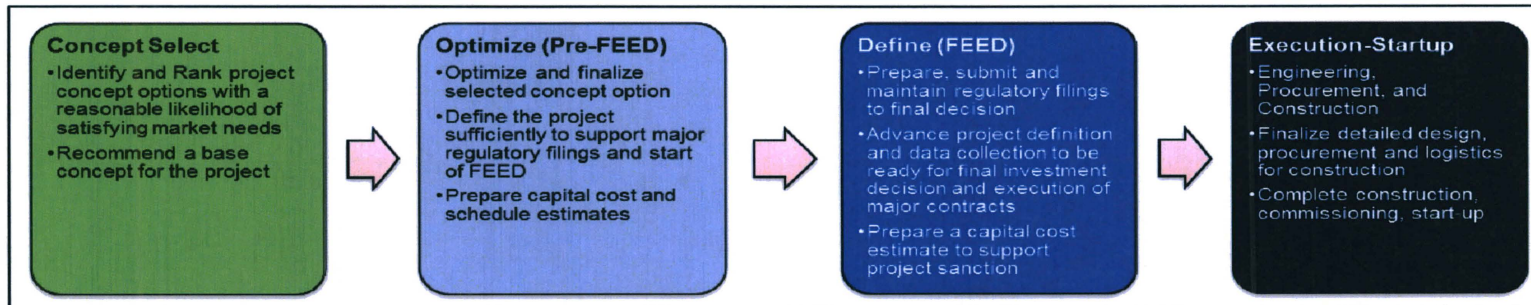
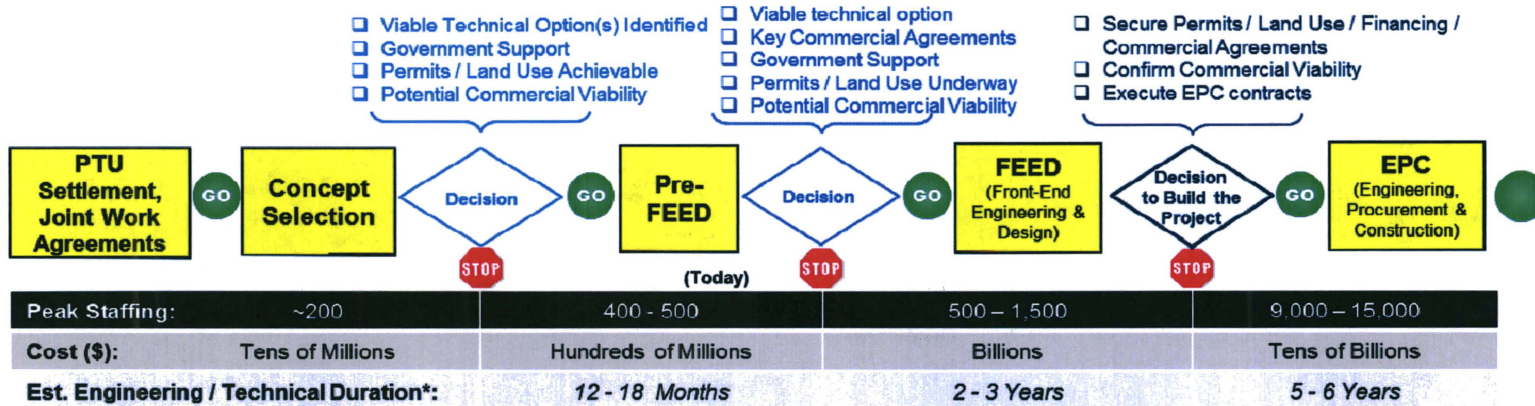
Alaska Native Groups

- ✦ Village and tribal outreach ongoing
- ✦ Engagement with Alaska Native Regional Corporations
- ✦ Involvement in 2015 AFN Conference

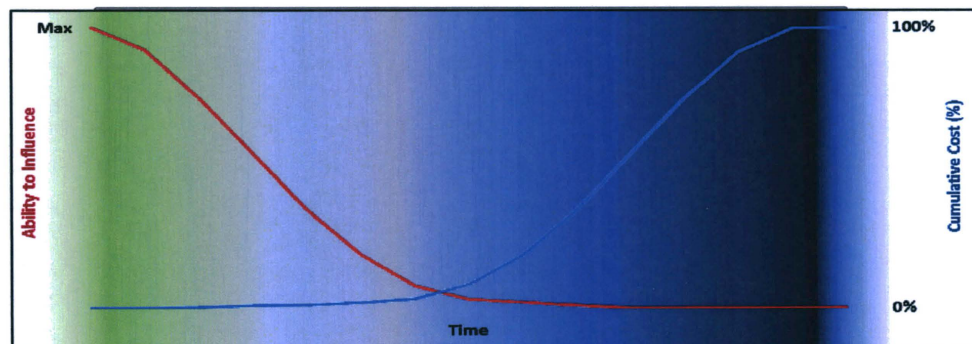


Project Development Phases

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



Project Influence Curve



Alaska LNG by-the-numbers



Technical and field progress

- * \$243M + on pre-FEED through August 15
- * 570+ acres purchased in Nikiski, Alaska
- * 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

Alaska LNG

Project Update

House and Senate Resources
Committees

September 9, 2015

Dan Fauske – AGDC
Vincent Lee – TransCanada

Bill McMahon – ExxonMobil
Dave Van Tuyl – BP
Darren Meznarich – ConocoPhillips

Alaska LNG Project Arrangements

| | | | |
|--|--------------------------------------|----------------|----------------|
| Sponsor Group | Dept. of Nat. Resources | AGDC | ExxonMobil |
| | Dept. of Revenue | TransCanada | BP |
| | | | ConocoPhillips |
| FERC / NEPA Applicants | Dept. of Nat. Resources ¹ | AGDC | ExxonMobil |
| | Dept. of Revenue ¹ | TransCanada | BP |
| | | | ConocoPhillips |
| Joint Venture Parties Project Pre-FEED | | AGDC | ExxonMobil |
| | | TransCanada | BP |
| | | | ConocoPhillips |
| Alaska LNG Project, LLC (DOE Applicant)² | | Future parties | ExxonMobil |
| | | | BP |
| | | | ConocoPhillips |

¹ Consultant role for DNR / DOR

² DOE application also covers any potential State RIK and TAG volumes

Alaska LNG Project Arrangements

Sponsor Group

Dept. of Nat.
Resources

Dept. of
Revenue

AGDC

TransCanada

ExxonMobil

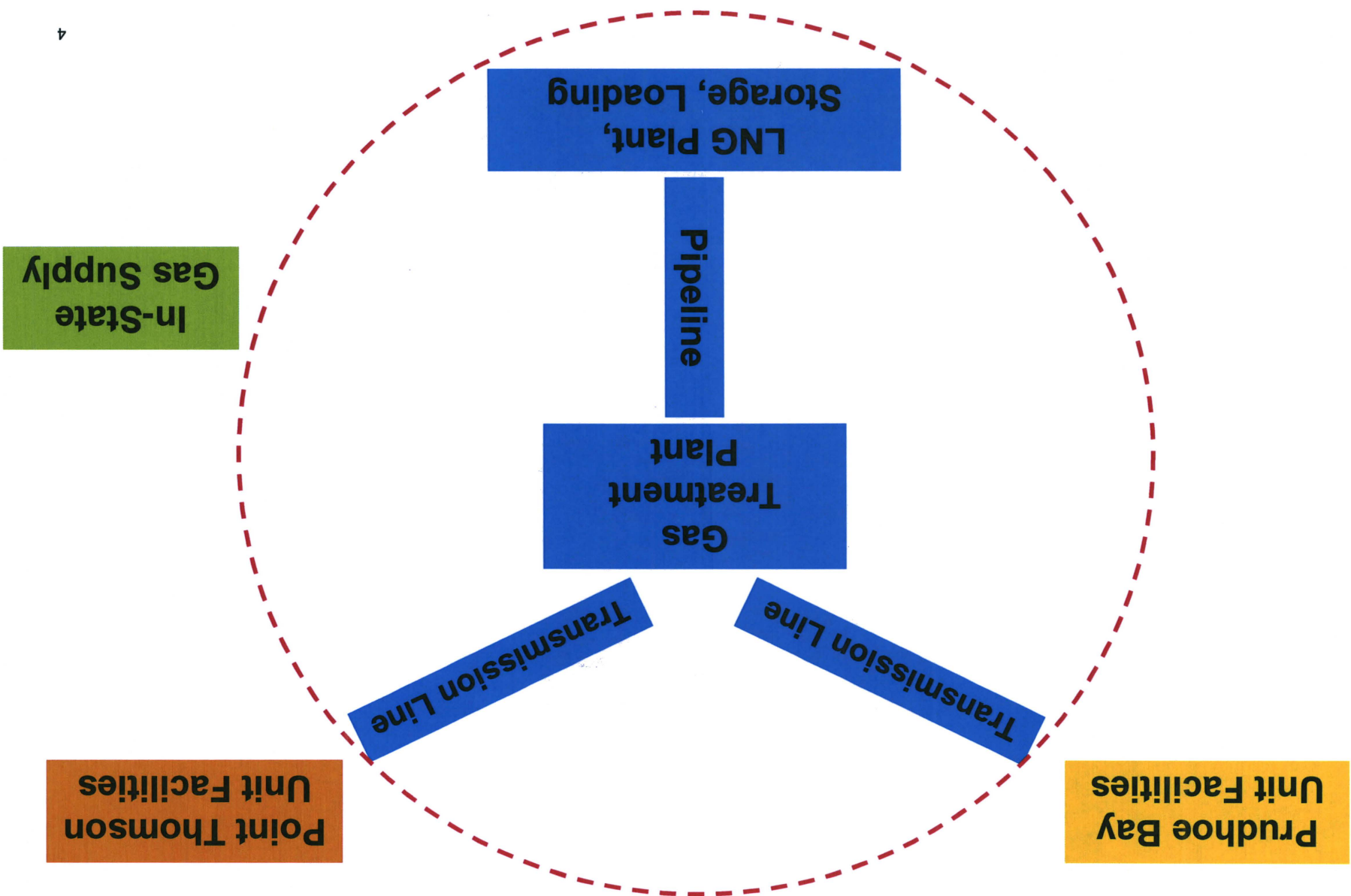
BP

ConocoPhillips

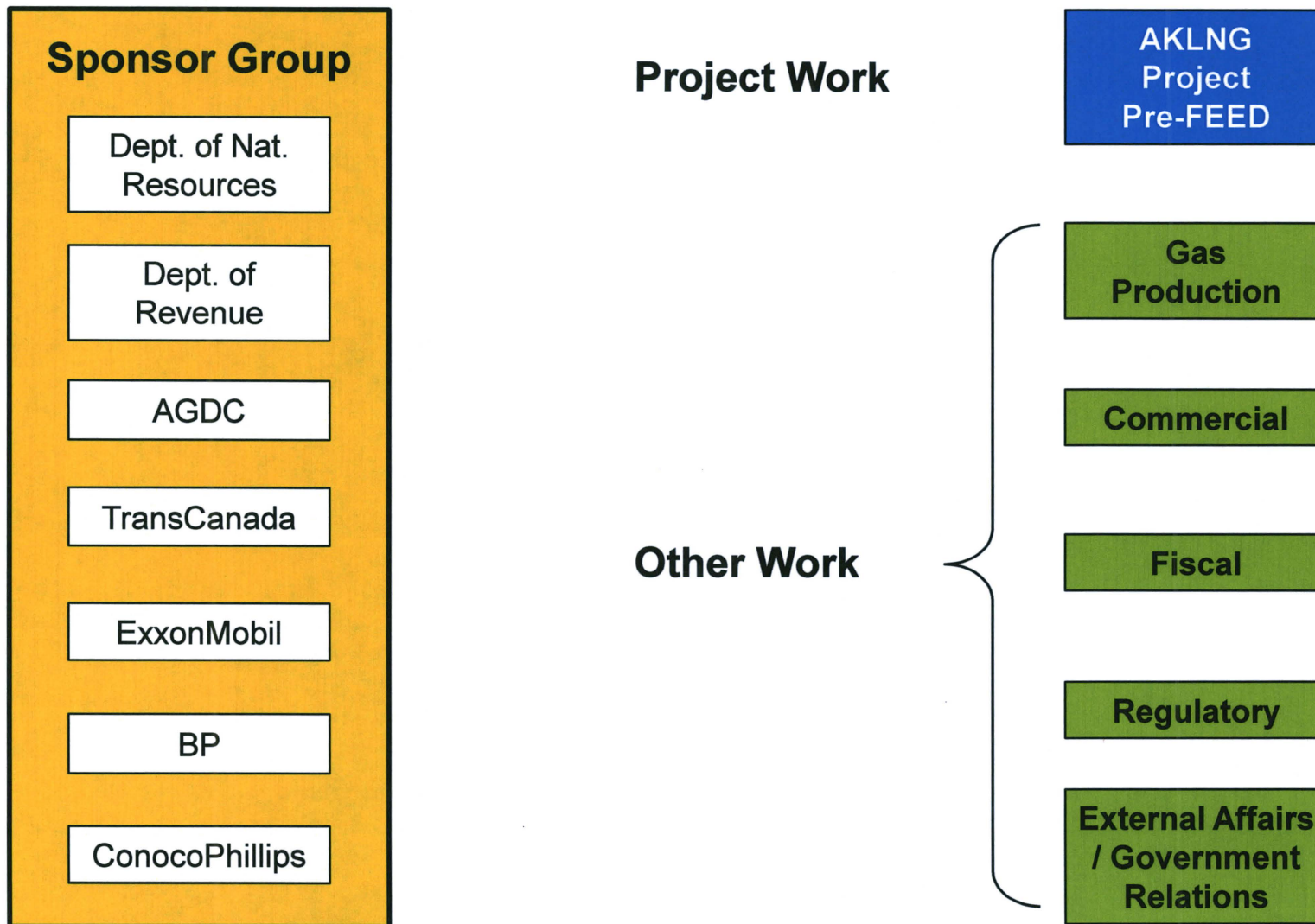
AKLNG
Project
Pre-FEED

- Integrated team includes experienced personnel from ExxonMobil (Lead), TransCanada, BP and ConocoPhillips
- Currently in Pre-FEED (Pre Front End Engineering Design)
- Advancing engineering of AKLNG Project facilities
- Conducting field studies to progress design basis
- Drafting project execution plans
- Refining overall cost and schedules
- Developing environmental permitting applications
- Cooperation agreement with AGDC on field data collection and historical data exchange

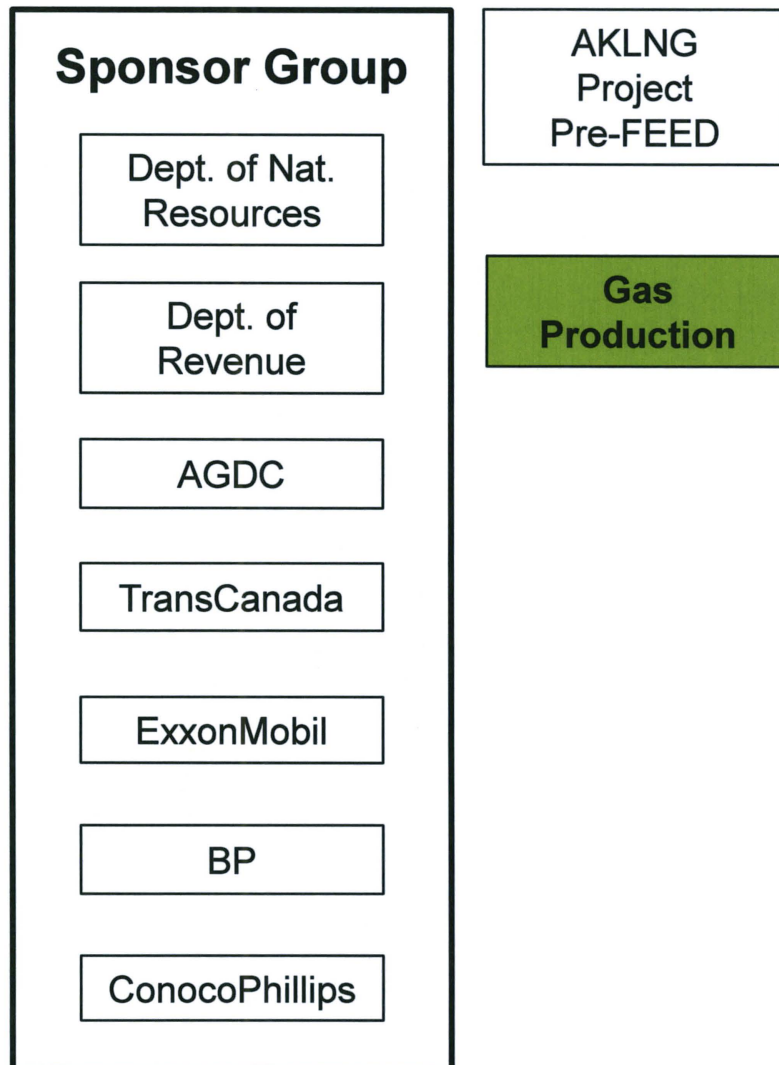
Alaska LNG Project Facilities



Alaska LNG Project Arrangements

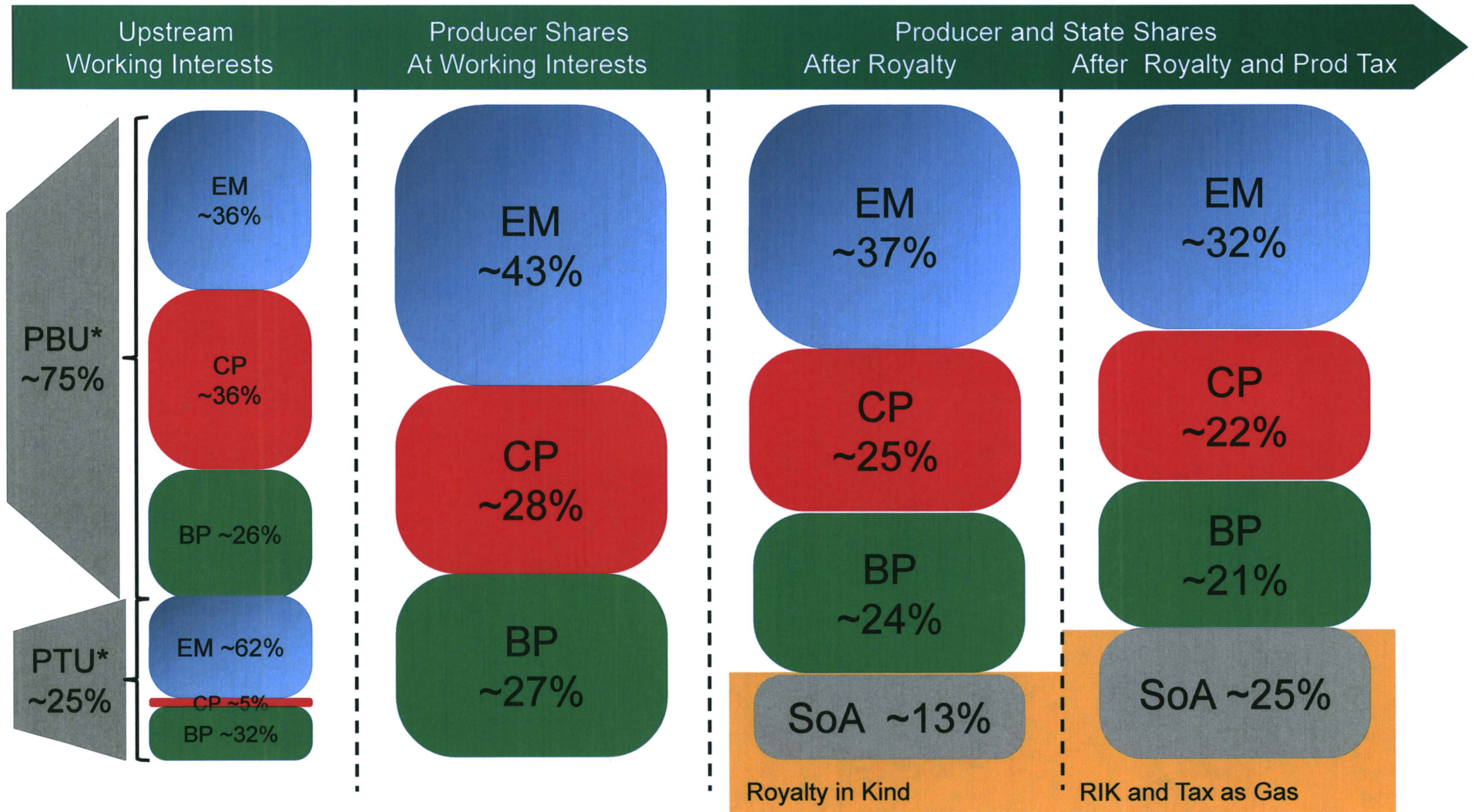


Alaska LNG Project Arrangements



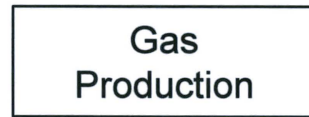
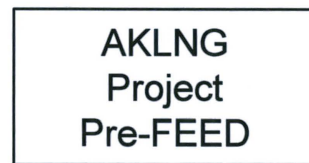
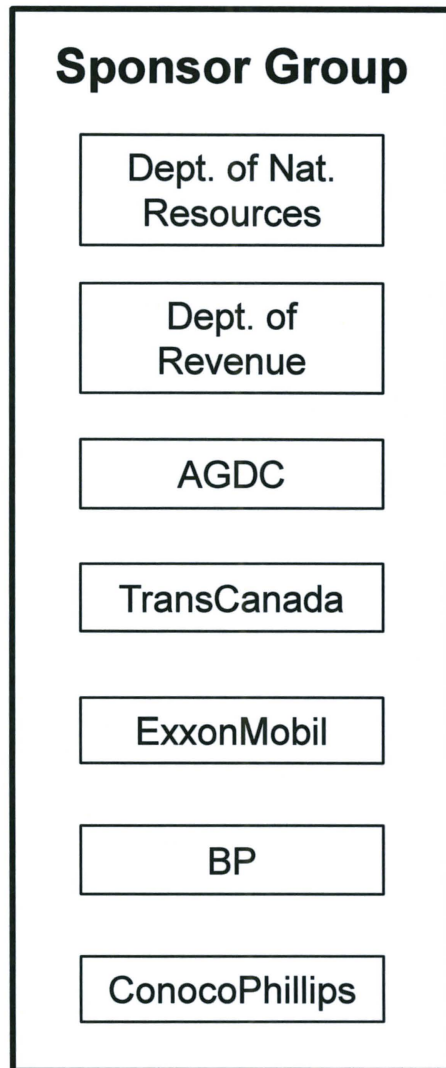
- Preparations for commercial natural gas production are underway at both Point Thomson Unit (PTU) and Prudhoe Bay Unit (PBU)
- Significant natural gas development required at PTU including drilling and gas handling facilities
- PBU would also require some new facilities
- Filed gas offtake authorization applications with AOGCC; hearings conducted on August 27 for PBU and September 1 for PTU

Gas Production



* PBU / PTU split subject to gas supply agreements and regulatory authorizations

Alaska LNG Project Arrangements



Drafting DNR applications

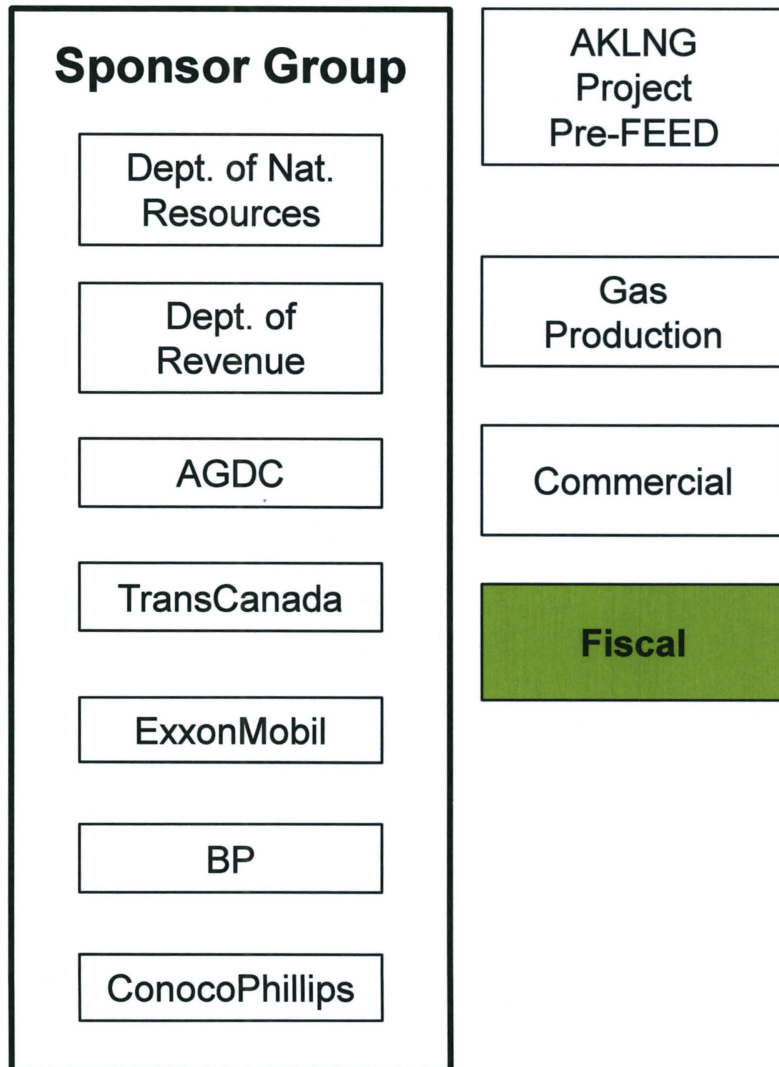
- SB 138 Lease Modifications to address RIK / RIV switching and PTU SSR / NPS leases

Developing commercial basis for the venture

- Commercial foundation agreements among State, AGDC, TransCanada, ExxonMobil, BP and ConocoPhillips to be sufficiently completed before fiscal action by the Legislature
 - Governance for long term venture including expansions
 - Gas supply to Project
 - Gas / LNG liftings from Project
 - In-state gas
 - Others
- Long-term Firm Transportation Services Agreement (FTSA) between TransCanada and State

Legislative review and approval of some agreements will be needed

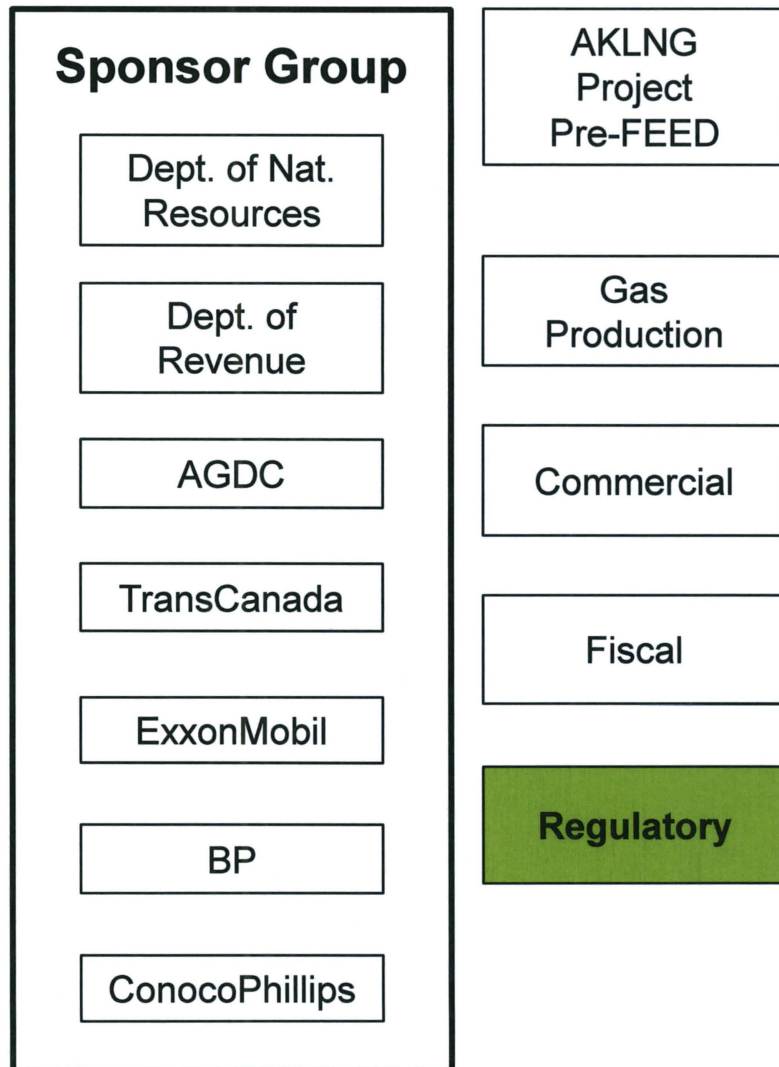
Alaska LNG Project Arrangements



Developing fiscal basis for the venture

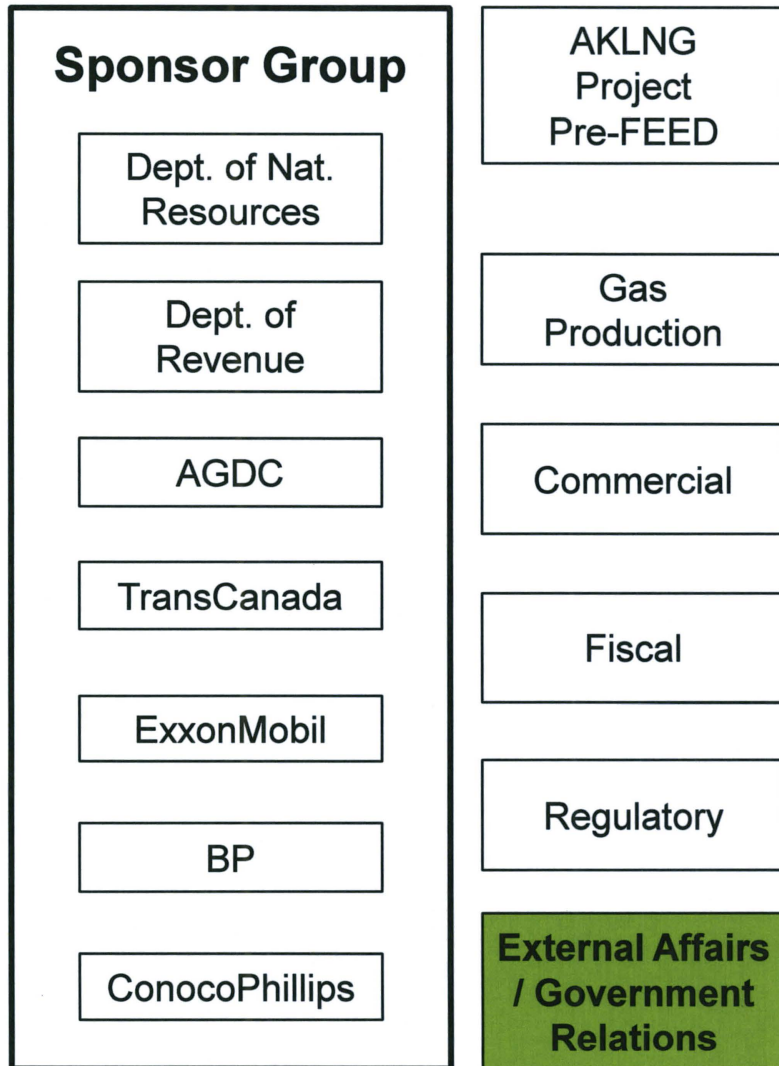
- Building on Jan 2014 HOA and SB 138
- DNR considering State Royalty in Kind
- Predictable and durable fiscal terms necessary for unprecedented scale, complexity and costs
 - Also required to compete in global energy markets
- Have aligned on constitutional amendment as vehicle to provide stabilization
 - 2/3rds legislative vote to place on ballot
 - Targeting November 2016 election
- Fiscal terms are a key enabler for the Project, and also with LNG Buyers, lenders and investors
- Legislative review and approval will be needed
- Seeking legislation to address property taxes
 - Tentative alignment on solution that requires consultation with MAGPRB

Alaska LNG Project Arrangements



- FTA and non-FTA DOE Export Authorizations received
 - Allows access to all key LNG markets
- NEPA Pre-File process sets foundation for the Environmental Impact Statement (EIS)
 - Two drafts of Resource Reports before final submission intended to facilitate stakeholder engagement
 - First draft of Resource Reports submitted in Feb 2015 – available for public review on FERC website
 - Specific, anticipated project impacts and proposed mitigation measures will be included in second draft of Resource Reports expected to be submitted in Feb 2016

Alaska LNG Project Arrangements



- Project of this magnitude / complexity cannot succeed without broad public support
- Facilitating public dialogue and community engagement about the Alaska LNG Project

Alaska LNG Project Update

- Key Accomplishments
 - Tentative alignment reached on structure, subject to consultation with MAGPRB
 - Flow Related Property Tax mechanism after startup
 - Impact payments during construction
- Remaining Challenges
 - Establish role of State as project participant
 - Midstream participation / funding / 2016 Pre-FEED WP&B approval
 - Timely completion of key commercial and fiscal contracts followed by legislative approval consistent with SB 138
 - Royalty decisions
 - Lease modifications
 - RIK election
 - Legislation for property taxes
 - Legislation to authorize public vote on constitutional amendment that provides durable / predictable fiscal terms

Deliverables to Support FEED Decision

AKLNG Project

- Pre-FEED Project Deliverables / Prep for regulatory filings

Gas Production

- PBU / PTU Development Plans, AOGCC Offtake

Commercial

- Key Agreements (e.g., Lease Modifications, Governance, Gas Supply, FTSA)

Fiscal

- Property Tax, Royalty-in-Kind, Predictable / Durable Terms, approved Constitutional Amendment

Regulatory

- DOE Export Authorizations Received, Progressing FERC NEPA Pre-File

External Affairs / Government Relations

- Broad support for Project



ALASKA STATE LEGISLATURE

SENATE RESOURCES COMMITTEE

SEN. CATHY GIESSEL
Chair
State Capitol, Room 427
Juneau, AK 99801-1182
(907) 465-4843 Fax 465-3871

Sen. Mia Costello, Vice-Chair
Sen. Peter Micciche
Sen. Bert Stedman

Sen. John Coghill
Sen. Bill Stoltze
Sen. Bill Wielechowski

To: Members of the AK LNG Project External Affairs Group
From: Senator Cathy Giessel, Chair
Alaska Senate Resources Committee
Re: Questions Related to Hearing on AK LNG Update for September 9th, 2015
September 7th, 2015

Good Morning and a Happy Labor Day,

The quarterly update for the project, which is scheduled for Wednesday, September 9th, will be an opportunity for lawmakers to ask a variety of questions regarding the progress of the project.

In order to facilitate the proper time required for a full answer, my office is sending these questions to all the parties that will be participating in the AK LNG Update on September 9th. It is my intent to make the proceedings as transparent and open as possible. Unless otherwise qualified, all questions are directed to all the parties.

1. What conditions, or milestones, do you need in order to authorize the funding for entering the Front End Engineering and Design (FEED) Phase of the AK LNG Project?
2. Is there agreement on what it takes to enter the FEED stage of the AK LNG Project?

3. Is there agreement on the subject of Payment In Lieu of Taxes?
4. To the State of Alaska: What analysis has been conducted for determining the buy-out of TransCanada?
5. Do you feel that adequate progress has been made on fiscal terms?
6. What is your opinion about a constitutional amendment on fiscal terms being considered without the full-term agreements being complete?
7. Who is the State of Alaska's Gas Team lead?
8. To the State of Alaska: How does the State plan to fund its share of the costs through FEED?
9. What is the status of withdrawal discussions and why is this important to Alaskans?
10. What is the status of the gas balancing discussion and when will it be resolved?
11. When will the State make the royalty election contemplated in Senate Bill-138?

I look forward to seeing all of you on Wednesday, and wish you a very pleasant rest of your holiday weekend.

Sincerely,

A handwritten signature in blue ink that reads "Cathy Giessel". The signature is written in a cursive, flowing style.

Senator Cathy Giessel
Senate District N



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

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

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September 9, 2015

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

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

Dear Senator Giessel and Representatives Nageak and Talerico:

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

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

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

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

Estimated Project Spending to Date

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

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

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

Projected Total Project Spending

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

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

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

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

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

Sincerely,



Marty Rutherford
Deputy Commissioner, DNR

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

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

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

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

OPENING STATEMENT
VINCENT LEE
DIRECTOR OF MAJOR PROJECTS DEVELOPMENT
TRANSCANADA CORPORATION
BEFORE THE
ALASKA JOINT SENATE & HOUSE RESOURCES COMMITTEES
SEPTEMBER 9, 2015

Madam Chair, Mr. Co-chairs and members of the Committee, for the record my name is Vincent Lee. I am the Director of Major Projects Development at TransCanada. I serve as the commercial lead for TransCanada in the Alaska LNG project and represent TransCanada on the project's Management Committee.

Over the last few months, the Governor has been very clear with Alaskans about his desire for the State of Alaska to take on a bigger role in the Alaska LNG project. One way to accomplish this objective is for the State to take over TransCanada's interest in the project. The Precedent Agreement that the State and TransCanada entered into in June 2014 allows either party to terminate the agreement.

At the Governor's request, TransCanada has been working with the Administration to agree on a process for the State to terminate the Precedent Agreement and allow the State to assume TransCanada's interest. If an agreement is reached, we expect it will provide a roadmap for TransCanada's exit from the project, including an agreement by the Administration to request an appropriation to reimburse costs that TransCanada has invested in the LNG effort since the beginning of 2014.

TransCanada will work diligently to ensure that the termination occurs as smoothly and reasonably as possible. I recognize that some may want more detail on the termination discussion between TransCanada and the State, but due to confidentiality, I am not permitted to share more information beyond what I have just described.

TransCanada has been involved in advancing a natural gas pipeline in the State of Alaska for four decades and has made significant contributions to the advancement of the current LNG efforts. Anticipating TransCanada's role in the Alaska LNG project may come to an end soon, I would take this opportunity to wish our project partners and the State of Alaska well in this endeavor to bring Alaska's abundant natural gas resources to global markets.

Madam Chair, Mr. Co-Chairs, I also would like to extend my thanks to you for inviting me here today. One final point, TransCanada looks forward to working with the Administration and the Legislature to complete the transition in a timely fashion to allow the other JVA Parties and the State continue to be focused on advancing the Alaska LNG project.

Thank you.