

01/29/16
ALASKA LNG
UPDATE BY
THE STATE
OF ALASKA
GAS TEAM

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UPDATE BY THE STATE OF ALASKA GAS
TEAM</SUBJECT><COMM>SRES29</COMM></TARGET>



AKLNG State Gas Team Organization, Coordination, and Decision-Making

**Departments of Natural Resources, Revenue, and Law and
Alaska Gasline Development Corporation**

January 29, 2016

Presentation Outline

1. Summary of AKLNG Project authorities
2. For each agency (DNR, DOR, AGDC, DOL):
 - Authorities
 - Roles/focus areas
 - Agency organization
 - Decision-making process for actions within authority
3. State Gas Team organization chart/matrix and coordination between AGDC and agencies
4. Work stream/teams
5. Project updates
 - TC buyout
 - AGDC president search
 - In-state gas aggregator

Senate Bill 138 Summary

- Passed by Alaska Legislature in April, 2014
- Provided authority for the AKLNG Project
 - DNR and DOR: Gas supply and commercial agreements
 - DOR: Finance report and alternatives
 - DOR: Recommend property tax revisions
 - AGDC: Infrastructure development and ownership
 - Legislature: Approval of SOA contracts and agreements
- Provided new provisions for Tax as Gas (TAG)
- Amended oil and gas production tax statutes
- Created Municipal Advisory Gas Project Review Board
- Required AKLNG Project-related reports to Legislature

Overview of State Authorities

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

- Marketing, in consult with DOR [AS 38.05.020(b)(10),(11),(12)]
- RIK/RIV decision (AS 38.05.182)
- Upstream [AS 38.05.180(hh), (ii)], in consult with DOR [AS38.05.020(b)(10),(11),(12)]
- Midstream Agreements, in consult with AGDC [AS 38.05.020(b)(13)]
- In-state Gas coordination, in consult with AGDC (SB 138, Section 73)

Department of Revenue (DOR)

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

Department of Law (DOL)

- Legal support to agencies and AGDC

Alaska Gasline Development Corporation

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

Department of Natural Resources (DNR)

Authority for AKLNG Project

The DNR Commissioner has authority to negotiate commercial agreements, market SOA's royalty-in-kind and tax-as-gas (RIK and TAG) volumes, and modify certain lease terms

- AS 38.05.020(b)(11) – DNR, in consultation with DOR, negotiates agreements including gas supply and balancing, marketing of natural gas and LNG
- AS 38.05.020(b)(14)/AS 38.05.183 – DNR receives royalty gas (if RIK is elected) and, in consultation with DOR, tax delivered to the State as gas (TAG); manages sale of RIK/TAG gas
- AS 38.05.180(hh)-(ii) – DNR Commissioner may make certain modifications to AKLNG Project leases for initial project term

Department of Natural Resources (DNR)

Roles/Focus Areas for AKLNG Project

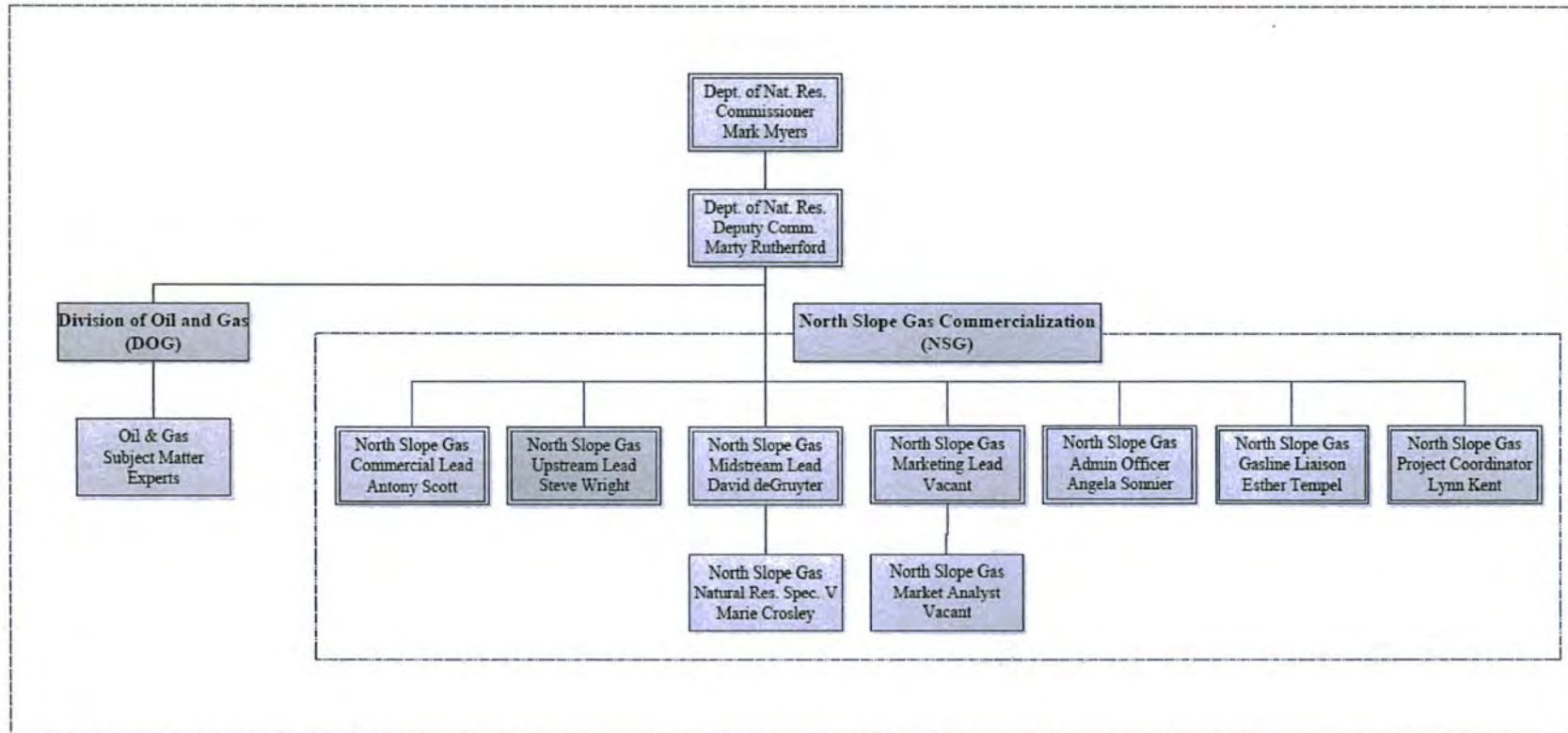
DNR has statutory responsibility for these **key project areas**:

- Negotiating commercial agreements to protect State's interests and advance State's policy objectives
- Managing risks inherent in State's entering into this Project in a commercial role
- In the event DNR elects RIK:
 - Ensuring certainty of Upstream Gas Supply to meet natural gas and LNG marketing commitments
 - Marketing of in-state natural gas and LNG for export to deliver maximum resource value to State of Alaska
 - Functioning as Shipper on AKLNG Project system

DNR's AKLNG Project Team has **primary focus** on:

- Maintaining State's sovereign responsibilities and duties including Oil and Gas lease royalty terms and receipt of tax-as-gas
 - Making final Royalty in Kind (RIK) vs Royalty in Value (RIV) decision
 - SOA needs upstream gas lifting rights, access to key information
 - SOA needs capability to effectively market its gas and LNG
 - Promoting North Slope hydrocarbon exploration and future development
 - Appropriate project configuration, Governance, Expansion and 3rd Party Access commercial provisions needed
-

Department of Natural Resources (DNR) Functional Organization for AKLNG Project



Color Key:
Green = State Employees
Blue = Consultants

Department of Natural Resources (DNR)

Decision-Making Process

- For actions, decisions, or positions on draft agreements within DNR statutory purview:
 - State positions on proposed terms of agreements or other actions or decisions are developed and vetted by State Gas Team members (staff from DNR in consultation with staff from other appropriate agencies and Subject Matter Expert consultants)
 - Team briefs Commissioner's office and incorporates their guidance as needed (may be an iterative process between the team and the Commissioner's office)
 - Final decisions made by Commissioner

Department of Revenue (DOR)

Authority for AKLNG Project

A producer may make an election for certain leases to pay “Tax as Gas” (TAG). The DOR Commissioner has authority to enter into agreements with the DNR Commissioner for the custody and disposition of TAG gas:

- AS 43.55.014(b) – Allows that a producer for which leases have been modified under AS 38.05.180(hh) may pay the production tax levied in gas molecules (“in kind”) that would otherwise be paid in cash (“in value”)
- AS 43.05.10(17) – Directs the disposition of SOA revenue received from gas delivered to the State by entering into agreements with the Commissioner of DNR related to the management of the custody and disposition of such gas

Department of Revenue (DOR)

Roles/Focus Areas

DOR has statutory responsibility in these **key project areas**:

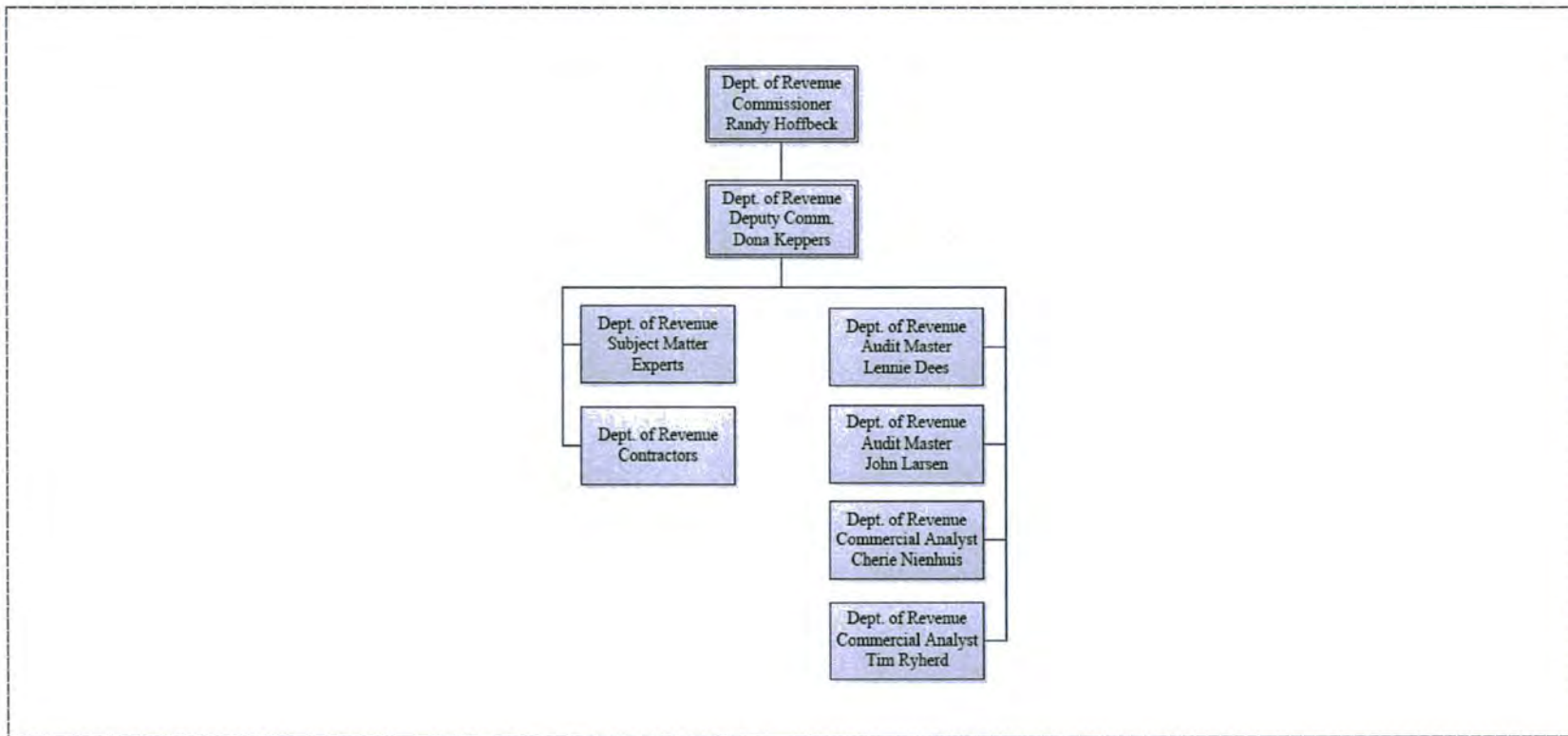
- Directing the disposition of revenues received from TAG [AS 43.05.010(17)]
- Reporting on range of financing options for State acquisition of ownership interest and participation in a NS natural gas project (SB 138, Section 76)
- In consultation with DNR, participating in negotiating contracts and development of terms for inclusion in agreements including gas supply and balancing, marketing, disposition of natural gas, and offtake [AS 38.05.020(b)(11)]

DOR's AKLNG Project Team has **primary focus** on:

- Identifying and recommending financing options and opportunities for co-investment by Alaskan municipalities, regional corporations and residents
 - Through Commissioner as member of MAGPRB, developing and implementing alternative property tax mechanisms including impact fees and flow rate property taxes in lieu of traditional assessment based property taxes
 - Negotiating alternative property tax mechanisms with project sponsors and conferring with the MAGPRB in public meetings
 - Gas balancing for RIK/TAG volumes over the Initial Project Term
 - Participating in development of governance agreements
-

Department of Revenue (DOR)

Functional Organization for AKLNG Project



Color Key:
Green = State Employees
Blue = Consultants

Department of Revenue (DOR)

Decision-Making Process

- For actions, decisions, or positions on draft agreements within DOR statutory purview:
 - State positions on proposed terms of agreements or other actions or decisions are developed and vetted by State Gas Team members (staff from DOR in consultation with staff from other appropriate agencies and Subject Matter Expert consultants)
 - Team briefs Commissioner's office and incorporates their guidance as needed (may be an iterative process between the team and the Commissioner's office)
 - Final decisions made by Commissioner

Alaska Gasline Development Corp. (AGDC)

Authority for AKLNG Project

AGDC has authority to hold the State's equity 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 and liquefaction plants
- AS 31.25.110 – Alaska liquefied natural gas project fund

AGDC to assist DNR/DOR in maximizing the value of the State's gas [AS 31.25.005(3)]

Deliver gas to in-state customers at commercially reasonable rates [AS 31.25.005(6)]

Alaska Gasline Development Corp. (AGDC)

Roles/Focus Areas

AGDC has responsibility for these **key project areas**:

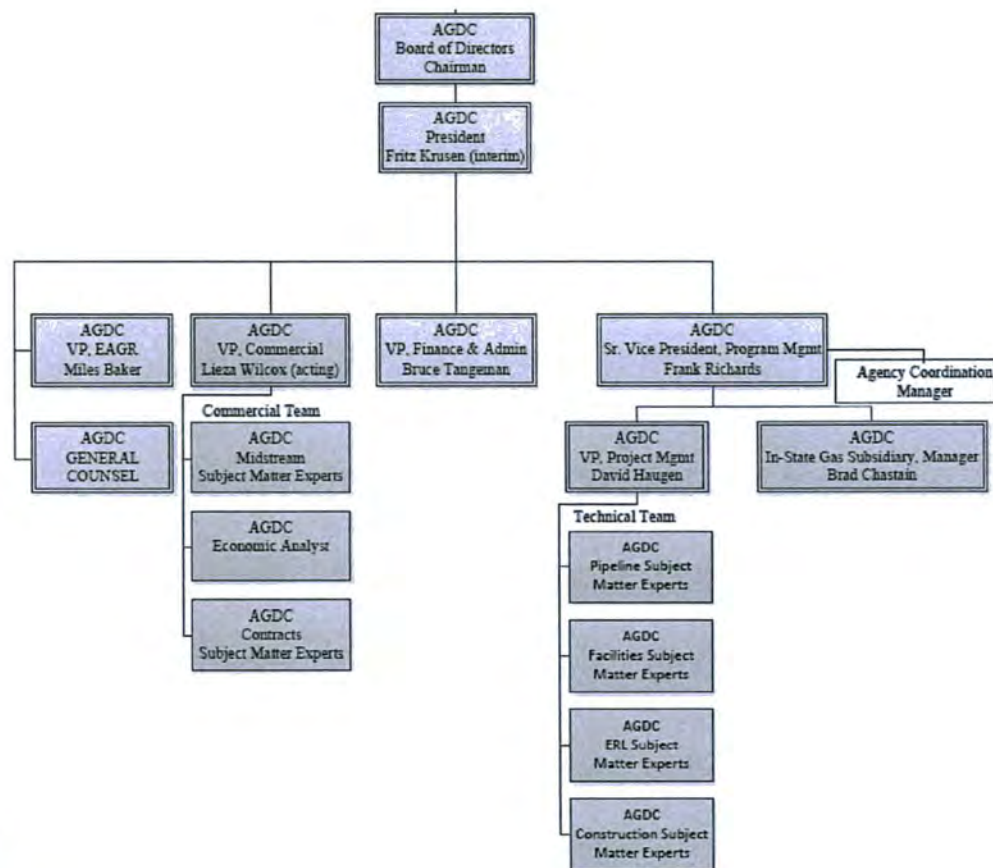
- Holding and managing the State's ~25% equity interest in the AKLNG Project infrastructure (GTP, pipelines and LNG Plant) including related commercial contracts
- Functioning as Transporter for State's gas thru AKLNG Project system
- Developing systems to make gas from the project available to in-state customers at commercially reasonable rates (off-takes, infrastructure)

AGDC's AKLNG Project Team has **primary focus** on:

- Advancing AKLNG Project's technical design basis
- Voting of State's equity share in AKLNG Project decisions
- Preparing to advance AKLNG Project to FEED, which will further increase definition of Project design basis, cost, schedule and risk profiles
- Acquiring and making available natural gas to in-state markets

Alaska Gasline Development Corp. (AGDC)

Functional Organization for AKLNG Project



Color Key:
 Green = Public Employees
 Blue = Consultants

Alaska Gasline Development Corp. (AGDC)

Decision-Making Process

AGDC has established distinct decision making processes consistent with its statutory and fiduciary responsibilities:

AKLNG Project Management

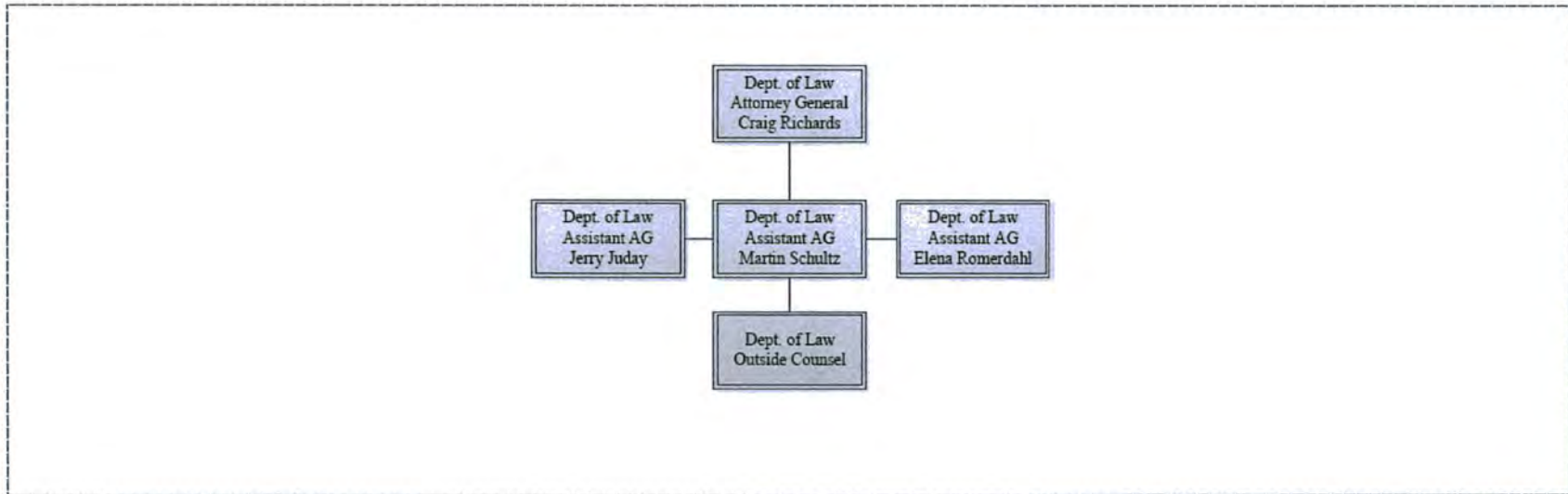
- Technical and commercial SMEs participating in project working groups make recommendations to management on ManCom level decisions;
- President reviews and approves AGDC's ManCom vote;
- Board approves all major corporate financial and contractual commitments (*e.g. WP&B, high-value contracts, stage gate decisions*)

Corporate Governance

- Board has established bylaws regulating the governance of AGDC;
 - Board approves annual corporate operating budget and annual project work programs subject to legislative appropriations;
 - Board approves all project related commercial (technical) contracts and any expenditure above \$5 million
-

Department of Law (DOL)

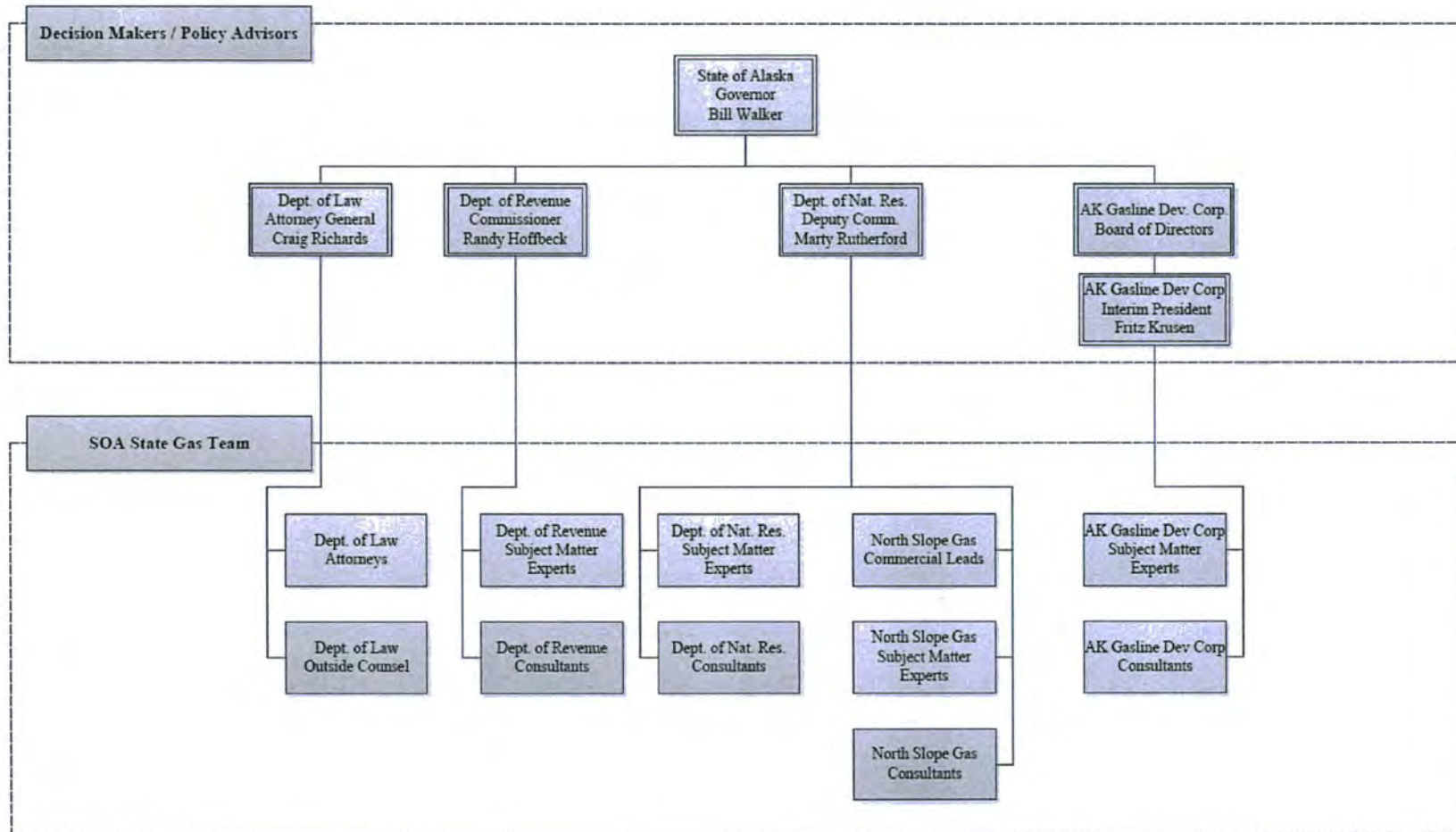
Functional Organization for AKLNG Project



Color Key:
Green = State Employees
Blue = Consultants

DOL Primary Focus Area: Provide legal services to AGDC, DNR, and DOR

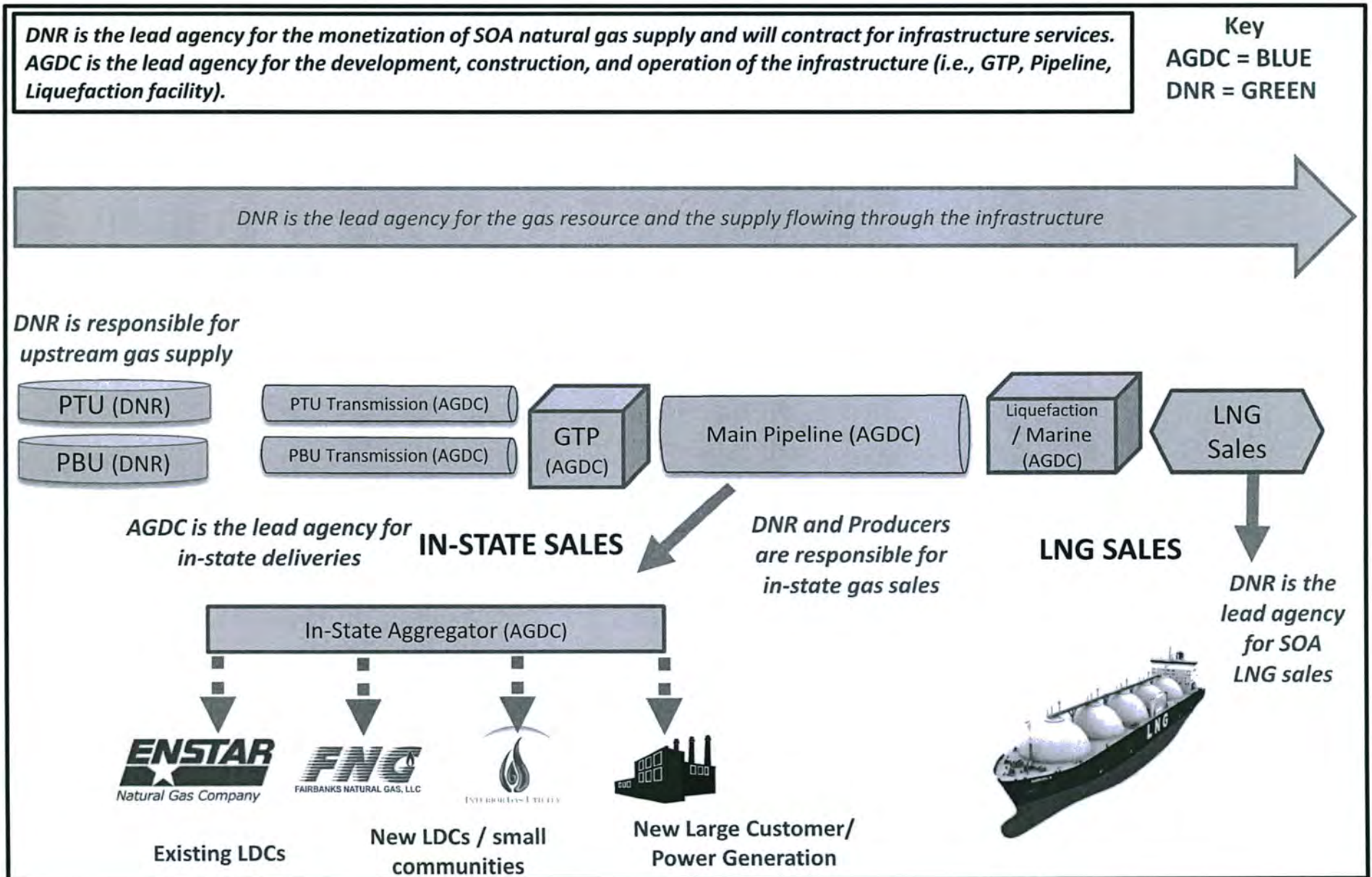
State AKLNG Organization Structure



Color Key:
 Green = State Employees
 Blue = Consultants
 Orange = AGDC

*Department of Law provides legal services to AGDC, DNR, and DOR
 Refer to each agency's organization chart for further information*

AKLNG Project Value Chain Model



SOA AKLNG Work Streams

The State Gas Team is tasked with managing approximately 20 current AKLNG Project work streams to ensure that the State's interests are fully protected in this complex and extremely costly project. The SGT has established teams to support each work stream. These work streams can be grouped into 2 primary categories:

- **Commercial** work streams involve the negotiations required to develop and implement commercial agreements necessary to advance the Project. Commercial work is primarily led by the agency responsible for its respective element of the project value chain, collaborating with other agencies to achieve the best result for the State as a resource and project owner.
- **Technical** work streams involve both the Upstream gas offtake analysis and planning from PBU and PTU to supply the feedstock for the Project and the Project design and engineering work on the AKLNG system infrastructure (GTP, pipeline, LNG plant and loading terminal), which is directed by the AKLNG Project Team (with ExxonMobil as lead Party). State input into the technical work is led by DNR for the Upstream components and by AGDC, with input from DNR in its role as Shipper, for the AKLNG system infrastructure.





SOA AKLNG Organizational Framework

- The State Gas Team is designed around a multi-discipline matrix organization of work groups/teams to effectively support SOA's AKLNG technical and commercial needs
- Each State team is led by a State agency (DNR or DOR) or AGDC representative, based on each organization's statutory authorities, responsibilities and areas of expertise
- Each team includes representatives from other agencies as appropriate to ensure full integration and coordination
- Each team includes State employee subject matter experts and legal, technical, commercial and/or financial consultants as needed
- The State's Commercial and Technical Project Teams work both internally and with broader teams that include representatives of the Producers

AGDC, DNR and DOR Coordination

- AGDC, DNR, and DOR are aligned to monetize Alaska's gas resources and to protect Alaska's interests.
- AGDC, DNR and DOR have built **jointly integrated work processes** that appropriately fulfill each organization's statutory responsibilities and fully protect the State of Alaska's interests.
- The parties have clear statutory responsibilities that require coordination but not duplication.
- The parties are in agreement on which party is responsible for task completion; which party (or parties) are consulted and informed about the tasks; and which party approves the final product.
- Full State Gas Team meets weekly to review overall progress; identify action items; and plan for the upcoming week.
- AGDC, DNR, and DOR meet bi-weekly to coordinate on specific issues and decisions.

RACI Definitions

 R	Who is Responsible?	The individual who is assigned to do the work.	<ul style="list-style-type: none">Does the work.Leads a supporting team.Consults and informs.Achieves the task.
 A	Who is Accountable?	The individual who makes the final decision and has ultimate ownership .	<ul style="list-style-type: none">Answerable for the task.Delegates work to Responsible.Identifies who should be Consulted.Approves/signs the product.
 C	Who is Consulted?	The individual(s) who must be consulted before a decision/action is taken.	<ul style="list-style-type: none">Sought for opinions.Typically subject matter experts.Two-way communication.Right to elevate issues to Governor.
 I	Who is Informed?	The individual(s) who must be informed about the decision/action taken.	<ul style="list-style-type: none">Kept up-to-date on progress and products.One-way communication.

Functional RACI Matrix

R Responsible **A** Accountable* **C** Consulted **I** Informed

Gas Commercialization Functions

Resource Ownership	Marty Rutherford	DNR	DOR/DOL/ Governor	AGDC/ Legislature
Sovereign Taxation	Dona Keppers	DOR	DNR/DOL/ Governor/MAGP	AGDC/ Legislature
Project Ownership & Governance	Frank Richards	AGDC	DNR/DOR/DOL/ Governor	Legislature
Project Financing	Dona Keppers	DOR	DNR/AGDC/DOL /Governor	Legislature
LNG Marketing	Marty Rutherford	DNR	DOR/AGDC/DOL /Governor	Legislature
In-State Gas Delivery	Brad Chastain	AGDC	DNR/AEA/DOL Governor	DOR/Legislature /In-State Users
FEED Decision Support Package	Marty Rutherford	Governor	AGDC/DOR/DOL	Legislature

State Gas Team

Primary Gas Commercialization Functions

RESOURCE OWNERSHIP



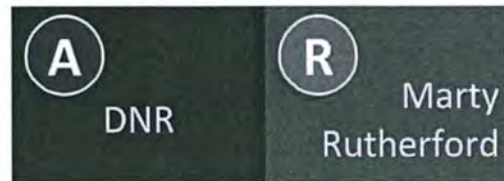
PROJECT FINANCING



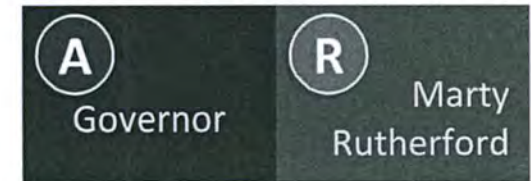
SOVEREIGN TAXATION



LNG MARKETING



FEED DECISION SUPPORT PACKAGE



PROJECT OWNERSHIP & GOVERNANCE



IN-STATE GAS DELIVERY



AGDC - DNR - DOR Coordination on AKLNG RACI CHART (page 1)

*Target Date is dependent upon alignment of all AKLNG Parties, which is outside of SOA control

R – Responsible for the task, A- Accountable and Approves the task work product, C - Consulted on the task, I- Informed of the work product				AGDC Execs & Staff	AGDC Board	DNR members of State Gas Team	DNR Commissioner's Office	DOR members of State Gas Team	DOR Commissioner's Office	DOL Attorney General's Office	Governor	Target Date*
Reference Number	Primary Category	Sub-category	Task Description									
1a	AKLNG System Infrastructure	Processing and transportation infrastructure for AKLNG gas	Technical Infrastructure oversight of SOA equity in AKLNG system from transmission lines thru offtake points	R	A	C	C	C	C	C	C	12/31/2016
2a	In-state Gas	Offer(s) to supply In-State Gas (part of RIK negotiations)	Negotiating with Producers in the RIK work group to procure offers to supply pro-rata amount of in-state gas at reasonable commercial terms	C	C	R	A	C	C	C	C	4/15/2016
2b	In-state Gas	Supply of Gas for In-State Demand	Ensuring proportionate cost/capacity responsibility for bundled supply delivered by AKLNG for in-state use	C	C	R	A	C	C	C	C	4/15/2016
2c	In-state Gas	Delivery from In-State Offtakes	Gas conditioning and delivery to wholesale customers	R	A	I	I	I	I	C	C	6/1/2018
2d	In-state Gas	Aggregating In-State Demand	Coordinating local utility and end-user demand for in-state gas from AKLNG	R	A	C	C	I	I	C	C	12/31/2017
3a	RIK/RIV	RIK/RIV Decision	Upon finalization of RIK-relevant AKLNG commercial agreements; conduct analysis and complete determination of whether the State will elect RIK or RIV	I	I	R	A	C	C	C	C	60 days following commercial agreements
4a	Key Commercial Agreements	Fiscal Agreement	Fiscal stability/durability for Project Period; RIK + TAG	C	C	R	A	R	A	C	C	3/15/2016
4b	Key Commercial Agreements	Governance Agreement	Members Agreement, COSA, MASA and Accounting Procedures	R	A	C	C	C	C	C	C	3/15/2016
4c	Key Commercial Agreements	Governance Agreement	Expansion and third-party access provisions for future Shippers' access to AKLNG system	C	C	R	A	C	C	C	C	3/15/2016
4d	Key Commercial Agreements	Upstream Supply & Balancing	Management of Upstream reserves dedication, gas nominations, lifting, balancing and upstream gas imbalance resolution	I	I	R	A	C	A	C	C	3/15/2016
4e	Key Commercial Agreements	System Use / Midstream	Agreements to ensure State has appropriate system access rights, operational capacity release rights and flexibilities to achieve full commercial value for its RIK/TAG gas.	C	C	R	A	C	C	C	C	3/15/2016

AGDC - DNR - DOR Coordination on AKLNG RACI CHART (page 2)

*Target Date is dependent upon alignment of all AKLNG Parties, which is outside of SOA control

R – Responsible for the task, A- Accountable and Approves the task work product, C - Consulted on the task, I- Informed of the work product				AGDC Execs & Staff	AGDC Board	DNR members of State Gas Team	DNR Commissioner's Office	DOR members of State Gas Team	DOR Commissioner's Office	DOL Attorney General's Office	Governor	Target Date*
Reference Number	Primary Category	Sub-category	Task Description									
4f	Key Commercial Agreements	ADP / Downstream	Agreements and processes to ensure State has appropriate rights and flexibilities related to LNG liftings to achieve full commercial value for its RIK/TAG gas.	C	C	R	A	C	C	C	C	3/15/2016
4g	Key Commercial Agreements	LNG Marketing	Negotiation of marketing arrangements for disposal of State's RIK/TAG gas including Producers' offers to market SOA LNG	C	C	R	A	C	C	C	C	3/15/2016
5a	Project Financing	SOA AKLNG Financing Plan	Assess and screen alternatives to secure SOA's share of AKLNG financing for FEED	C	C	C	C	R	A	C	C	1/1/2017
5b	Project Financing	AGDC-Specific Financing	AGDC-specific financing consistent with the plan for Execution and Operations	C	C	I	I	R	A	C	C	1/1/2019
6a	Integrated Project Risk Register	Areas of SOA Potential Risk Exposure as AKLNG equity investor, shipper & marketer	Conduct integrated risk assessment of all areas of potential SOA risk exposure (in various phases of AKLNG Project - Pre-FEED, FEED, Execution)	C	I	R	I	C	I	C	C	10/15/2016
7a	Commit to FEED Decision Support Package	Fully integrated "End of Pre-FEED / Prepare for FEED" Decision Support Package	Develop & deliver appropriately scoped and detailed Phase 2 to 3 DSP for SOA Decision-maker	C	C	R	A	C	A	C	A	1/1/2017
8a	Property Tax	CPILT and OPILT Agreement	Negotiate with Producers/MAGPRB	I	I	C	C	R	A	C	C	3/15/2016
8b	Property Tax	Allocation Formula	Negotiate with MAGPRB	I	I	C	C	R	A	C	C	3/15/2016
9a	Technical Issues	Pipe Size	Technical analysis issues on pipe size	R	A	C	C	C	C	C	C	3/15/2016
9b	Policy Issues	Pipe Size	Policy and commercial aspects of pipe size	C	C	R	A	C	C	C	C	3/15/2016
10a	Regulatory	FERC Licensing	Applicant aspects of Section 3	R	A	C	C	C	C	C	C	9/1/2016
10b	Regulatory	FERC Licensing	Expansion and access aspects of Section 3	C	C	R	A	C	C	C	C	9/1/2016

SOA AKLNG Work Stream Teams

- Commercial Project Management
- Fiscals
- Property Tax
- Expansion and 3rd Party Access
- Upstream
- RIK/RIV Decision
- Finance
- Governance
- In-State Gas Supply and Delivery
- Marketing of LNG
- AKLNG System Infrastructure
- Midstream/System Use
- Regulatory
- External Affairs and Government Relations

State Gas Team – Commercial Project Management

- **Lead: DNR**
- **Duties:** Project management, including work plan development and oversight, staffing and resourcing, budgeting and funding, risk management and stakeholder engagement, and appropriate integration between multiple SGT work teams; frequent communications and joint work group efforts between Producers and State Gas Team
- **Team Members:** Governor, DNR, DOR, and AGDC senior management and Subject Matter Experts; DOL attorneys and outside counsel; and technical, commercial and financial consultants

Fiscals Team

- **Lead: DNR and DOR**
- **Duties:** Responsible for issues relating to fiscal stability, negotiating fiscal agreement, statutory and contractual stability mechanisms, and gas production taxes. Examine all tax issues that could affect the AKLNG project, including federal income tax, property taxes, and any others. Subset of team may also be involved with Municipal Advisory Gas Project Review Board.
- **Team Members:** Governor, DNR, DOR, and AGDC Subject Matter Experts; DOL attorneys and outside counsel; and commercial, financial, tax and technical consultants

Property Tax Team

- **Lead: DOR**
- **Duties:** Negotiate with producers on property tax mechanisms. Consult with the Municipal Advisory Gas Project Review Board comprised of representatives from municipalities and boroughs on the project route to develop framework to assess, collect and distribute AK LNG impact payments and property taxes to direct and indirect stakeholders at the State and local level. Make recommendations for legislation.
- **Team Members:** Audit Master; Commercial Analysts; DOL attorneys and outside counsel; and commercial and financial consultants

Expansion Team and 3rd Party Access Team

- **Lead: DNR**
- **Duties:** Focus on commercial aspects of pipeline design, capacity release, and expansion areas; negotiate expansion and access agreement/terms.
- **Team Members:** AGDC and DNR Subject Matter Experts; DOL attorneys and outside counsel; and commercial and technical consultants

Upstream Team

- **Lead: DNR**
 - **Duties:** Technical team responsible for analyzing PBU and PTU natural gas resource base and gas offtake and development plan; negotiating multiple AKLNG Upstream gas lifting and balancing agreements for PBU and PTU, which may include the Dedication Agreement, Gas Supply Agreement and Supply Forecasting Agreement, which are required to establish the AKLNG Parties' obligations to supply natural gas to the Project and to meet the State's need for certainty of gas supply in the event DNR elects RIK instead of RIV; negotiate by-product handling agreement and address field cost allowance. Support DNR Commissioner's office on lease modifications and RIV/RIK analysis, determination and finding.
 - **Team Members:** DNR, DOR, and AGDC Subject Matter Experts; DOL attorneys and outside counsel; and commercial and technical consultants
-

RIK/RIV Decision Team

- **Lead: DNR**
- **Duties:** Evaluate risks and rewards associated with RIK and RIV as commercial agreements are being negotiated; provide input into those negotiations to ensure SOA risks and rewards are appropriately analyzed, communicated and managed. Once commercial agreements are agreed, document the RIK/RIV decision and issue DNR determination.
- **Team Members:** DNR, DOR, and DOL attorneys and outside counsel; and technical consultants

Finance Team

- **Lead: DOR**
- **Duties:** Responsible for identifying, assessing and providing recommendations to legislature for State project financing options and risks associated with each option, including impact on State's bond capacity and rating. Also responsible for developing a plan for co-ownership opportunities for regional corporations, municipalities and residents, including the income tax consequences for co-owners and how cash calls would be handled with multiple owners. Responsible for coordinating work products with project integrated finance, commercial and fiscal teams.
- **Team Members:** DOR and AGDC Subject Matter Experts; and technical, legal, and financial consultants

Governance Team

- **Lead: AGDC**
- **Duties:** Negotiate the governance agreements including the legal commercial structure and operating model; work program and budget approvals; withdrawal and transfer rights; information rights and confidentiality; dispute resolution; contracting for services to take the project through FEED and Execute phases; and audit and financial reporting requirements. These agreements have implications for financing as well as future rights and obligations of the State as project owner.
- **Team Members:** DOR; AGDC; DOL attorneys and outside counsel; and technical consultants

In-State Gas Supply and Delivery Team

- **Lead: AGDC and DNR**
- **Duties:** Secure in-state domestic gas supply from AKLNG gas suppliers. Aggregate in-state demand for best commercial outcome; ensure integration of in-state gas contracts with AKLNG Project; coordinate with AEA on Alaska Affordable Energy Strategy and alternative energy delivery strategies.
- **Team Members:** AGDC and DNR Subject Matter Experts; DOL attorneys and outside counsel; and technical consultants

Marketing of LNG

- **Lead: DNR**
- **Duties:** Negotiate State marketing agreements including Producer offers to purchase, dispose of, or market State's RIK and TAG gas, and joint venture marketing; develop State marketing strategies; build customer relationships with targeted LNG buyers; develop State's LNG marketing team and manage the resources.
- **Team Members:** DNR and DOR Subject Matter Experts; DOL attorneys and outside counsel; and technical and commercial consultants

AKLNG System Infrastructure

- **Lead: AGDC**
- **Duties:** Oversee and manage SOA equity investment in AKLNG system infrastructure; participate as the State's representative on the Project Steering Committee; review and shape technical and project design support packages for submission to the Management Committee (ManCom); muster subject matter experts to challenge and improve project design, cost, schedule, execution planning, and operating efficiency; coordinate review of FERC-filing Resource Reports; monitor Work Plan and Budget actuals versus planned, both activities and spend. DNR is responsible for the commercial/policy aspects of the pipe size decision.
- **Team Members:** AGDC, DNR and DOR Subject Matter Experts; and technical and commercial consultants

Midstream/System Use Team

- **Lead: AGDC and DNR**
- **Duties:** Negotiate the System Use Agreement (SUA), which details how each Party may use its capacity rights; define the Annual Delivery Planning (ADP) process governing cargo scheduling and lifting.
- **Team Members:** AGDC and DNR Subject Matter Experts; DOL outside counsel; and technical consultants

Regulatory Team

- **Lead: AGDC and DNR**
- **Duties:** Provide support as required on FERC and DOE issues. Review draft Resource Reports for the Environmental Impact Statement where FERC is the lead agency.
- **Team Members:** AGDC and DNR Subject Matter Experts; and DOL attorneys and outside counsel

External Affairs and Government Relations (EAGR) Team

- **Lead: AGDC**
- **Duties:** Responsible for developing and managing external affairs, public relations and government relations for the AKLNG Project. This includes the formulation of external messaging for the Project and the coordination of all public engagements. While AGDC is the EAGR lead, each agency is responsible for external communications on issues/agreements on which it is lead.
- **Team members:** AGDC, DNR, DOR and Governor's office Subject Matter Experts

Update on TransCanada Buyout

- As authorized by the Legislature, State acquired TC's equity interest in AKLNG on 11/24/15 for \$64.6M
- Seamless transfer of TC Alaska Midstream LP to AGDC
- TC has contracted with project lead party to keep seconded employees in the PMT through May 2016
- AGDC developing secondment strategy for FEED
- TC submitted Final Cost Report to DNR on 1/15/16
- State has 60 days to complete cost review; contracted with Ernst & Young; final report due mid-March
- At this time estimated that TC may have to reimburse the State ~ \$220k

AGDC: Presidential Search Update

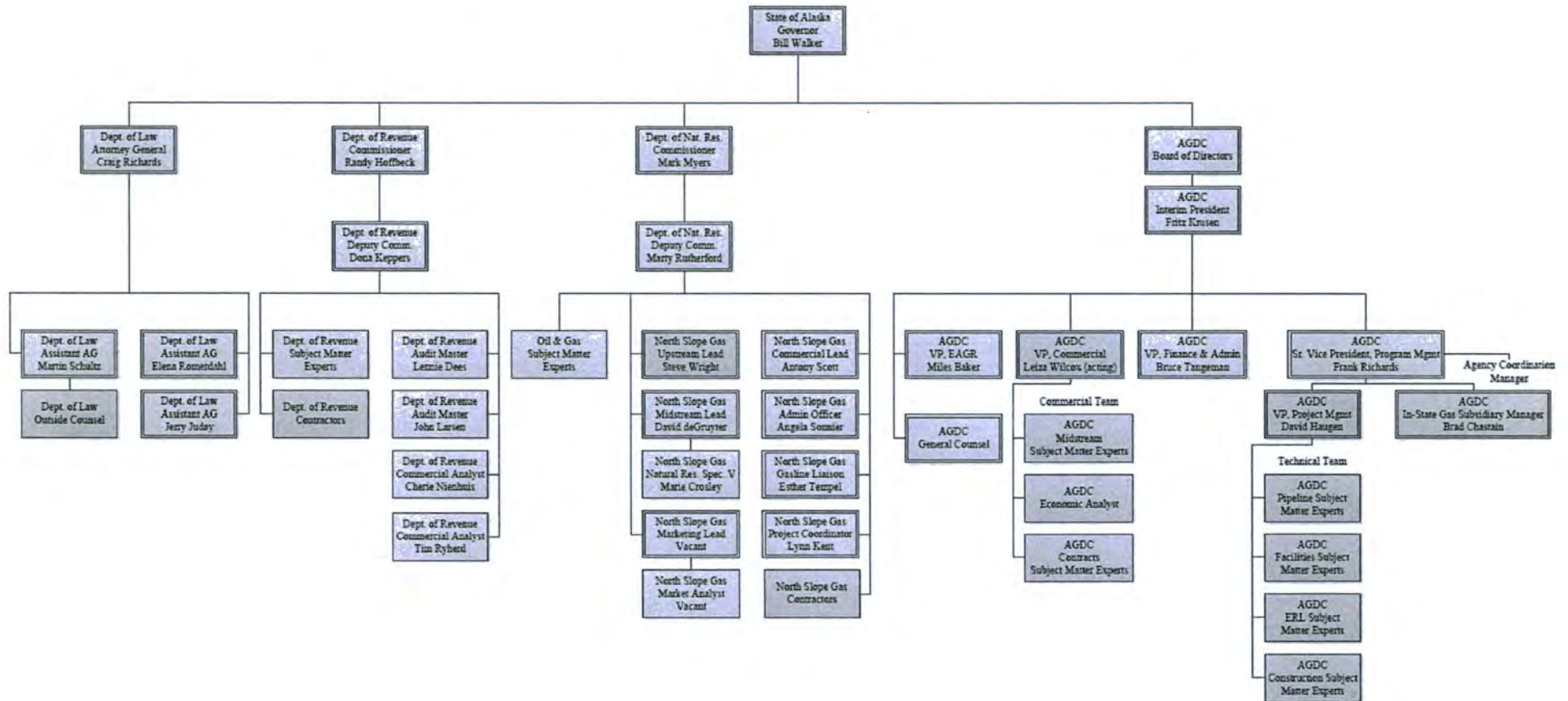
- Following 11/20/15 resignation of Dan Fauske, Board hired executive search firm B&R Partners of Houston
- Contract began mid-December; Fees and expenses Not-to-Exceed \$170,000
- 120-180 day recruitment period expected
- B&R indicated top-tier candidates may request relocation expenses, signing bonus, annual bonus, minimum contract period or a combination of those
- Early reports are positive with high interest level

AGDC: In-State Gas Aggregator

- AGDC is responsible for in-state gas delivery
- In September, Board created a subsidiary to consolidate AGDC's in-state gas efforts:
 - Pool small quantities of in-state demand
 - Intermediary between gas owners and in-state buyers
 - Assist small communities in developing local distribution entities
- Developing framework for evaluating in-state off-take infrastructure and investments
- Working with DNR on commercial structure for in-state gas supply and distribution

Backup Slides

AKLNG Integrated State Gas Team



Color Key:
Green = Public Employees
Blue = Consultants

Department of Law provides legal services for DNR and DOR, and AGDC for AKLNG commercial agreements and contracts

Acronyms

- AGDC – Alaska Gasline Development Corporation
- DNR – Department of Natural Resources
- DCCED – Department of Commerce Community and Economic Development
- DOE – Department of Energy
- DOL – Department of Law
- DOR – Department of Revenue
- EAGR – External Affairs and Government Relations
- FEED – Front End Engineering and Design
- FERC – Federal Energy Regulatory Commissioner
- GTP – Gas Treatment Plant
- PBU – Prudhoe Bay Unit
- Pre-FEED – Pre-Front End Engineering and Design
- Producers – ExxonMobil, ConocoPhillips, BP
- PTU – Point Thomson Unit
- RIK – Royalty in Kind (royalty as gas)
- RIV – Royalty in Value (royalty in cash)
- SGT – State Gas Team
- SOA – State of Alaska
- SUA – System Use Agreement
- TAG – Tax as Gas

Provides Authority for AKLNG Project

AK State Legislature

Provides that Legislature must approve any commercial agreements with a duration of more than two years and also must authorize the Governor to execute any contracts or agreements related to a North Slope natural gas project:

- AS 38.05.020(b)(10) – [The DNR Commissioner may] enter into commercial agreements with a duration of not more than two years for project services related to a North Slope natural gas project.
- AS 38.05.020(b)(11) – [The DNR Commissioner may] in consultation with the DOR Commissioner, participate in the negotiation of agreements that include balancing, marketing, disposition of natural gas, and offtake and contracts and agreements and associated with a North Slope natural gas project



January 27, 2016

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. Given the legislature’s approval and appropriation of the money required to reimburse TransCanada’s costs, the State acquired TransCanada’s share of the project on November 24, 2015. This report provides an update to the amount of money the state paid TransCanada for the work they undertook on the State’s behalf through the Precedent Agreement (PA).

Total Reimbursed Costs, Subject to Audit

TransCanada reported to the State actual spends for January 1, 2014 through November 24, 2015, totaling \$64,590,000, broken down as follows:

- a. A total of \$62.09 million on a cash basis, which includes cash calls related to the Alaska LNG Project and development costs associated with development and negotiation of agreements and regulatory activities.
- b. A carrying cost of \$2.5 million.

Total Reimbursable Costs to TransCanada through November 24, 2015 (in US\$ million)			
	CSA (Jan. 1- Jun 30, 2014)	PRE-FEED (July 1, 2014-November 24, 2015)	TOTAL
AKLNG Cash Calls and TC Development Costs	\$9.73	\$56.13	\$65.86
Less: AGIA Reimbursement	(\$3.77)		(\$3.77)
Carrying Cost			\$2.5
TOTAL			\$64.59

With the termination of the PA and upon receipt of the final cost report (which DNR received on January 15, 2016), DNR and DOR have 60 days to complete a development cost review. The State has entered into a contract

with international accounting firm Ernst & Young to perform the cost review requirements for a sum not to exceed \$45,000. The State anticipates that this review will be completed no later than mid-March.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Marty Rutherford". The signature is fluid and cursive, written over a light blue horizontal line.

Marty Rutherford
Deputy Commissioner, DNR

CC: Mark Myers, Commissioner, Department of Natural Resources
Randy Hoffbeck, Commissioner, Department of Revenue
Dona Keppers, Deputy Commissioner, Department of Revenue
Fritz Krusen, Acting President, Alaska Gasline Development Corporation
Darwin Peterson, Legislative Director, Office of the Governor

APPENDIX B

Sample Draft Constitutional Amendment

* Section I. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

Section 18. Suspension of Taxation by Contract Authorized by Law. Contracts approved by a majority of the legislature and entered into by the executive branch by December 31, 2017 to provide fiscal terms for a liquefied natural gas project, including a gas treatment plant, gas pipelines, and a liquefied natural gas plant and related facilities, as provided by law are constitutional under this article. Such contracts as originally executed shall be binding upon future legislatures as to terms of gas taxation, but any amendments to such contracts executed between the parties shall not bind future legislatures as to any aspect of taxation.

June 15, 2015
Appendix to letter
from Governor
Weld

Estimated AKLNG Gas Production Profiles

