

02 / 18 / 15
ALASKA
LNG
PROJECT
UPDATE

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PROJECT UPDATE</SUBJECT><COMM>SRES29</COMM></TARGET>

Alaska LNG

Project Update

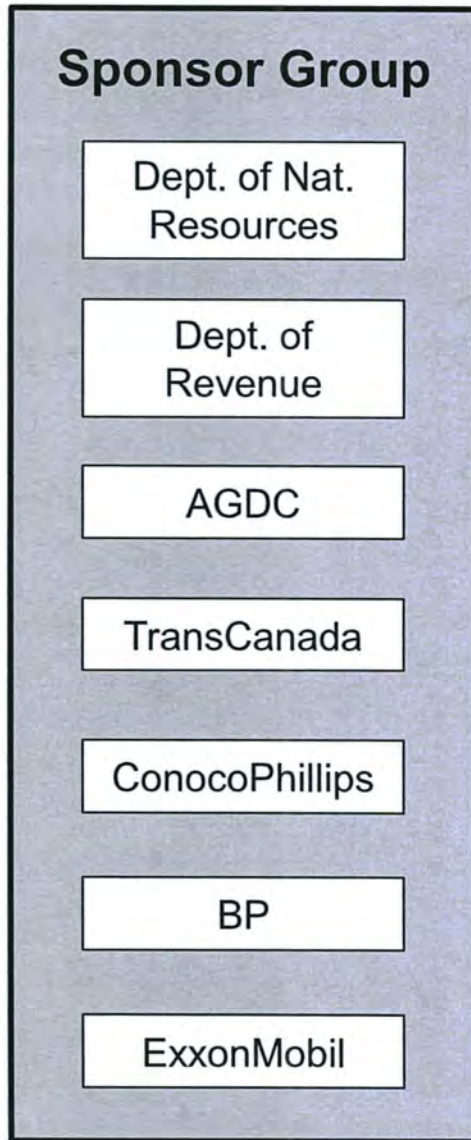
Senate Resources Committee

February 18, 2015

Marty Rutherford – Department of Natural Resources
Randy Hoffbeck and Dona Keppers – Department of Revenue
Dan Fauske – AGDC
Vincent Lee – TransCanada

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

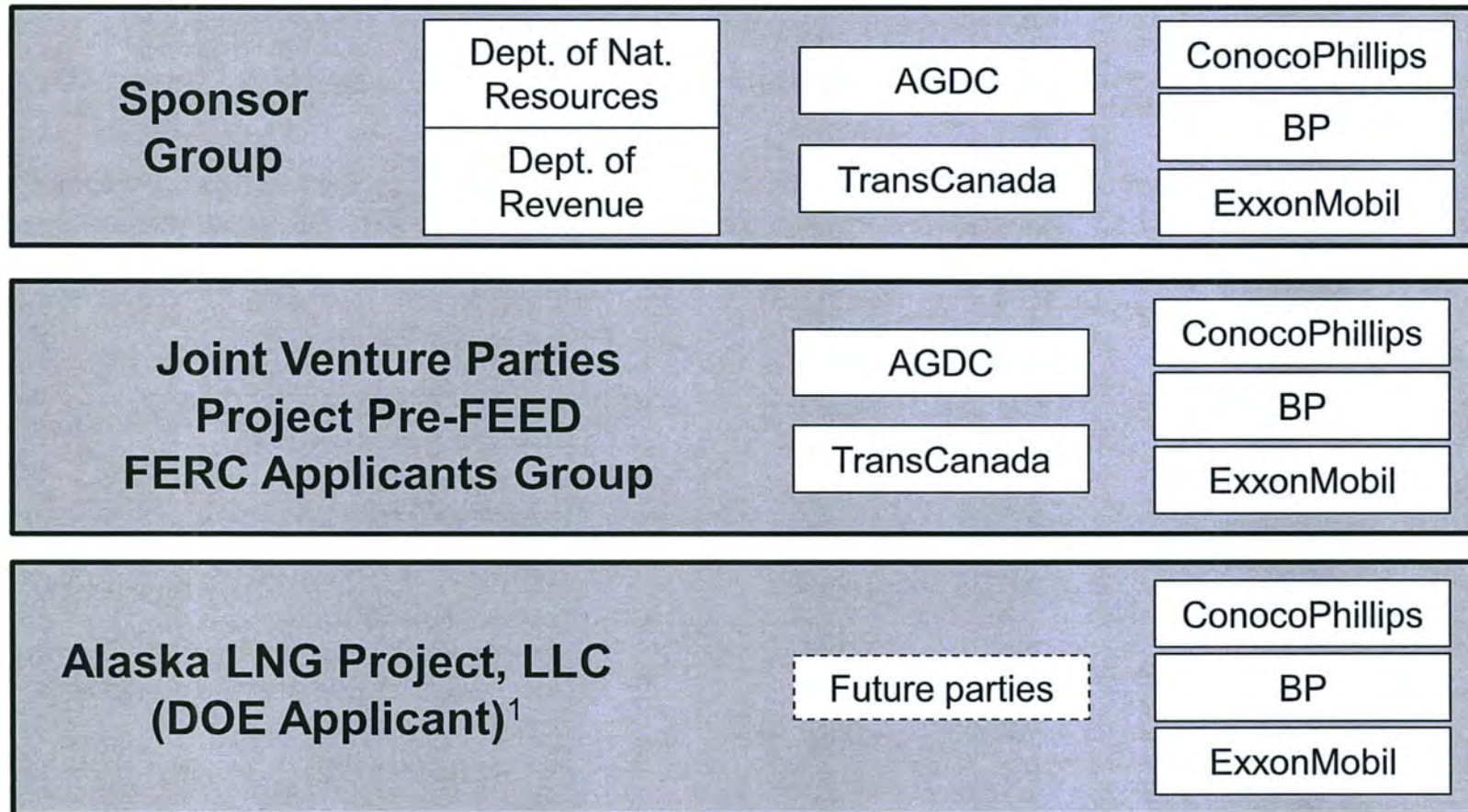
Alaska LNG Project Arrangements



Sponsor Group

- Parties with a stake in advancing Alaska gas development
- Meets regularly to facilitate progress
- Concerned with all aspects of Alaska LNG Project

Alaska LNG Project Arrangements



¹ 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

ConocoPhillips

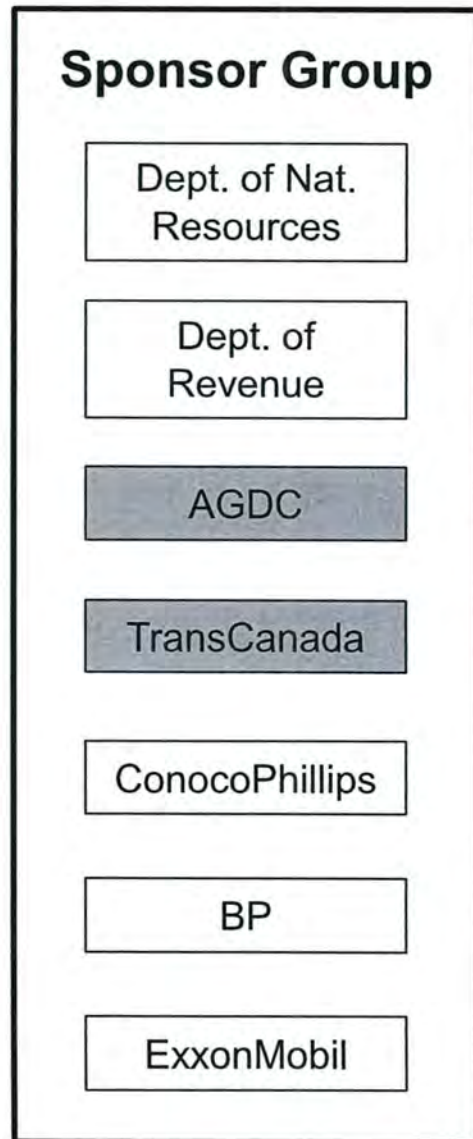
BP

ExxonMobil

The Administration represents the State of Alaska

- Department of Natural Resources (DNR) administers the State's royalty interest and pipeline rights of way
- Department of Revenue (DOR) administers regulation / collection of taxes
- Depending on State's election to take royalty in kind (RIK) and election by ExxonMobil, BP and ConocoPhillips for the State to take production Tax as Gas (TAG), State could receive about 25% of resulting gas production
- DNR/DOR also represent other State interests as resource owner, potential shipper and sovereign, including fiscal issues, security of gas supply (in the event of RIK and TAG), and facilitating expansion and third-party access

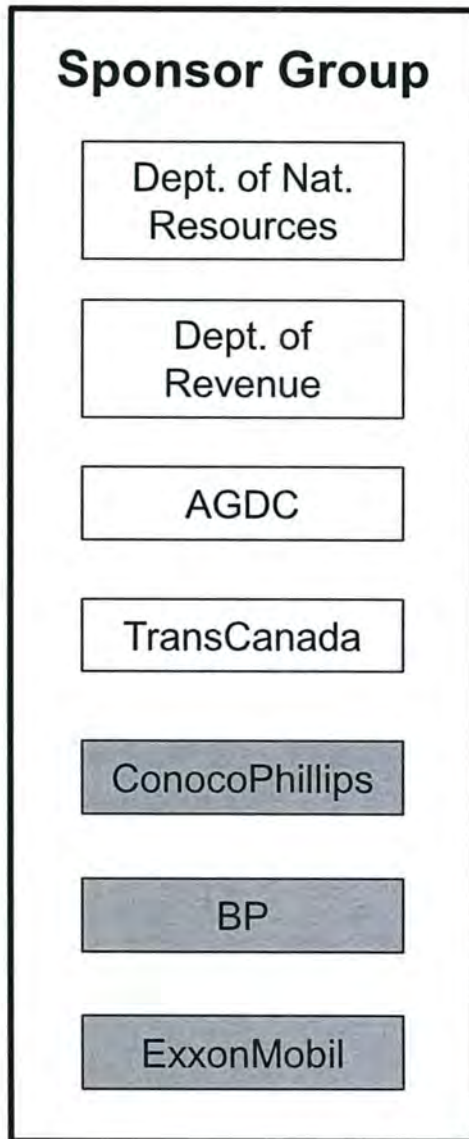
Alaska LNG Project Arrangements



For Pre-FEED, AGDC and TransCanada represent the State of Alaska's infrastructure interests in the Project

- AGDC represents the State's ownership interest in LNG Plant
- TransCanada represents the State's ownership interest in the pipeline and Gas Treatment Plant (GTP)

Alaska LNG Project Arrangements



ExxonMobil, BP and ConocoPhillips hold rights to produce natural gas from Prudhoe Bay Unit and Point Thomson Unit

- Working how to commercialize those resources
- Each represents their respective companies and shareholders in efforts to commercialize ANS natural gas, including ownership in the new Alaska LNG Project facilities

Alaska LNG Project Arrangements

Sponsor Group

Dept. of Nat.
Resources

Dept. of
Revenue

AGDC

TransCanada

ConocoPhillips

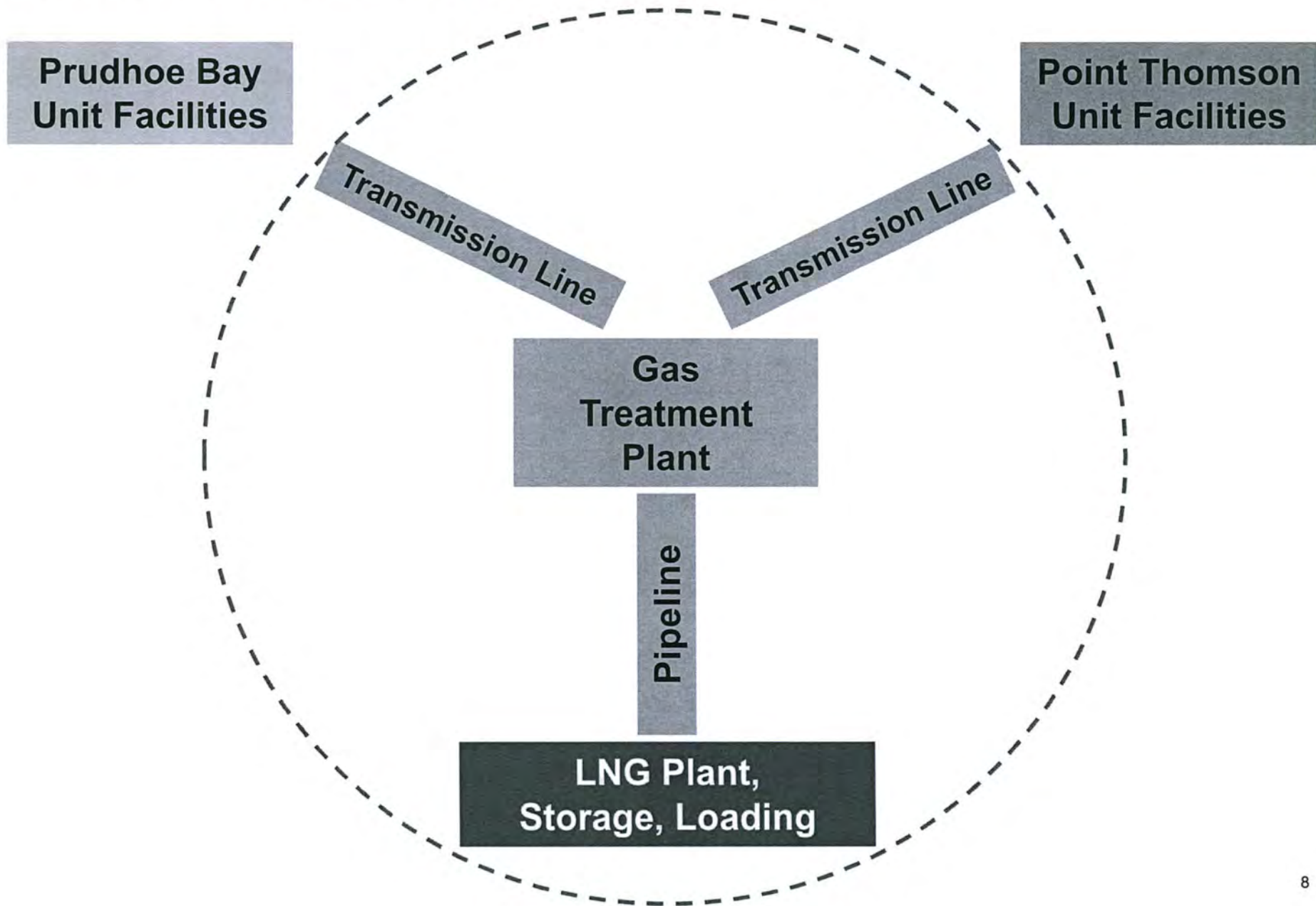
BP

ExxonMobil

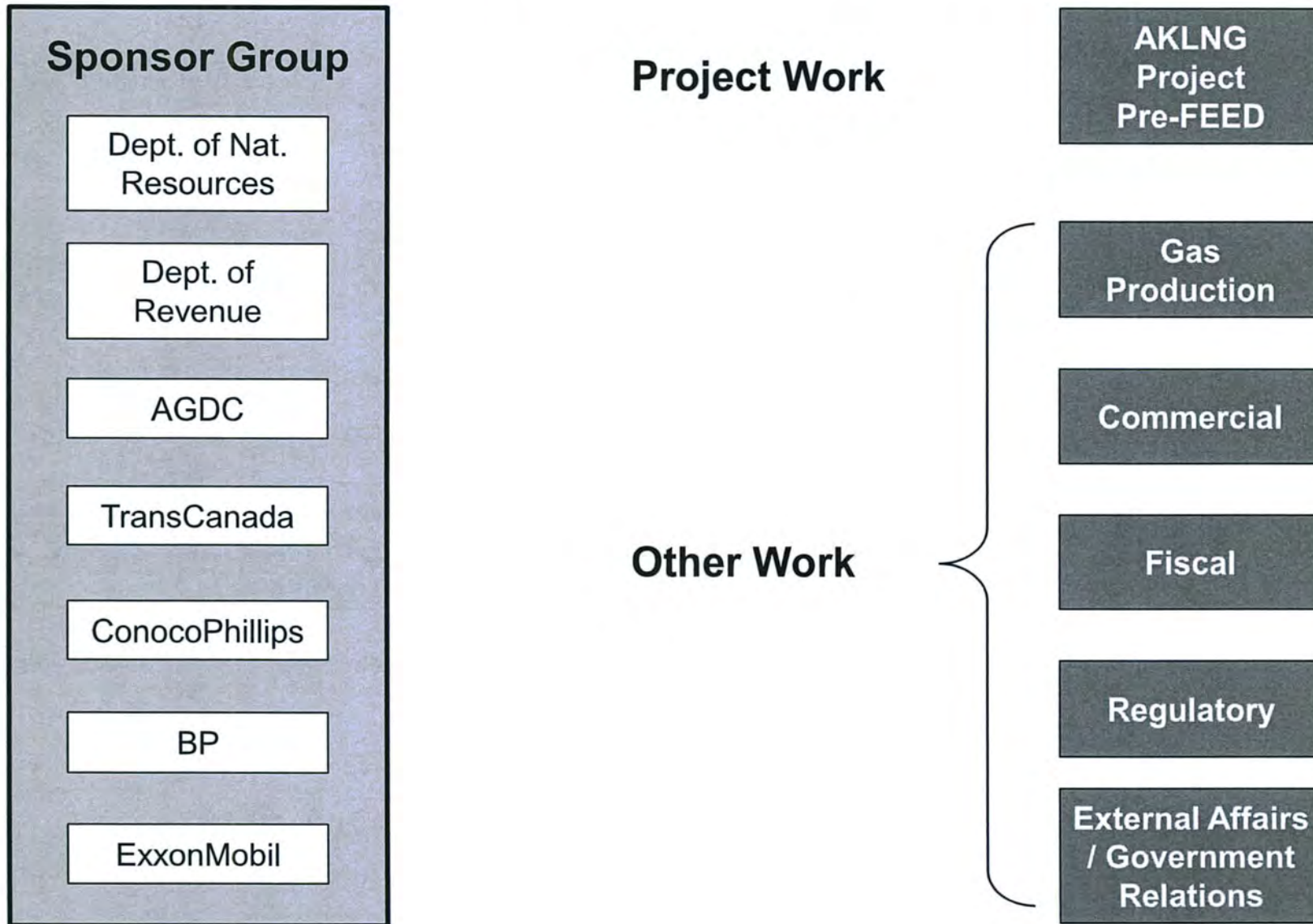
AKLNG
Project
Pre-FEED

- 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
- Drafting project execution plans
- Refining overall cost and schedules
- Developing environmental permitting applications
- Cooperation agreement with AGDC on field data collection

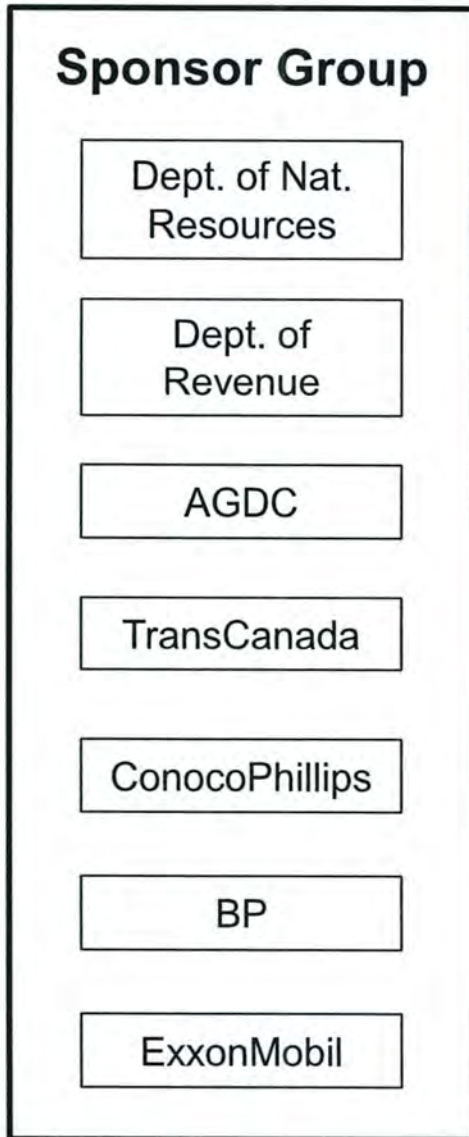
Alaska LNG Project Facilities



Alaska LNG Project Arrangements



Alaska LNG Project Arrangements

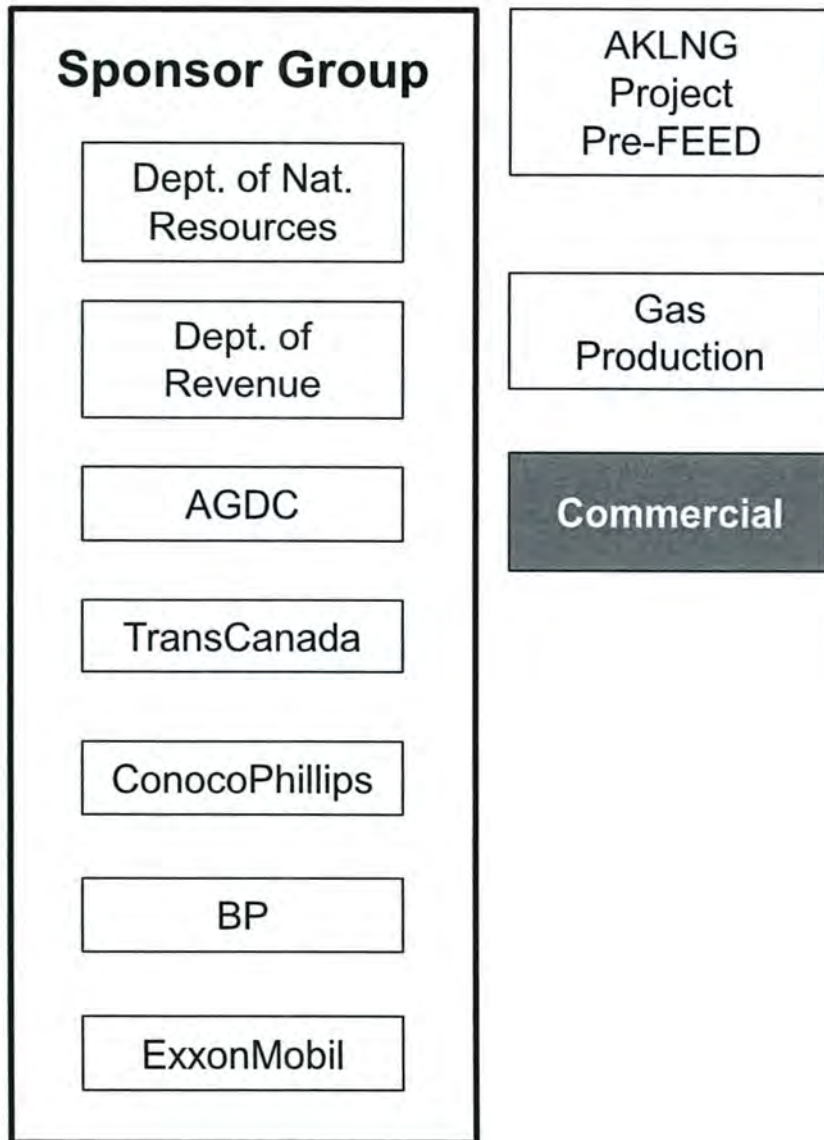


AKLNG
Project
Pre-FEED

**Gas
Production**

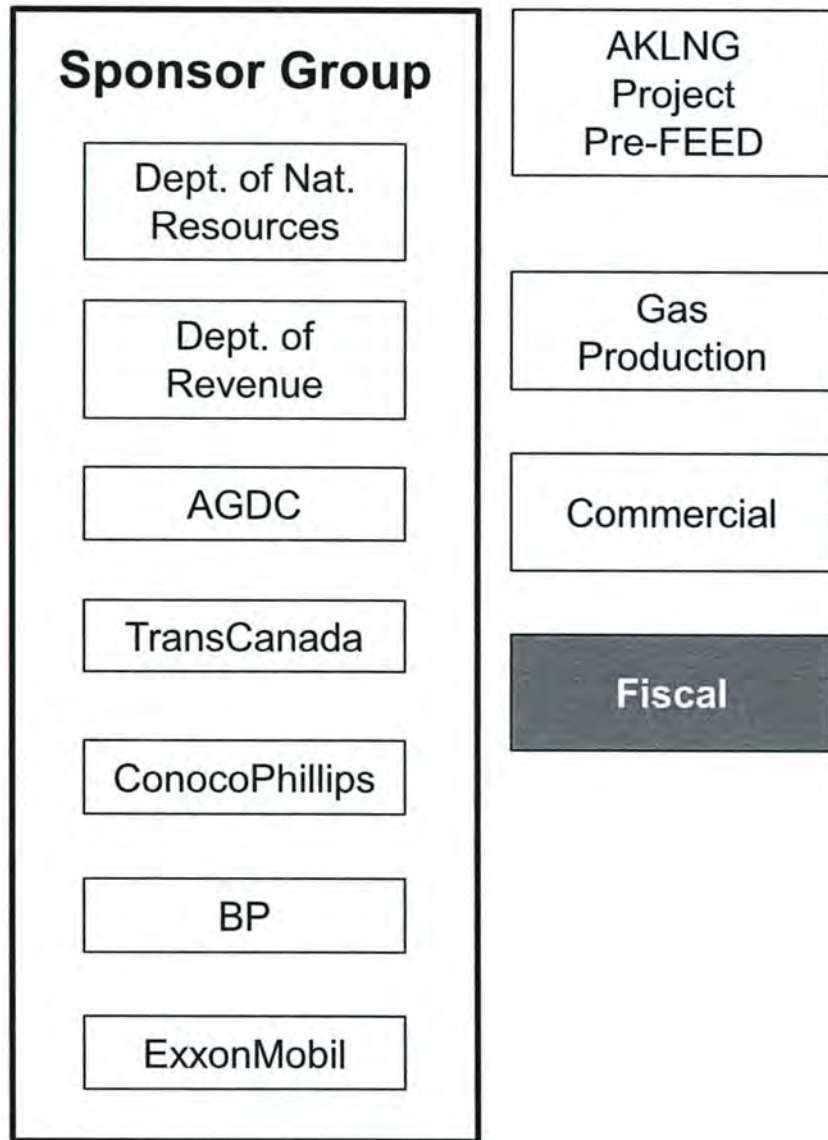
- Preparations for commercial natural gas production are underway at both Point Thomson Unit (PTU) and Prudhoe Bay Unit (PBU)
- Significant natural gas development required at PTU including drilling and gas handling facilities
- PBU would also require some new facilities
- Working with AOGCC on gas offtake authorizations

Alaska LNG Project Arrangements



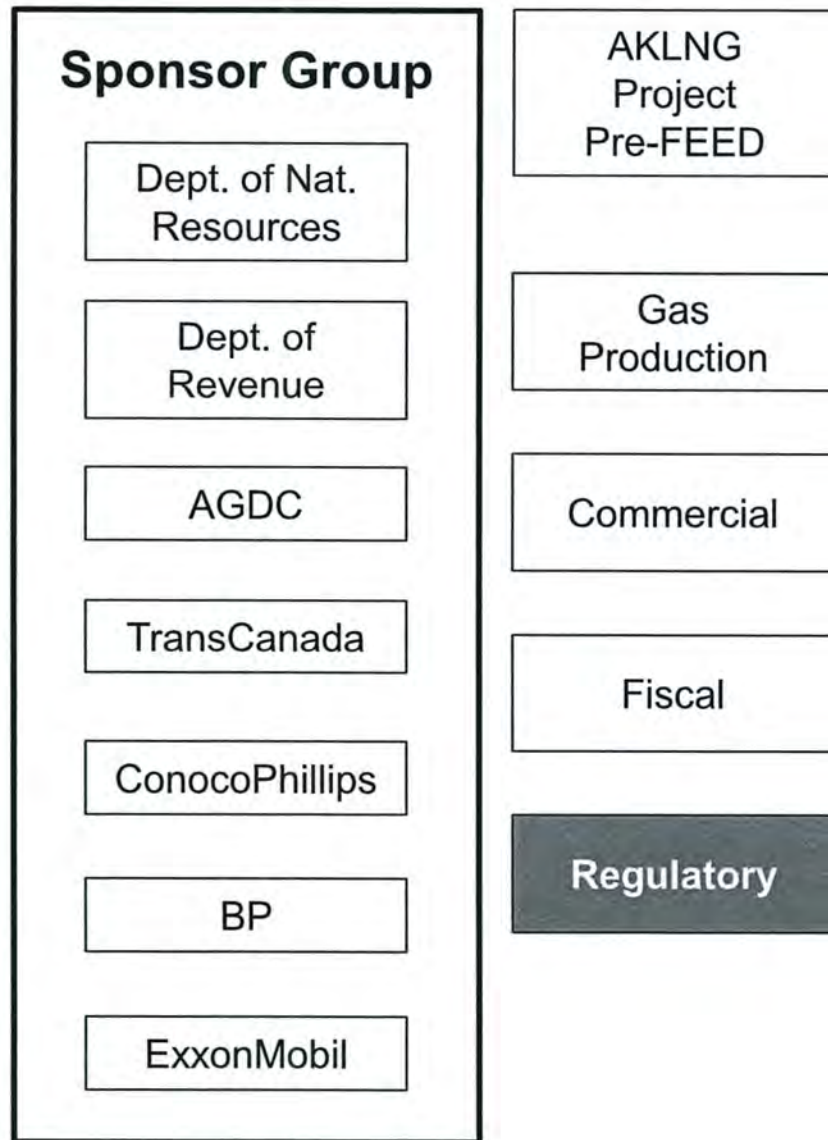
- SB 138 Lease Modifications to address RIK / RIV switching and PTU SSR / NPS leases
- DNR considering State Royalty in Kind
- Commercial foundation agreements among State, AGDC, TransCanada, ExxonMobil, BP and ConocoPhillips to be sufficiently completed before fiscal action by the Legislature
 - Governance for long term venture
 - Gas supply to Project
 - Gas / LNG liftings from Project
 - In-state gas
 - Expansion
 - Others
- Long-term Firm Transportation Services Agreement (FTSA) between TransCanada and State

Alaska LNG Project Arrangements



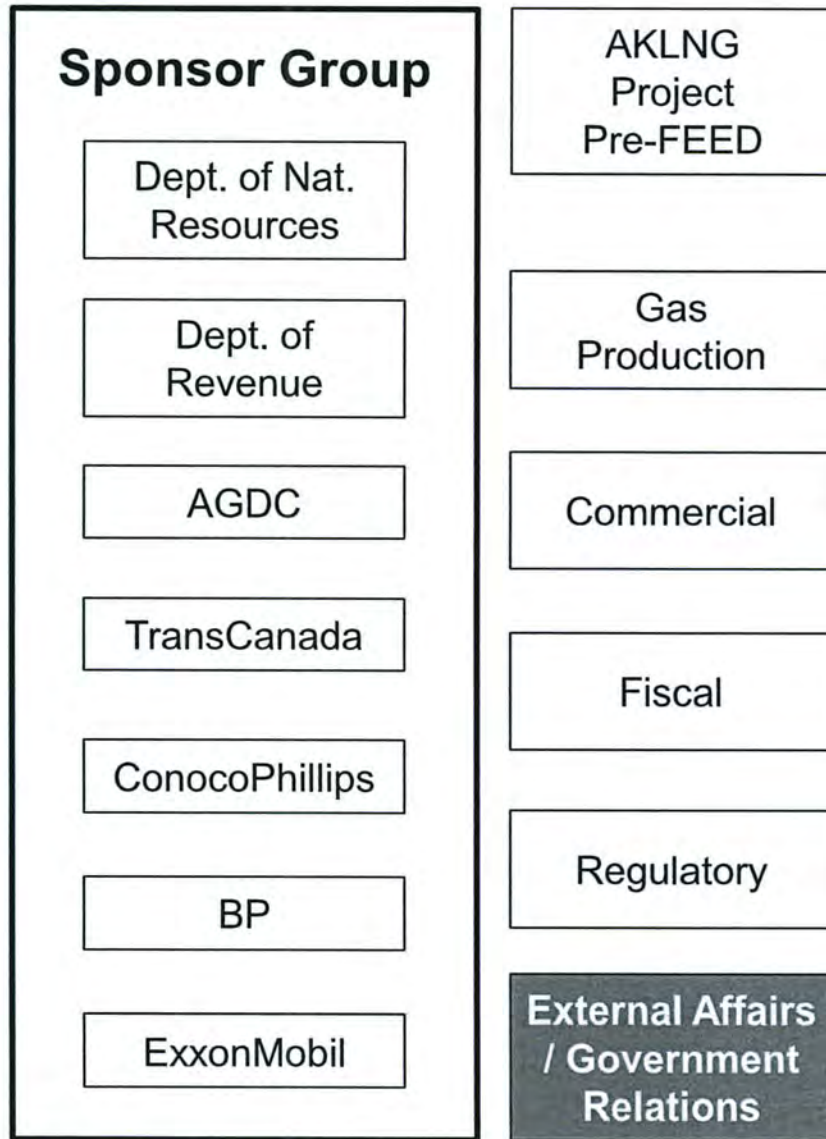
- Predictable and durable fiscal terms needed due to unprecedented scale, complexity and costs
- Also required to compete in global energy markets
- Fiscal terms are a key enabler for the Project, and also with LNG Buyers, lenders and investors
- Building on Jan 2014 HOA and SB 138
- Considering options to make terms predictable / durable and to address property taxes
 - Work products from MAGPRB important to finding lasting solutions
- Legislative review and approval will be needed

Alaska LNG Project Arrangements



- DOE Export Authorization on track
- NEPA Pre-File process sets foundation for the Environmental Impact Statement (EIS)
 - First draft of Resource Reports submitted in February
 - Specific, anticipated project impacts and proposed mitigation measures will be included in second draft of Resource Reports
 - Two drafts of Resource Reports before final submission intended to facilitate stakeholder engagement

Alaska LNG Project Arrangements



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

Deliverables to Support 2016 FEED Decision

AKLNG Project	• Pre-FEED Project Deliverables
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
Regulatory	• DOE Export Licenses, FERC NEPA progress
External Affairs / Government Relations	• Broad support for Project

Timeline

- Continuing to target FEED decision 2Q 2016; resourcing effort accordingly
- Planning for 90-day public review prior to formal legislative review
 - Certain agreements to be signed by State require approval of Legislature
- Given magnitude of FEED decision for each party, essential that time be taken to satisfactorily complete all deliverables



AKLNG Project Update

SOA 3rd Party Cost Forecast

January 30, 2015

Marty Rutherford
Deputy Commissioner
Department of Natural Resources

SOA AKLNG 3rd Party Cost Forecast

Through the State of Alaska's agreements with TransCanada pertaining to the AKLNG Project, SOA is accruing costs associated with TransCanada's work on the Project as follows:

➤ Actual TC Reimbursable Costs for Jan–Dec, 2014	\$ 14M
➤ Estimated TC Reimbursable Costs for 2015	<u>\$ 70M</u>
➤ Estimated Total SOA Obligation to TC for 2014-15	\$ 84M*
➤ Add'l SOA Pre-FEED Forecast (Jan-June, 2016)	\$ 20M
➤ Estimated TC Reimbursable Costs for FEED	<u>\$377M**</u>
➤ Est. Total TC Reimbursable Pre-FEED & FEED Costs	\$481M

* First Off-ramp for TC termination option on or before Dec, 2015

** Multiple Off-ramps exist for TC termination during FEED. This estimate assumes total FEED cost of \$2.5B, with 25% SOA share, and ~50% of total FEED expenditures within TC work scope.

***Based on cost data provided by TransCanada and AKLNG Project Forecasts



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

COMMISSIONER'S OFFICE

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February 17, 2015

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

Dear Senator Giessel:

This letter is to inform you that the previously reported break-down of projected project spending by TransCanada on the State's behalf in the Alaska LNG Project was further refined after submittal. We have provided an updated breakdown of TransCanada's most recent estimates of expenses it will incur over the next year and a half (through mid-2016).

Projected Total Project Spending

In the January 29, 2015 report, DNR reported that TransCanada was estimated to incur approximately \$100 million in development costs and cash calls for the pre-FEED phase of the project, inclusive of \$8 million in carrying costs¹.

Upon further review, TransCanada is still expected to incur approximately \$100 million associated with TransCanada's work on the Alaska LNG Project, not including \$8 million in carrying costs, through pre-FEED. However, the amounts reported on January 29, 2015, did not separately specify the approximately \$5.6 million TransCanada already incurred on concept selection costs since January 1, 2014, net of AGIA reimbursements, prior to entering pre-FEED in the estimated total project spending amounts.

The updated 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 (unchanged)**;
- b. Development costs, i.e. TC internal costs for pre-FEED period: **\$18 million (total unchanged, previously reported as \$15 million ± \$3 million contingency)**;
- c. Concept Selection costs prior to entrance of pre-FEED (from January 1 to June 30, 2014), net of AGIA reimbursements: **\$5.6 million (previously not included)**; and
- d. Carrying Costs: **\$8 million (unchanged)**

The total projected amount that the State of Alaska would be responsible for through pre-FEED is estimated to be \$108 million, which includes the approximately \$13.7 million spent from January 1 to December 31, 2014, as previously reported on January 29, 2015.

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

We hope you find this clarification useful. Continued coordination efforts with TransCanada will take place to further refine and expand the information provided in future reports to include high-level narrative of activities and forecast information. If we can be of further assistance, please do not hesitate to contact us directly.

Sincerely,



Marty Rutherford
Deputy Commissioner

CC: Alaska State Senators
Mark Myers, Commissioner, Department of Natural Resources
Randy Hoffbeck, Commissioner, Department of Revenue
Darwin Peterson, Legislative Director, Office of the Governor