

06/16/15
ALASKA LNG
LEGISLATIVE
UPDATE

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

Alaska LNG

Legislative Update

June 16, 2015

Presented by Steve Butt

Alaska LNG

An integrated liquefied natural gas export project that would provide access to gas for Alaskans

Gas Treatment Plant (GTP)

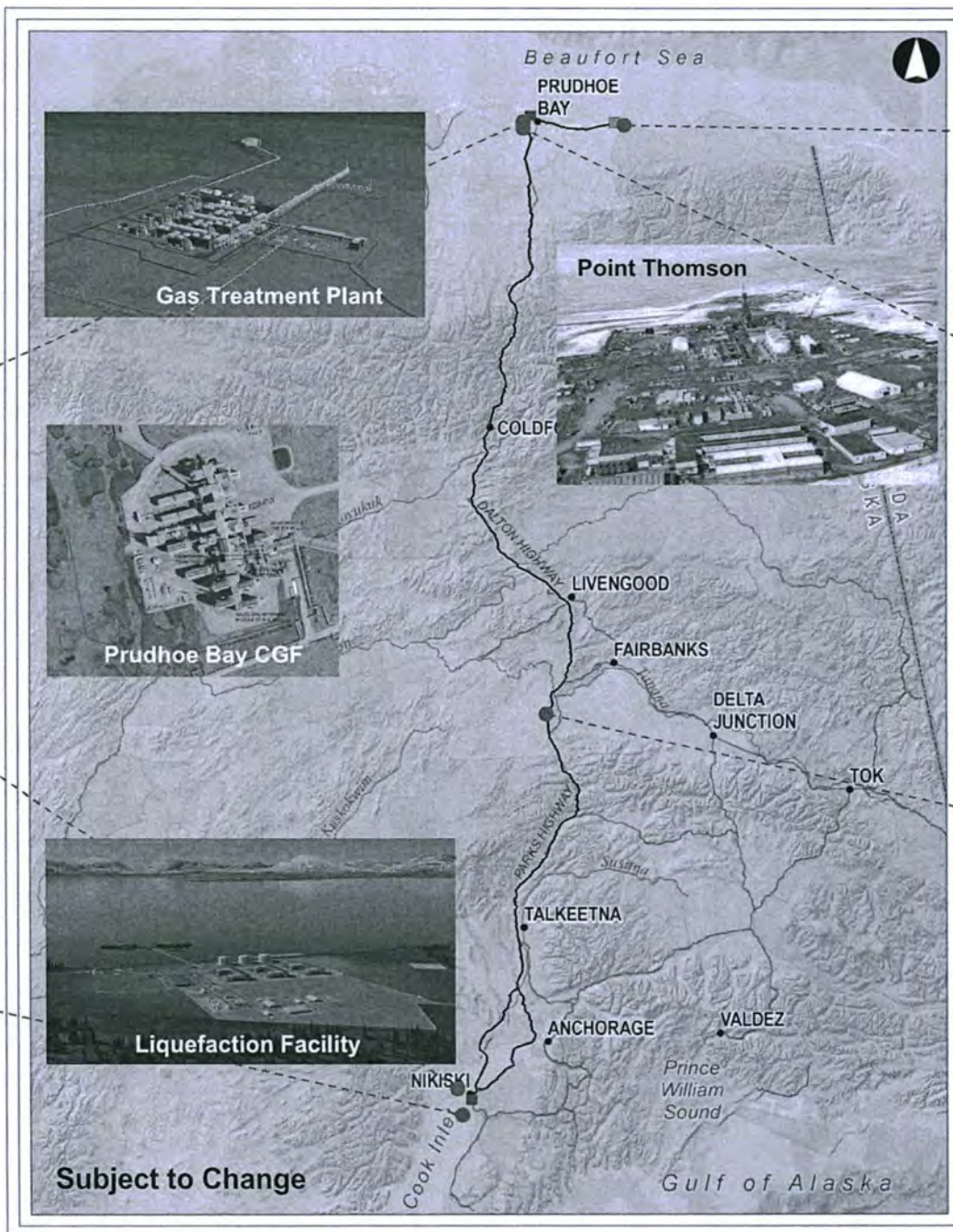
- 3.3 BCFD peak winter rate
- Three trains with compression, dehydration and chilling for gas conditioning (remove impurities)
- CO₂ removed, captured and compressed for injection at PBU

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 CO₂ from GTP

Gas Pipeline

- 800+ mile 42" diameter gas pipeline from gas treatment plant to liquefaction facility
- 3.5 BCFD capacity
- 6-10 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 connected actions to the Alaska LNG Project.

Artists renditions of LNG and GTP

Safety, Health and Environment Report:

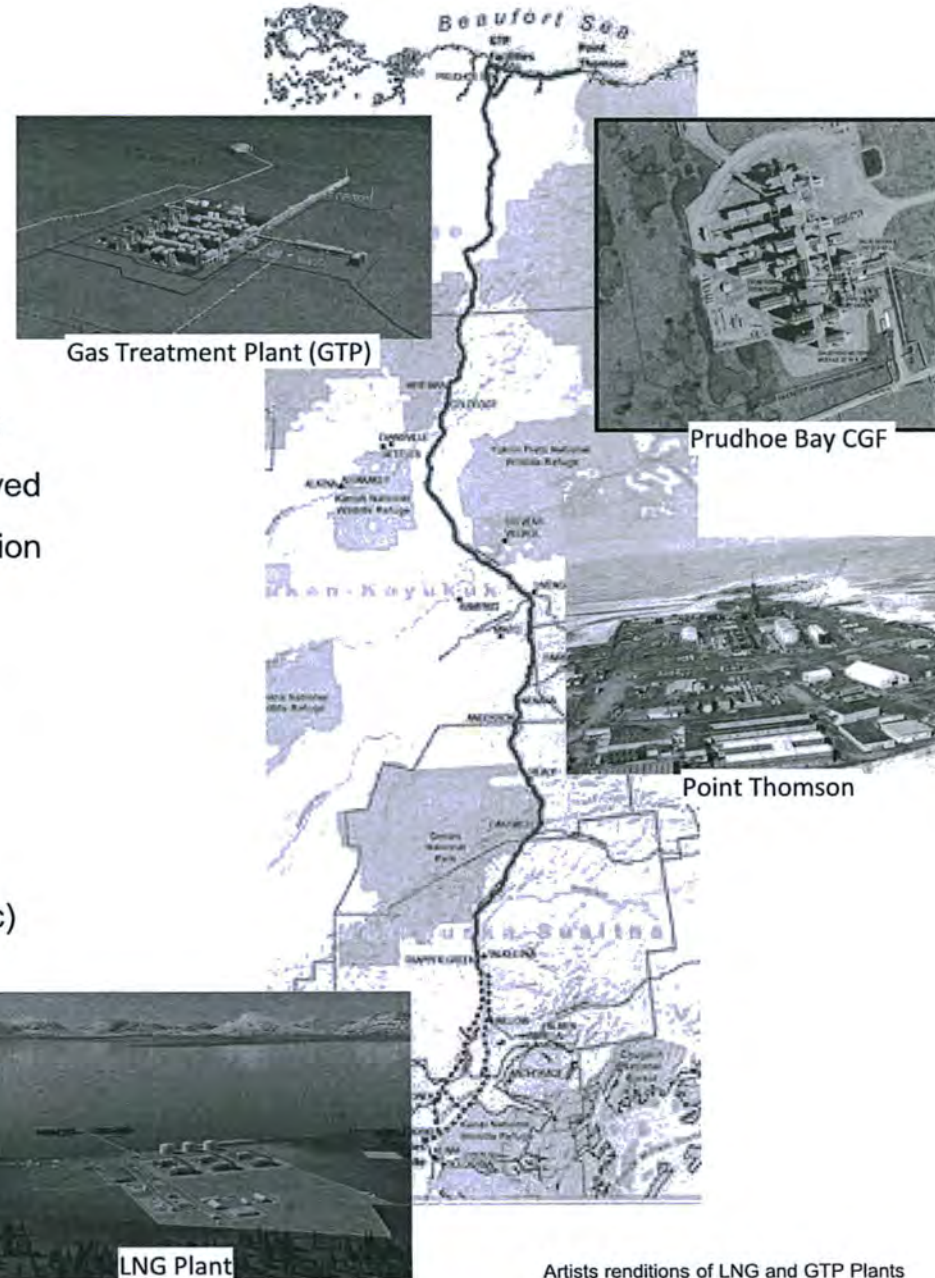
- * Minor hydraulic fluid release (1 cup, non-toxic); remediated
- * Good “culture of caring” reporting – 4 near misses, 5 first aids

Executive Summary:

- * Spend: \$294M to date, \$187M on pre-FEED through May15
- * DoE authorized both FTA and non-FTA export (20MTA , 30yr)
- * FERC accepted resource reports, initiated Env. Impact Statement
- * FERC and other agency feedback on draft resource reports received
- * Community open-house sessions continuing with FERC participation

Key Messages:

- * Alaska LNG is an integrated LNG project – *plants plus pipeline*
98% of discovered NS gas “owners” are project participants
Regulated under FERC Section 3; allows design integration
- * Understanding the “ARC of Success” is critical to the project
Alignment - State is a key participant (voting rights, data, etc)
Risk reduction - Pre-FEED work to identify/mitigate risk
Cost reduction - “Cost of Supply” defines competitiveness
- * Match pre-FEED pace / spend to broader schedule / issues



Completed design of GTP pad / camp

Confirmed access to required construction gravel

Evaluating water resource / availability

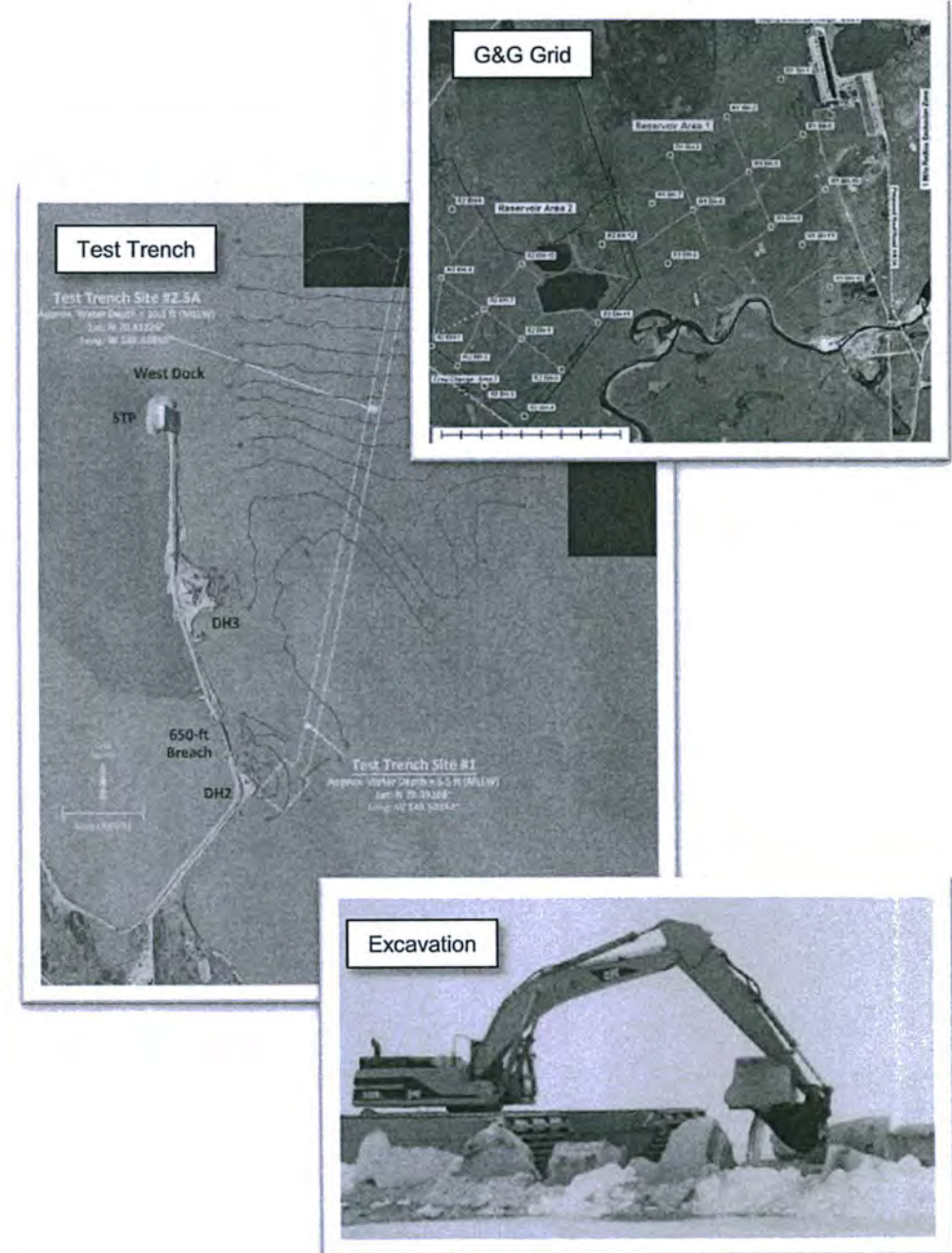
Continuing geotechnical assessment

- * 28 boreholes complete
- * Test soils / constructability
- * Confirm road / haul design

Strong PBU integration; assessing permitting needs

Completed winter near-shore excavation program

- * Test ability to increase access to PBU West Dock for module delivery
- * Reduces cost / environmental impact
- * Increases access in summer for offloading







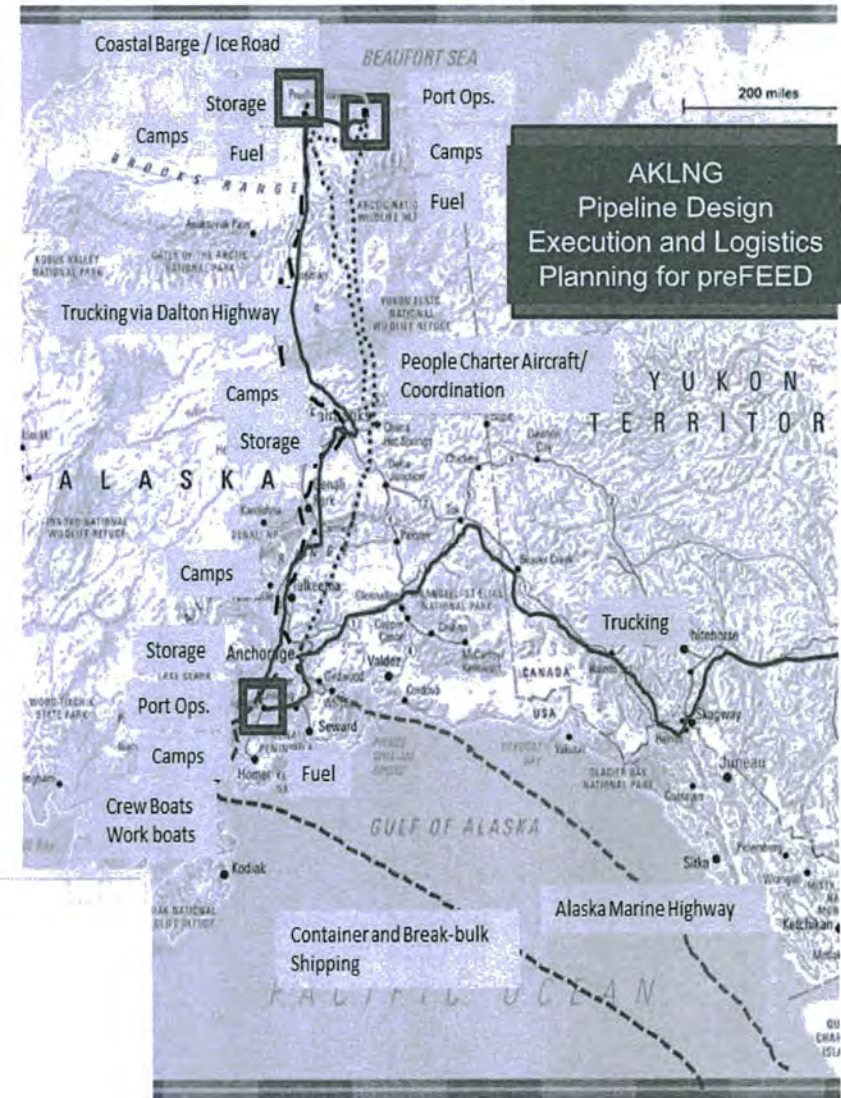
Pipeline route / design progressing well

- * "RevB" route complete, aligned with AGDC
- * Continued work on key areas – Atigun Pass, Glitter Gulch, Nikiski
- * Selected Western route for Cook Inlet (Shorty Creek to Boulder Pt)
- * Hydraulic and compressor/meter station designs nearly complete
- * Execution and logistics plans ready for cost / schedule estimates

Continued data exchange / collaboration with AGDC

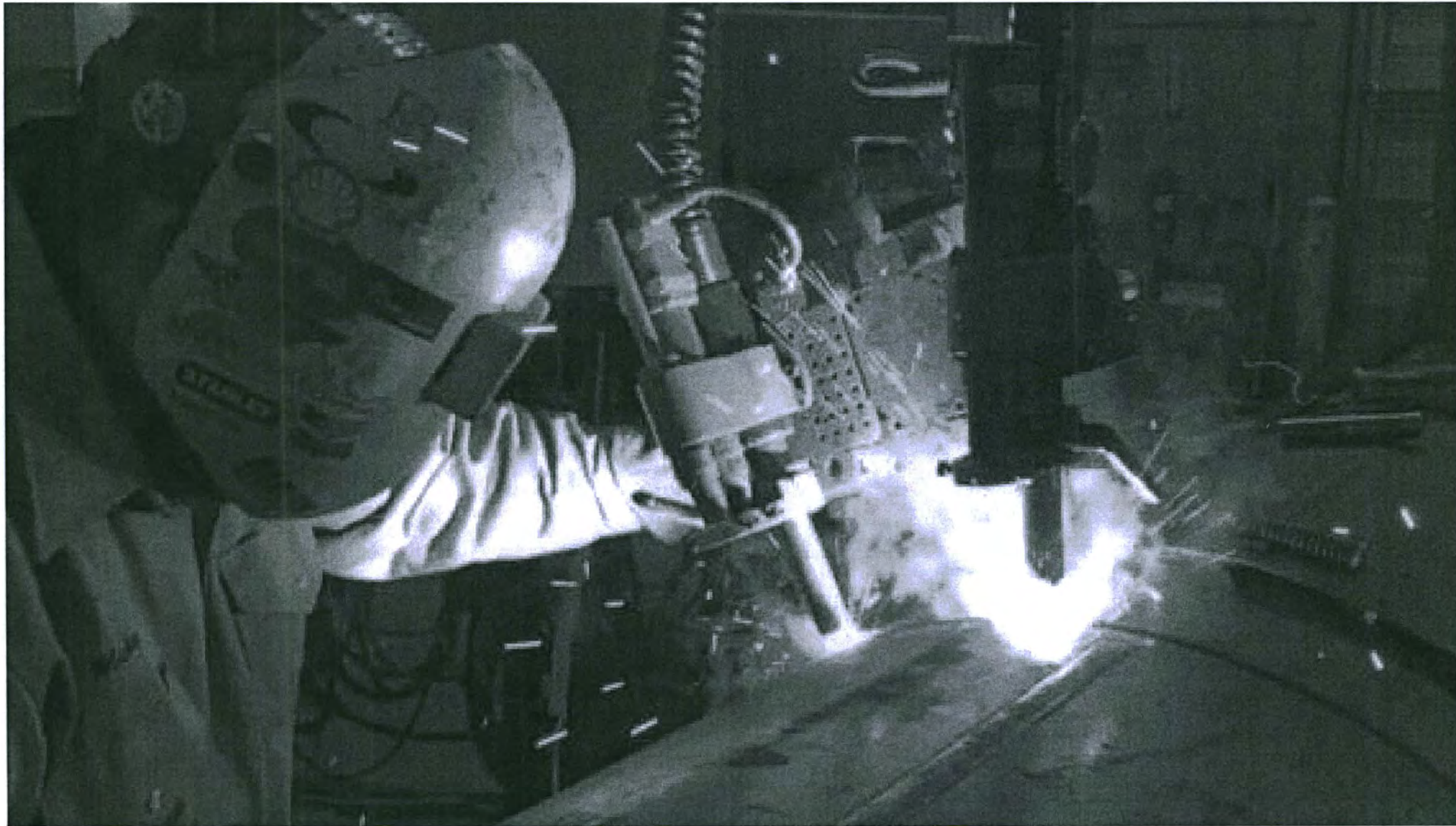
Pipeline materials design and testing in progress

- * X70 with 0.72 design factor for Strain Based Design (SBD) sections
- * X80 with 0.8 design factor, crack arrestors for conventional sections
- * Evaluating weld development / procedures
- * Evaluating alternative different coating designs / application options
- * Completed good reviews with federal pipeline regulator (PHMSA)



AK LNG – Updated Pipeline Hydraulic Design (May, 2015)





Route Updates - Onshore and Offshore:

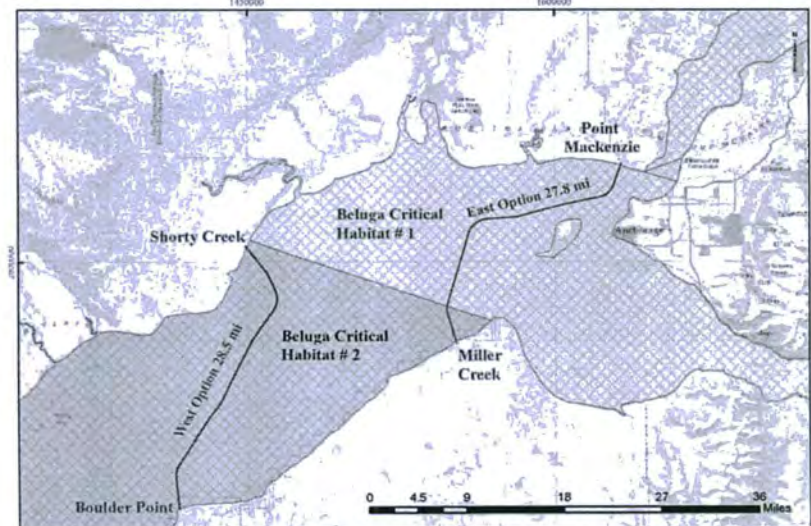
- * Reviewed updated routing with State, Federal agencies 12 May
- * Reviewed stream crossing methods with ADF&G 13 May

Mainline Onshore – Joint Effort with AGDC:

- * Finalized “Rev B” of the pipeline route, 1 April
- * Joint team working Atigun Pass and Glitter Gulch

Mainline Offshore – Technical Rationale for Western Route:

- * Shorter overall pipeline length than Eastern Route
- * Onshore avoids Captain Cook State Park, Susitna Gunnery Range, agricultural impacts and critical wetlands
- * Comparable onshore construction costs / schedule to East Route
- * Significantly less offshore construction challenges (closer to deeper water, lower current, fewer shipping interruptions, less protected species impact, CEA buried power cables)
- * Relatively stable seabed (active seabeds in East)



Evaluating alternative layouts / designs

Continuing geotechnical assessment

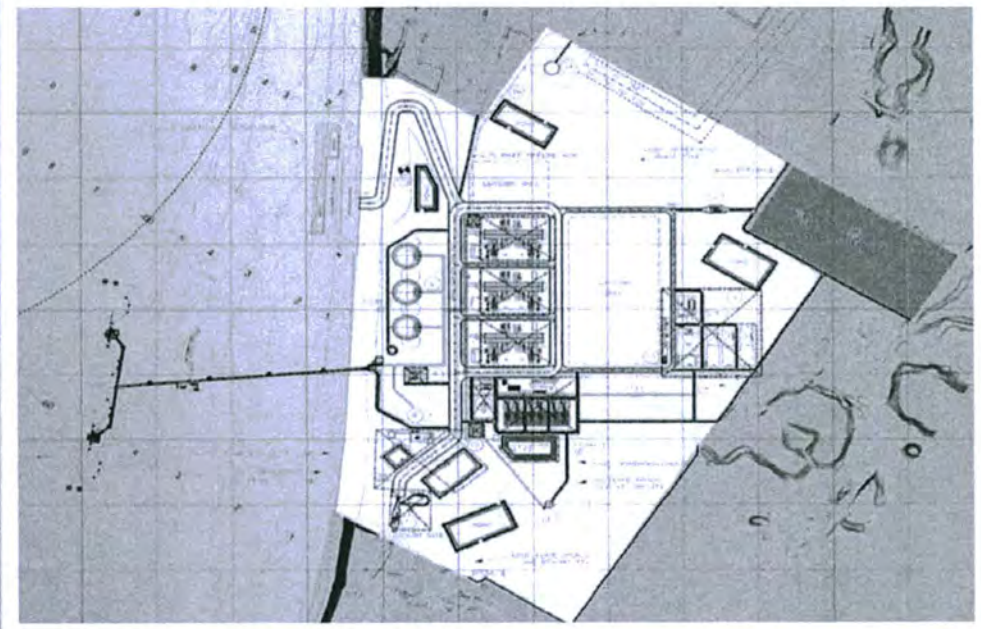
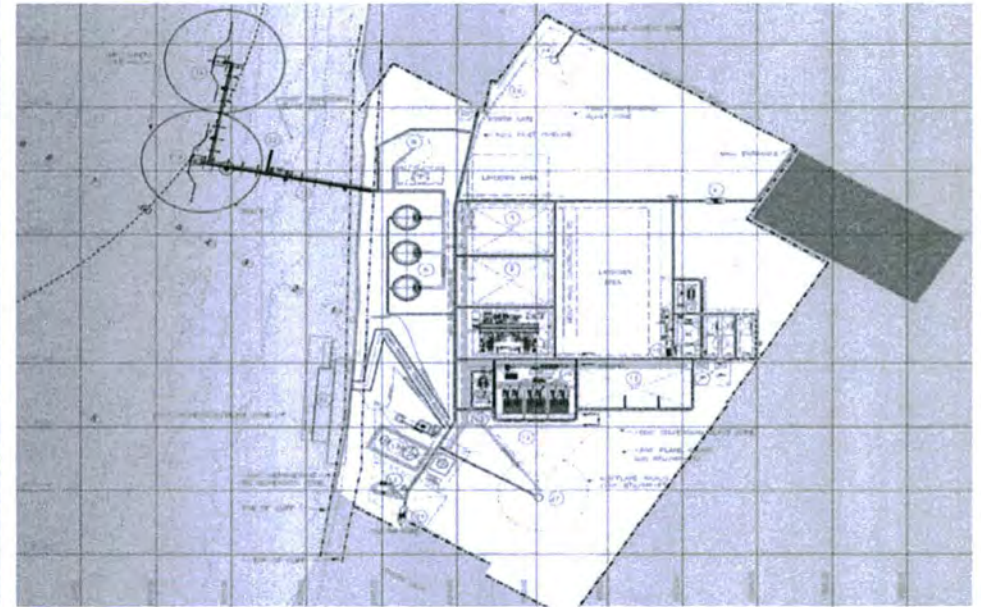
- * 80 onshore boreholes
- * 34 offshore boreholes

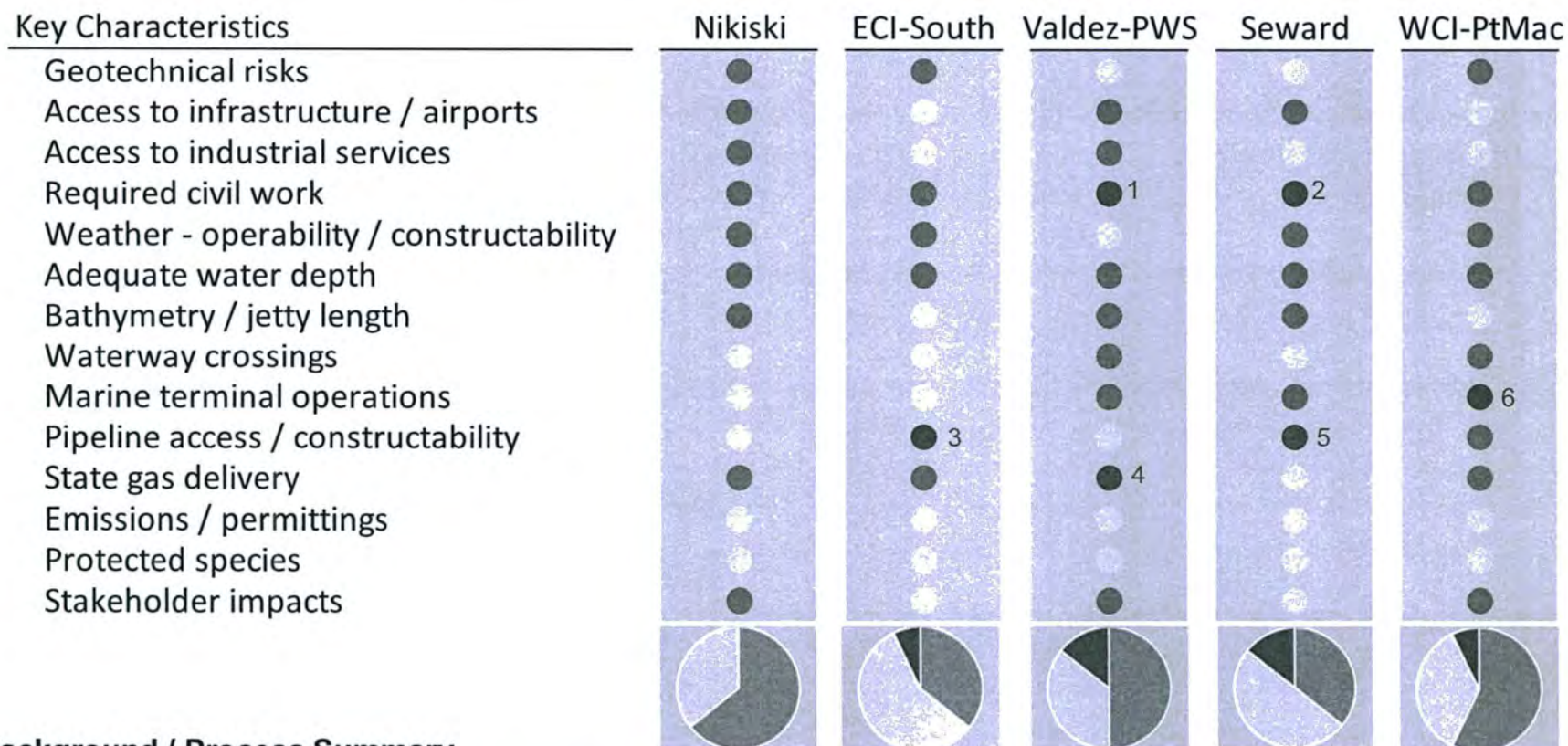
Focus on selecting compressor driver design

- * 250,000 HP required for 3 LNG trains

Continuing to improve marine facility design and operational capability

- * Collecting sea floor and meta-ocean data
- * Completed navigation simulation work / ice modeling
- * Commenced marine transportation modeling





Background / Process Summary

- Screened South Central Alaska tidewater locations for geotechnical, marine suitability – identified 22 potential sites
- Site acceptability criteria (67 factors) used to narrow focus to 5 sites / areas for conceptual engineering evaluation

Critical Issues (Red Criteria Notes)

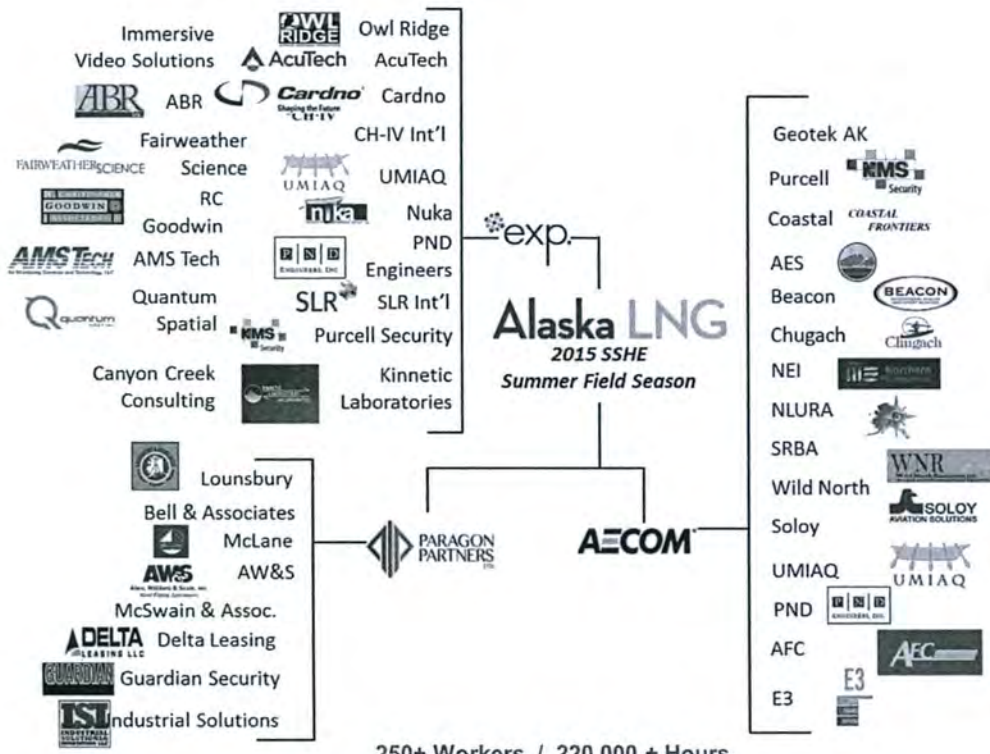
- 1) Prince William Sound (PWS) locations require extensive civil work (130 million m³ cut, \$3-4B cost), higher snow loads
- 2) Seward has limited land for plant, requires creation of level site / civil work (only suitable site occupied by prison)
- 3) East Cook Inlet (ECI) South sites extend pipeline length / costs, impact waterways / fishing, increase permitting risk (\$1B+)
- 4) Valdez – PWS location requires a pipeline spur through Glennallen to supply rail-belt population centers (~\$1B)
- 5) Seward pipeline access extremely difficult to construct, main routes occupied, increases costs, permitting risks (\$2B+)
- 6) Point MacKenzie marine terminal / channel shallow; subject to additional ice load / pack; compromises winter operability

Alaska LNG – 2015 Summer Field Program

2015 Summer Field Season progressing well (~\$60M)

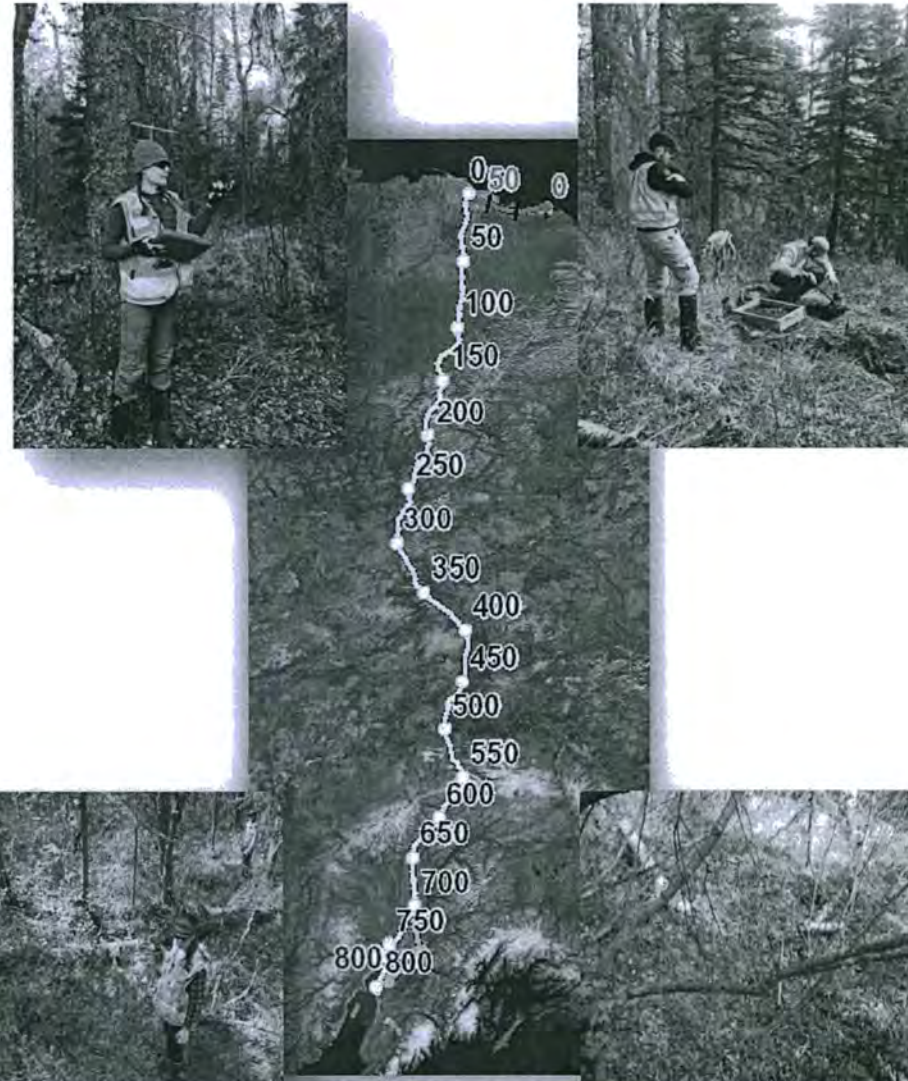
- * Geotechnical scope (250+ boreholes); reduces execution risk
- * Cultural fisheries (51), waterways/wetlands (20k+ acres)
- * Cultural resource surveys (22k acres) led by Native heritage experts
- * 7 archaeological sites identified, 9 under evaluation
- * 2015 SFS scope slightly larger than 2014 SFS

Continue to coordinate data acquisition / ROW work with AGDC



250+ Workers / 220,000 + Hours

75% Alaska Content in Summer Field Season



House pit with crew members at four corners

Cache pit documented in field

Community

- * 80+ community sessions in last 12 months
- * Community meetings continuing to support summer field program / FERC 2015
- * FERC scoping meetings – Fall 2015

Alaska Business

- * 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 300 businesses registered at ak-lng.com

Alaska Native Groups

- * Village and tribal outreach ongoing
- * Engagement with Alaska Native Regional Corporations

Regulatory

- * Waterway assessment with U.S. Coast Guard
- * Continued reviews with State, Federal regulators
- * Developing second draft of Resource Reports for FERC NEPA Pre-File process



Alaska LNG Committed to:

- ✦ Environmental responsibility
- ✦ Compliance with all applicable regulations
- ✦ Relentless identification, elimination and responsible management of safety, security, health, environmental risks
- ✦ Seeking balance between economic growth, social development and environmental protection

Commitment in Action – Marine Mammals

- ✦ Consultation with National Marine Fisheries Service (NMFS) and other stakeholders
- ✦ Avoidance of areas most likely to have concentrations of beluga whales during periods of peak feeding activity
- ✦ Selecting data gathering equipment with lower potential for interaction with wildlife
- ✦ Use marine mammal observers to advise operations regarding potential adaptations or periodic shutdown
- ✦ Cooperation with other projects to avoid duplication of effort and environmental interactions required for early field studies



Cook Inlet beluga whale with calf.
Photo: Chris Garner, U.S. Army, Ft. Richardson.



Labor study in progress to understand Alaskan capacity:

- ✦ Research / interfaces with key stakeholders:
 - Labor unions, state government officials, Alaska Native regional and village corporations, and others
- ✦ Initial focus on construction-related craft labor:
 - Pipefitters, welders, ironworkers, carpenters, scaffolders, sheet metal workers, boilermakers, equipment operators, truck drivers, instrument technicians, insulators, electricians, laborers, etc.
- ✦ Assess gaps between supply / demand, develop strategies

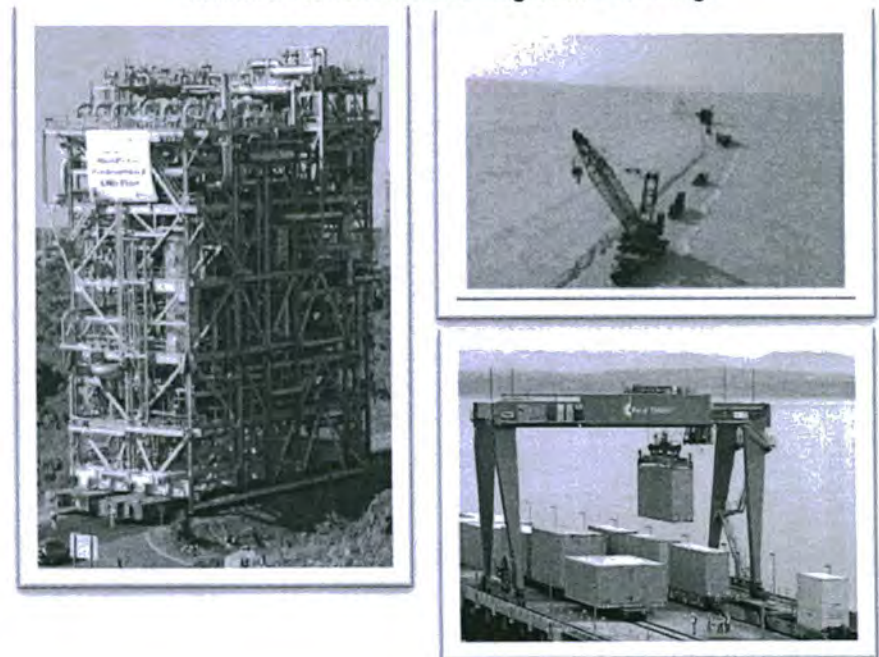
Infrastructure & logistics studies underway:

- ✦ Focus areas include aviation operators / support, logistics infrastructure / routes / management, supply ports, etc.
- ✦ Enable execution planning for
 - Trucking, barging, rail, air, storage/laydown areas, fuel support
 - Camp management, personnel travel, catering, housekeeping,
 - Ice road construction, maintenance & support

Construction Craft Labor



Module Movement and Logistics Planning



Progress Pre-FEED deliverables, per JVA / SB138

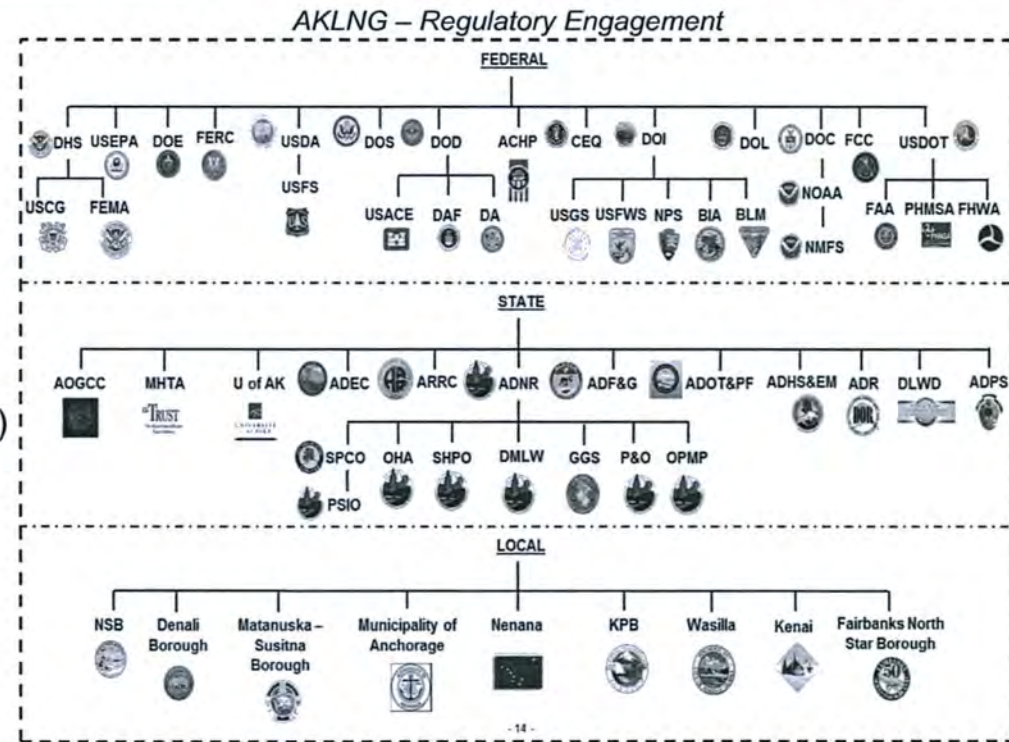
- * Develop cost / schedule updates
- * Continue regulatory / community engagement for FERC EIS

Improve alignment with State on key issues:

- * Understand / manage potential midstream agent transition
- * Define offtake locations / in-state demand (“Gas to Alaskans”)
- * Confirm project design (pipeline size / route, plant site)
- * Complete support of Administration’s “45 day review”

Position for FEED decision when open issues are resolved

- * Match project spend / pace to all issues to minimize cost



AKLNG – Phased / Gated Project Management Process (Oct12)

- | | | |
|--|---|--|
| <input type="checkbox"/> Viable Technical Option(s) Identified | <input type="checkbox"/> Viable technical option | <input type="checkbox"/> Secure Permits / Land Use / Financing / Commercial Agreements |
| <input type="checkbox"/> Government Support | <input type="checkbox"/> Key Commercial Agreements | <input type="checkbox"/> Confirm Commercial Viability |
| <input type="checkbox"/> Permits / Land Use Achievable | <input type="checkbox"/> Government Support | <input type="checkbox"/> Execute EPC contracts |
| <input type="checkbox"/> Potential Commercial Viability | <input type="checkbox"/> Permits / Land Use Underway | |
| | <input type="checkbox"/> Potential Commercial Viability | |



Peak Staffing:	~200	400 - 500	500 – 1,500	9,000 – 15,000
Cost (\$):	Tens of Millions	Hundreds of Millions	Billions	Tens of Billions
Est. Engineering / Technical Duration*:		12 - 18 Months	2 - 3 Years	5 - 6 Years



KENAI PENINSULA BOROUGH GETS READY FOR ALASKA LNG

Kenai Peninsula Borough Mayor's Office
Presentation to Senate and House Resources Committees – June 16, 2015

Kenai Borough issues

1. Track and respond to project reports with FERC
2. Input on relocation of Kenai Spur Highway
3. Answer, represent and address resident concerns
4. Ensure receipt of fair value for borough land
5. Work with state and municipalities to achieve adequate impact aid during construction and payment in lieu of property taxes after start-up

1. Environmental impact statement

- Next round of draft reports will include more details on projected impacts and possible mitigation
- Borough tracking socioeconomic issues: Traffic, noise, schools, hospital services, emergency services, social services, housing, solid waste, Kenai Airport
- Also waiting for reports later this year from project's labor supply/demand and logistics studies
- Identify and clarify issues and talk with community

2. Kenai Spur Highway relocation

- Safety and security requires relocation of highway
- Borough working with Alaska LNG and state DOT
- Reviewing possible alternatives, selection criteria
- Safe traffic flow in and out of the area is crucial
- Consideration of fire, ambulance, school bus needs
- Scheduling to minimize disruptions to the community

3. Local resident concerns

- Residents want answers, but specifics not always available early in the design and selection process
- Interest starting to build: Noise, air quality, traffic, property values, housing demand, work camps, non-resident workers, pressure on recreation/fishing, and wage inflation affecting peninsula employers
- Cumulative impacts from indirect activities related to such a large construction project and operations

3. Information services

- Kenai Borough taking the lead and actively sharing project information and resources with communities
- Website, email distribution, community events
- Public information essential for public acceptance and to help avoid (or lessen) surprises and conflicts
- Alaska LNG and contractors have been responsive to information requests from borough and the public

4. Borough land

- Continue working with Alaska LNG to ensure timely transfer of borough land needed for project
- Protect public interest by securing fair value
- Borough assembly approval for any land transfer
- Work with Alaska LNG and state DOT if any borough land needed for Kenai Highway relocation
- Protect for future economic growth opportunities

5. Impact aid during construction

- Borough realizes project's need to control costs during 5-year construction before cash flow begins
- Impact aid intended to make municipalities whole for the costs of providing additional public services
- Impact aid not intended to provide a windfall
- Working with the state and other municipalities:
 - To determine financial needs of communities
 - And how to distribute aid to those communities

5. PILT during project operations

- Volume-driven formula would avoid contentious battles over assessed value of a length of pipe
- Payment formula must recognize need for project to succeed in a highly competitive global market
- LNG plant 3X borough's total assessed valuation
- Municipalities need inflation protection in formula
- Municipal Advisory Group trying to pull together

Alaska LNG

Project Update

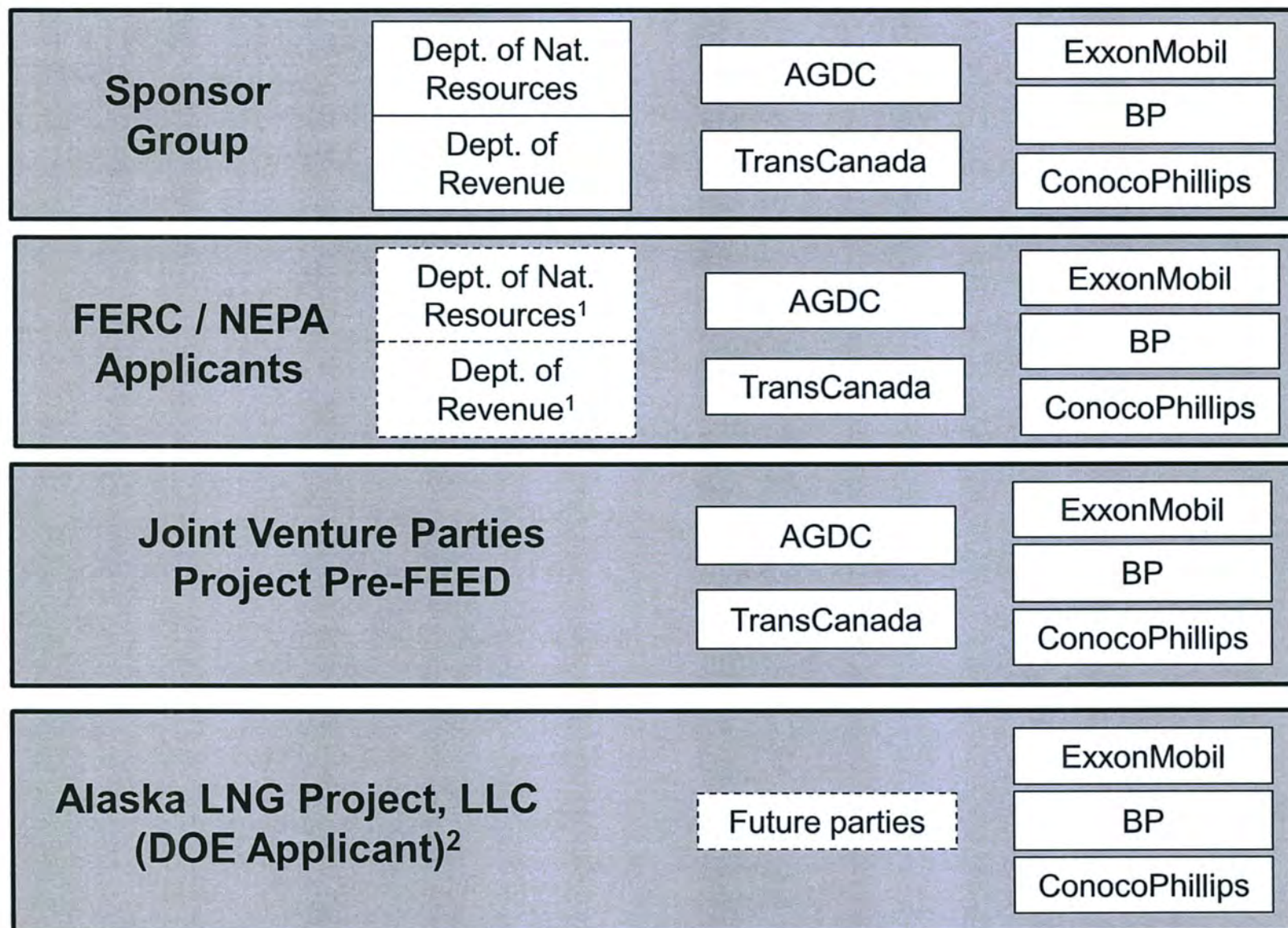
House and Senate Resources
Committees

June 16, 2015

Audie Setters – State Gas Team
Dona Keppers – Department of Revenue
Dan Fauske – AGDC
Vincent Lee – TransCanada

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

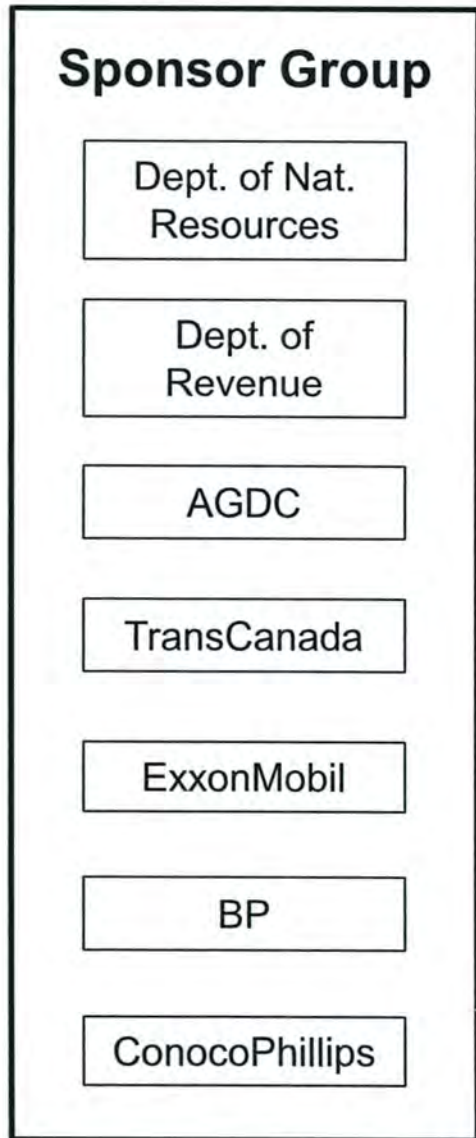
Alaska LNG Project Arrangements



¹ Consultant role for DNR / DOR

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

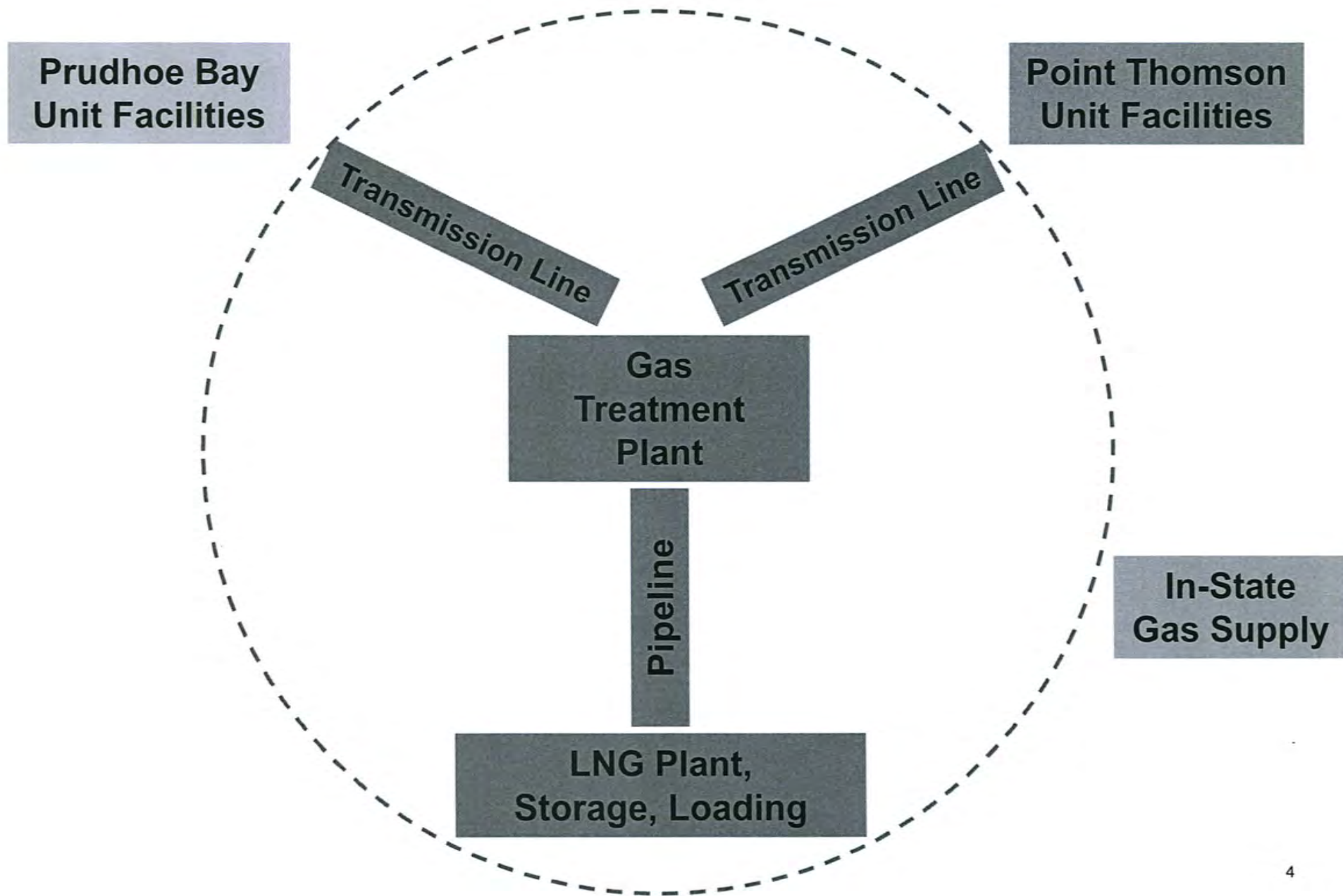
Alaska LNG Project Arrangements



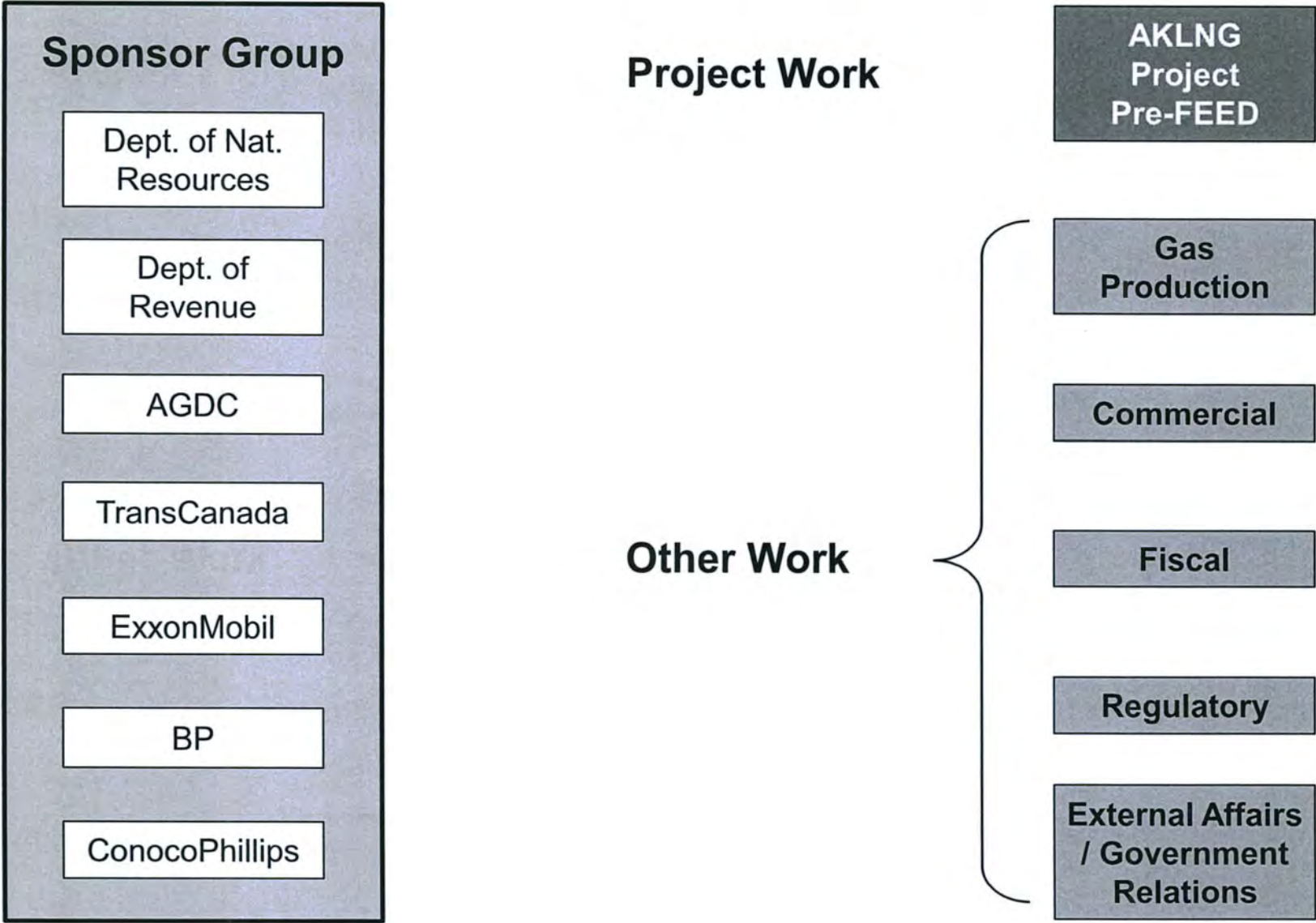
**AKLNG
Project
Pre-FEED**

- 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

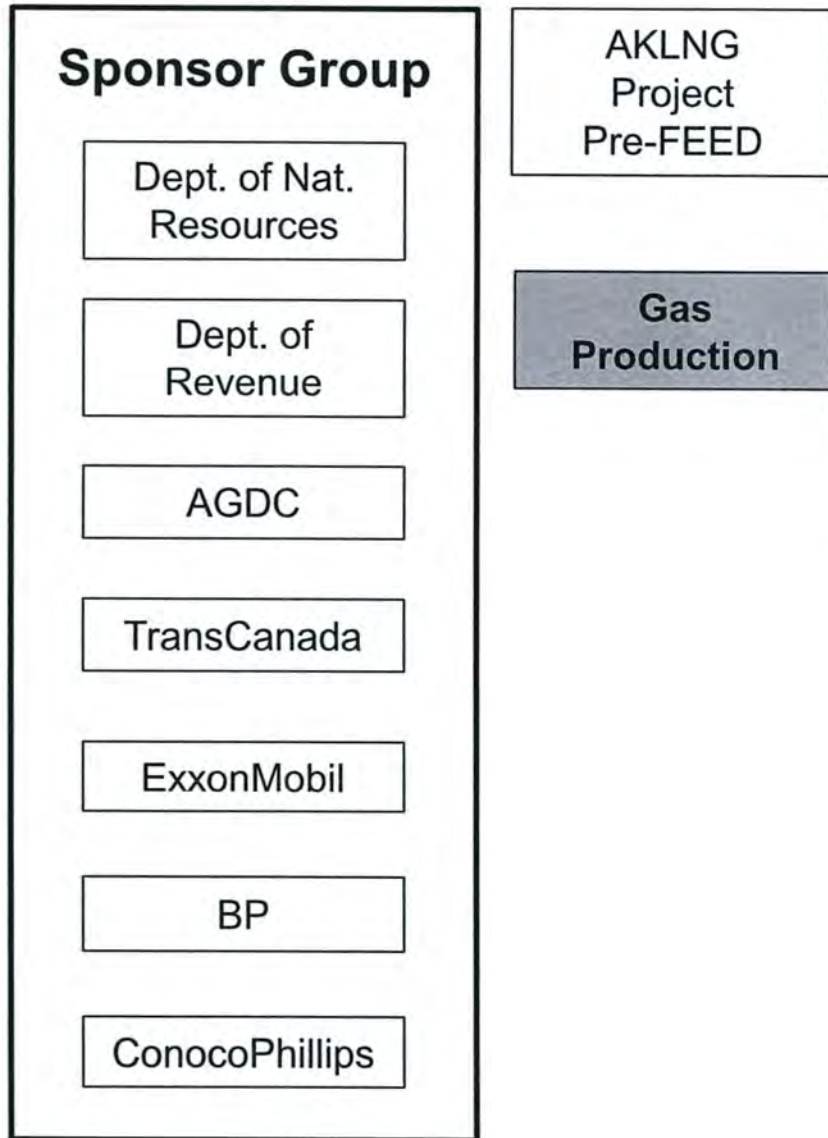
Alaska LNG Project Facilities



Alaska LNG Project Arrangements

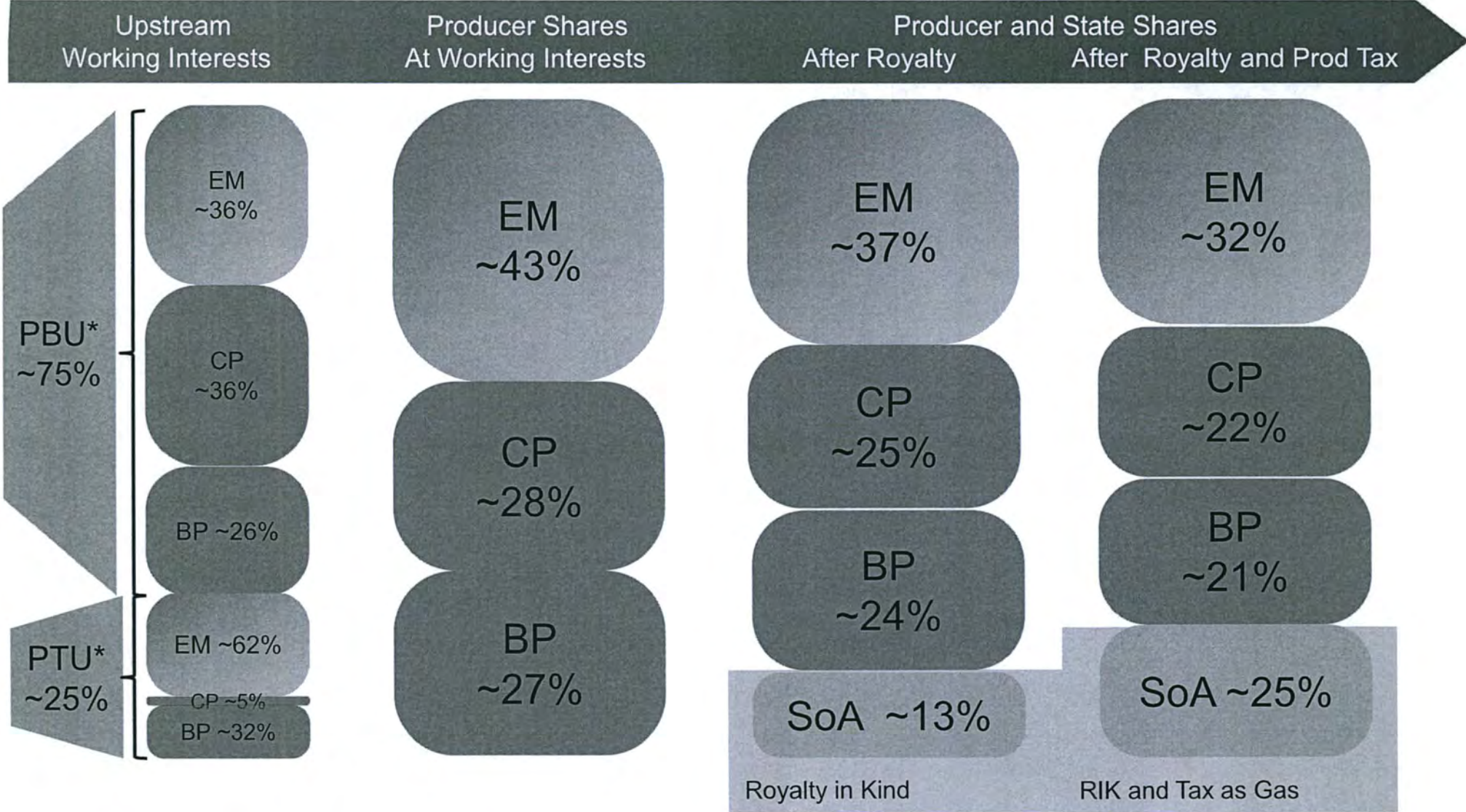


Alaska LNG Project Arrangements



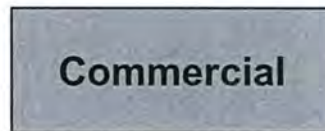
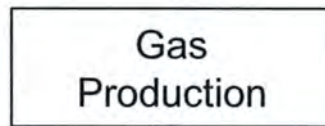
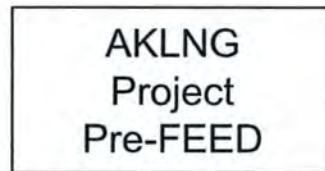
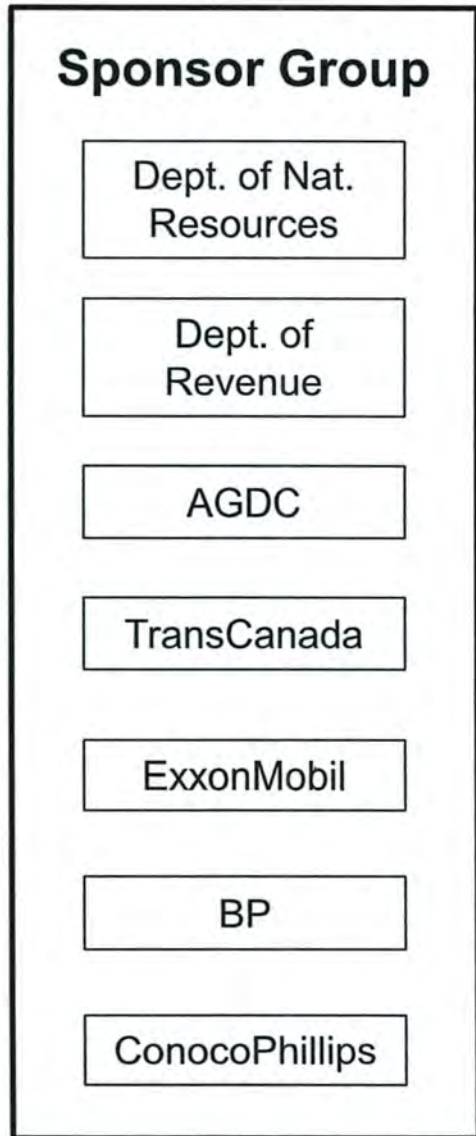
- Preparations for commercial natural gas production are underway at both Point Thomson Unit (PTU) and Prudhoe Bay Unit (PBU)
- Significant natural gas development required at PTU including drilling and gas handling facilities
- PBU would also require some new facilities
- Working with AOGCC on gas offtake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

Gas Production



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

Alaska LNG Project Arrangements



Agreeing process and drafting applications

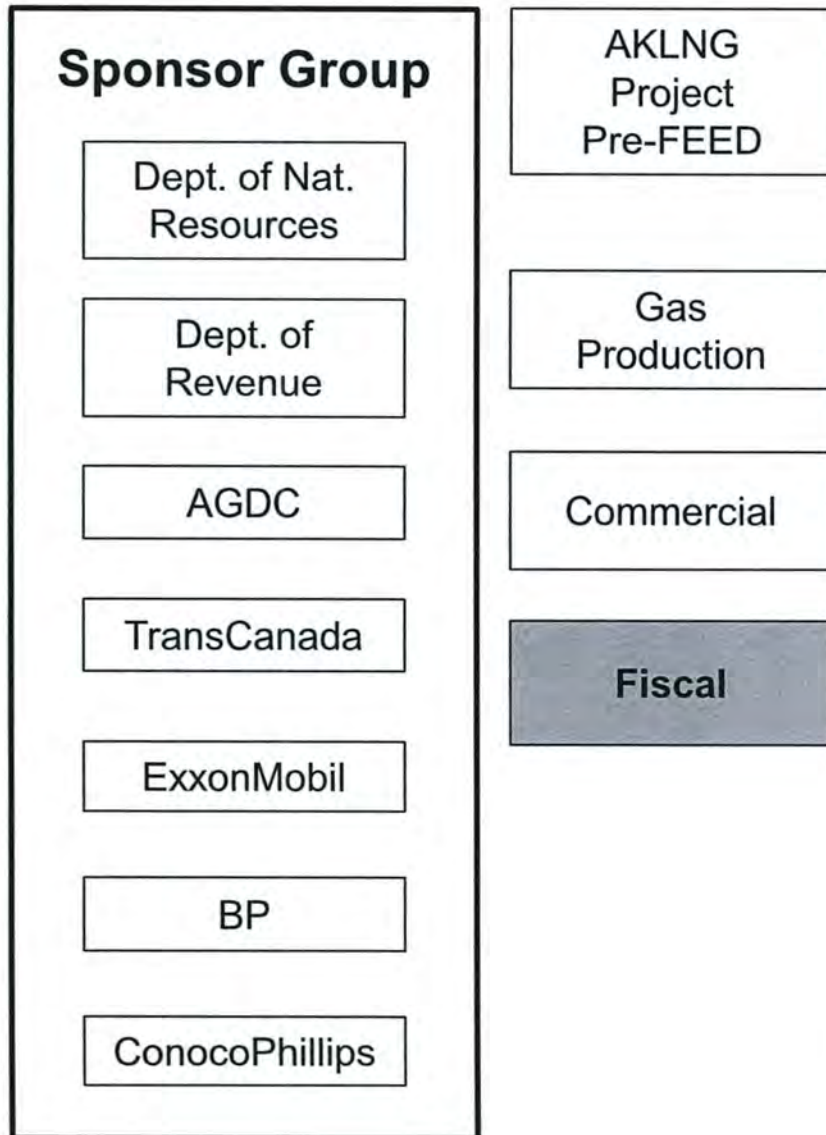
- SB 138 Lease Modifications to address RIK / RIV switching and PTU SSR / NPS leases

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

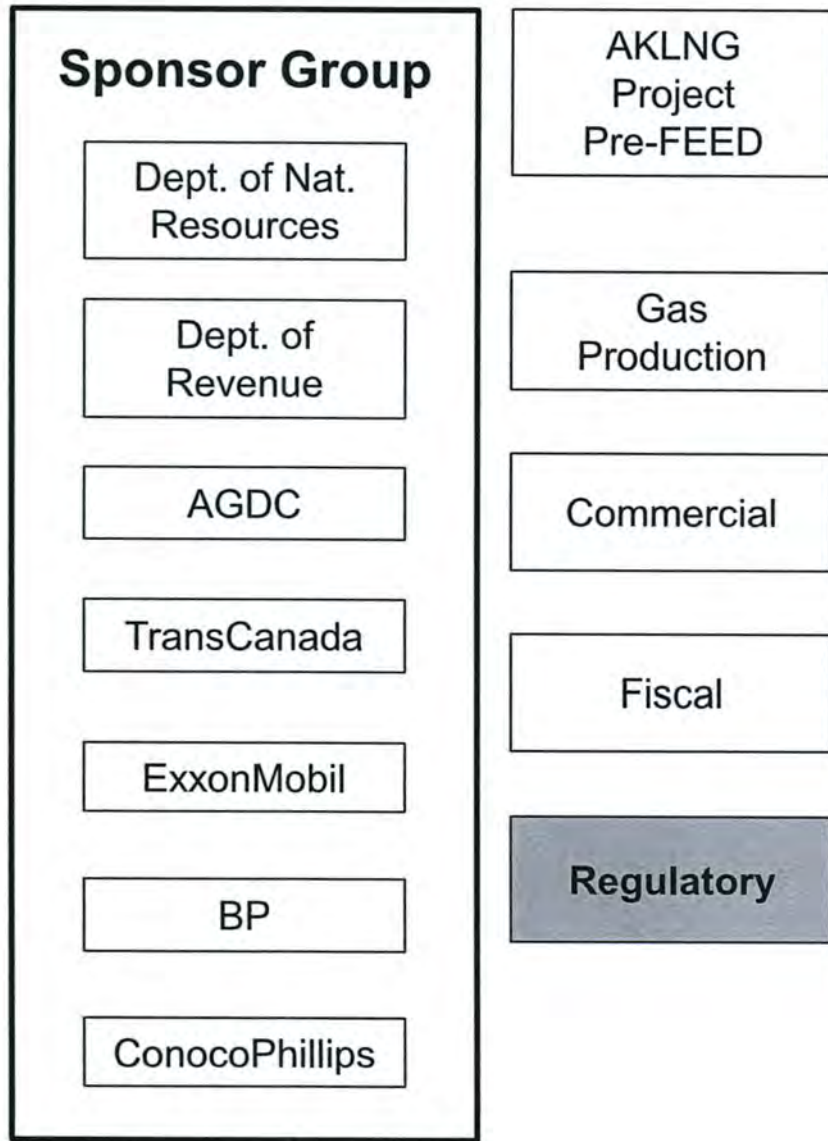
Alaska LNG Project Arrangements



Developing fiscal basis for the venture

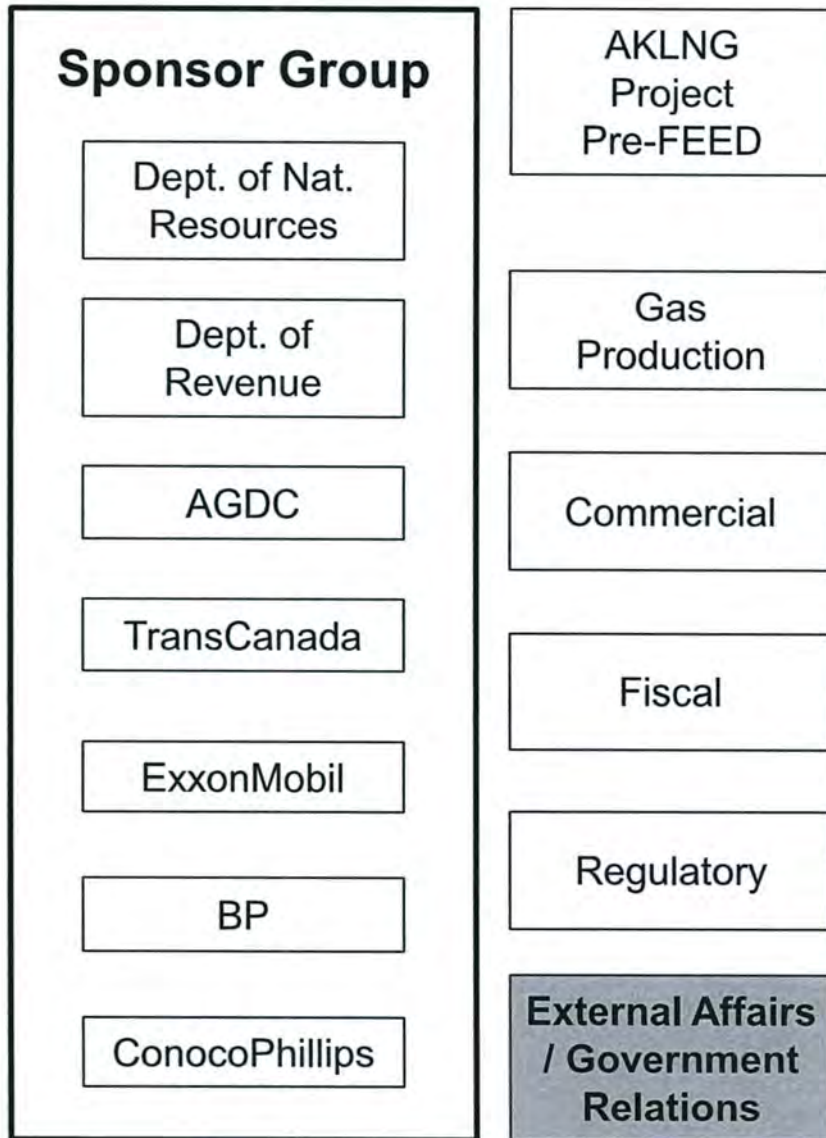
- Building on Jan 2014 HOA and SB 138
- DNR considering State Royalty in Kind
- Predictable and durable fiscal terms necessary for unprecedented scale, complexity and costs
 - Also required to compete in global energy markets
- Fiscal terms are a key enabler for the Project, and also with LNG Buyers, lenders and investors
- Considering options to make terms predictable / durable
- Legislative review and approval will be needed
- Seeking legislation to address property taxes
 - Continued dialogue with MAGPRB to finding lasting solutions that align with SB 138

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

Deliverables to Support FEED Decision

AKLNG Project	<ul style="list-style-type: none">• Pre-FEED Project Deliverables / Prep for regulatory filings
Gas Production	<ul style="list-style-type: none">• PBU / PTU Development Plans, AOGCC Offtake
Commercial	<ul style="list-style-type: none">• Key Agreements (e.g., Lease Modifications, Governance, Gas Supply, FTSA)
Fiscal	<ul style="list-style-type: none">• Property Tax, Royalty-in-Kind, Predictable / Durable Terms
Regulatory	<ul style="list-style-type: none">• DOE Export Authorizations Received, Progressing FERC NEPA Pre-File
External Affairs / Government Relations	<ul style="list-style-type: none">• Broad support for Project

Timeline

- Pre-FEED Project Deliverables progressing well
- Administration Planning for special legislative session in Nov 2015
- Given magnitude of legislative ratification step, essential that participants are aligned and time be taken to complete all deliverables needed for a FEED decision

Alaska LNG Project Update

- Key Accomplishments
 - FTA and non-FTA DOE Export Authorizations received
- Remaining Challenges
 - Establish role of State as project participant
 - Lease modifications
 - RIK election
 - Timely completion of fiscal and key commercial contracts
 - Legislation for property taxes:
 - Flow Related Property Tax mechanism after startup
 - Impact payments during construction
 - Legislation to provide durable / predictable fiscal terms



Alaska LNG

State Gas Team Project Update

June 16, 2015

Audie Setters
General Manager
State Gas Team

Dona Keppers
Deputy Commissioner
Department of Revenue

Agenda

- Introduction: Audie P. Setters
- Organizational Issues
- TransCanada Reimbursable Costs Update
- Overview of the Municipal Advisory Gas Project Review Board Activity
- Status of Department of Revenue's Alaska LNG Financing Work

State of Alaska's Alaska LNG Gas Team

General Manager, State of Alaska Gas Team:

Audie P. Setters

- Took early retirement from Chevron in July 2014 after 34 years with Chevron and Texaco.
- Experience includes new ventures, mergers, acquisitions and divestitures, project development and gas/LNG development, transportation & marketing.
- Recent roles include:
 - VP and GM, Business Development, Asia Pacific (Singapore);
 - VP, LNG Marketing and Trading
- Global Perspective: based 6 years in Singapore, 2 years in Perth, 7 years in London and over 15 years in Calgary/Houston;
- Directly involved in the development of 3 greenfield LNG projects:
 - Gorgon LNG (Australia) – 15 MTPA
 - Wheatstone LNG (Australia) – 9 MTPA
 - Angola LNG – 5 MTPA
- By 2018 when Gorgon reaches full capacity, Chevron will have moved into the top 5 LNG producers (from the 20th largest LNG producer) according to Wood Mackenzie.
- Was hired by the Parnell administration in September 2014 to work as the lead marketing manager on the State Gas Team with additional expertise provided on upstream issues.

Structure of the State's Gas Team

State LNG Project Organization



Structure of the State's Gas Team

State Gas Team Project Roles

- Work Streams:
 - Gas Production/Upstream
 - Lease Modifications
 - Governance
 - Expansion
 - Fiscals
 - Property Tax
 - Financing
 - Regulatory
 - External Affairs/Government Relations
 - Marketing / Shipping

SOA Stakeholders

- AGDC
- State Gas Team
- Dept. of Natural Resources
- Dept. of Revenue
- Dept. of Law
- Legislature
- Regulatory Agencies
- Potential Lenders
- Alaskans

Success

- “One Team”
 - Continue to build a high performing Team
 - Clearly defined roles and responsibilities
 - Streamlined, empowered negotiating teams with clear authority to negotiate
- Negotiate the suite of agreements and obtain stakeholder agreement to enter FEED in 2016
- Encourage the training and development of Alaskan residents for jobs related to the Alaska LNG Project

Immediate Priorities

- Align our Stakeholders;
- Consolidate and integrate the various project Stakeholders involved in negotiations and the decision process;
- Establish processes to ensure State negotiating teams are armed with a clear authority to negotiate;
- Negotiate the suite of agreements required to support a legislative special session in the fall of 2015, which will enable a FEED decision in 2016;
- Develop commercial agreements and economic analysis that will inform the RIK vs. RIV determination by DNR Commissioner; and
- Build the LNG marketing organization required to promote market awareness and support our marketing requirements.

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 1/2014–3/2015	\$ 26M
➤ Estimated TC Reimbursable Costs for rest of 2015	<u>\$ 60M</u>
➤ Estimated Total SOA Obligation to TC for 2014-15	\$ 86M
➤ Add'l SOA Pre-FEED Forecast (Jan-June, 2016)	<u>\$ 22M</u>
➤ Est. Total TC Reimbursable Pre-FEED Costs	\$108M

Department of Revenue Legislative Update

June 16, 2015

Municipal Advisory Gas Project Review Board
AK LNG Finance Work

Commissioner Randall Hoffbeck

Deputy Commissioner Dona Keppers

MAGPRB Major Achievements

- Simplified proposed methodology for Property Tax levied on the AK LNG project
- Garnered input and feedback on potential legislative changes (SB 100/HB183) and subsequent drafts
- Initiated work plan to utilize data from the FERC NEPA process to identify alternatives for Impact Payments During Construction

Simplified Methodology

- MAGPR Board considered various conceptual mechanisms during February and March 2015
- Set of easily defined/clearly understood parameters, including
 - Cost of the facility
 - Flow rate
 - Escalation/inflation
 - Tax Rate
 - Depreciation
- Board considered alternative formulas and financial outputs
- Feedback sought from the AK LNG producers
- Formula refined

Resulting formula has formed the basis for subsequent discussion around legislation and project negotiations.

Property Tax Legislation

- Proposed legislative approach
 - Policy drivers/blend of Statute/Contract
 - Methodology
- Communicated with Board on proposed legislation
- SB 100/HB 183 introduced during 2015 session
- Continued communication with MAGPRB to further develop legislation

Impact Payments During Construction Framework

- Board reviewed historical precedents/methodology under SGDA
- MAGPRB received extensive briefings on FERC NEPA process
 - FERC Resource Report #5 – Socio Economic Impacts
 - Scoping meetings with affected communities during 2015 and early 2016
- Discussed mechanisms for collection and distribution of Impact Payments During Construction

Next Steps

- Momentum and engagement significantly increased during Q1/Q2 2015
- Meetings now scheduled every two weeks to reflect project timing/importance
- Board positioned to support overall project timeframe with timely discussion/input
- Continue to be supportive of a globally competitive Alaskan LNG project

Update on AKLNG Finance

- Pursuant to SB 138, Section 76, Department of Revenue has contracted with Lazard Freres and First Southwest to progress the Finance workplan
- Launched Phase II of the workplan to coincide with AKLNG Project timeline
- Initiated outreach plan for municipalities, regional corporations, and individuals for scoping options to invest in a North Slope natural gas pipeline
- Currently modeling a range of potential financial options and impacts on State credit ratings, borrowing costs, and borrowing capacity
- On target to deliver to the Legislature a final financing recommendation report when the DNR commissioner submits a contract for approval



THE STATE
of ALASKA

GOVERNOR BILL WALKER

Department of Natural Resources

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June 16, 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 January 29, 2015, and amended on February 17, 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. Key work that was accomplished during 1Q15 included advancement of National Environmental Policy Act (NEPA) Pre-File activities and development of Resource Reports for submission to the Federal Energy Regulatory Commission (FERC). Additionally, TransCanada has led the Alaska LNG Project's evaluation of the integrated design basis for the midstream component including: pipeline materials for each section of the 800 mile route and the capacity and capability of multiple steel mills. TransCanada has also led project efforts to conduct tests on pipe ordered from various mills.

Negotiations for certain commercial agreements continued in 1Q15 including on operating model for the Front-End Engineering and Design (FEED) phase, upstream gas supply and balancing discussions with the State and other AKLNG parties. Negotiations with the State are also ongoing related to the firm transportation services agreement (FTSA) for the gas treatment plant and the pipeline.

Estimated Project Spending to Date

TransCanada has reported to the State actual spends for January 1, 2014 through March 31, 2015, totaling approximately \$25.7 million, broken down as follows:

- a. A total of \$25.1 million on a cash basis, which amounts to an additional \$11.7 million expended for work related to the Alaska LNG Project in 1Q15. This amount accounts for the reported \$0.4 million increase in Concept Selection costs, which occurred between January and June 2014 and accounting was finalized in 1Q15.

b. A carrying cost of \$0.6 million, of which \$0.3 million was expended in 1Q15.

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	\$19.1	\$29.1
Less: AGIA Reimbursement	(\$4.0)		(\$4.0)
Carrying Cost			\$0.6
TOTAL			\$25.7

Projected Total Project Spending

The projected total project spending has not changed since DNR provided the committee with an updated projection in February. 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.

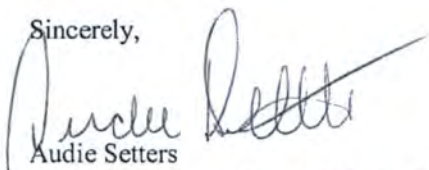
The projected numbers are as follows from January 1, 2014 through mid-June 2016:

- 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 (previously reported at \$5.6 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 \$25.7 million spent from January 1, 2014 to March 31, 2015.

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

Sincerely,



Audie Setters
General Manager, State of Alaska Gas Team

- CC: Mark Myers, Commissioner, Department of Natural Resources
Marty Rutherford, Deputy Commissioner, Department of Natural Resources
Randy Hoffbeck, Commissioner, Department of Revenue
Dona Keppers, Deputy Commissioner, Department of Revenue

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.

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