

Memorandum

From: Dan Fauske, President 
To: Pat Pitney, Director of OMB
Cc: Jim Whittaker, COS

Date: January 5, 2015

Re.: AO 271 – Alaska Stand Alone Pipeline Project

The Alaska Gasline Development Corporation is developing the Alaska Stand Alone Pipeline (ASAP) Project as mandated by HB4, passed by the 28th Alaska Legislature in April 2013. The intent of this legislation was to develop an in-state pipeline for delivering North Slope natural gas to Fairbanks, the Southcentral region, and other communities wherever possible. Since 2010, approximately \$420mm was appropriated by the Legislature to the project, either directly, or through the In-state Natural Gas Pipeline Fund to advance this project through FY16. As of December 2014, approximately \$176mm has been spent establishing the Corporation and advancing the ASAP project.

The ASAP project plan, as approved by the Legislature, contemplated a successful open season in 2015, project sanctioning in 2016, a three-year construction cycle beginning in 2017, and first gas delivered in 2021. To advance ASAP to project sanctioning in 2016, the Corporation expected to expend \$244 million, the remaining balance of the In-State Natural Gas Pipeline Fund, between now and the end of FY16. AGDC has now scaled and scoped plans, budgets and deliverables to align ASAP with the next major decision point on the Alaska LNG project, whether or not to proceed with Front End Engineering and Design (FEED) costing billions of dollars. The Alaska LNG project is scheduled to make its next investment decision in Q1 2016. AGDC also represents the State of Alaska's (SOA) interest in the Alaska LNG project.

Based on discussions with Governor Walker, AGDC staff has revised its 2015/2016 work plans* to align with our Board of Directors' vision of *"One Project, Two Options"*. As a result of this review, AGDC has significantly reduced projected ASAP non-discretionary expenditures by \$90mm to \$60.7mm over the next 15 months to align with the Alaska LNG FEED decision. This will be accomplished by:

*The AGDC Board of Directors will be reviewing these staff recommendations at their January 8, 2015 meeting. Board concurrence and approval will be necessary for implementation.

- Optimizing core ASAP management team for efficiency, while still retaining institutional knowledge and momentum;
- Scaling and scoping ASAP technical and engineering work to essential tasks
 - Focusing on durable work and transferrable data beneficial to either initiative
 - Pursuing jointly funded AKLNG work efforts to benefit both projects;
- Continuing federal environmental (NEPA) process, major permit acquisitions, and State and Federal right of ways acquisition (major assets for any SOA pipeline project).

The spreadsheet below identifies the \$60.7mm **non-discretionary** spend across ASAP's five main project development functions. All of the funding for these efforts will come out of the In-state Natural Gas Pipeline Fund (1229), not the State's general fund. This spend plan includes contracts for existing work (\$27.6mm) already underway, and contracts for future work (\$33.1mm) that is required. All of AGDC's contracts are written under a Master Services Agreement and provide that if necessary, AGDC can terminate without penalty.

2015/2016 ASAP Work Plan (15 Months) Expenditures Estimate			
	Task Order Project Work Package		
ASAP Project Functional Team	Task Orders Committed	Task Orders Not Committed	Total Cost
PMT	\$ 670,192	\$ 816,308	\$ 1,486,500
Pipeline & Interface Management	\$ 9,589,483	\$ 10,607,232	\$ 20,196,715
Facilities Management	\$ 9,080,221	\$ 12,864,129	\$ 21,944,350
ERL	\$ 4,132,570	\$ 5,876,129	\$ 10,008,699
Construction & Project Services	\$ 4,107,144	\$ 2,950,356	\$ 7,057,500
TOTAL	\$ 27,579,611	\$ 33,114,153	\$ 60,693,763

The net result of this revised schedule will be an ASAP project that has retained a core team capable of moving the project forward, a completed Supplemental Environmental Impact Statement, the receipt of 100 miles of federal right-of way, and completed field programs valuable to both ASAP and Alaska LNG. This will allow ASAP to remain as the state's viable alternative should the Alaska LNG project not proceed into FEED.

There are no AGDC positions solely budgeted for the ASAP project. AGDC contracts for professional personnel to manage and meet the deliverables laid out in HB4. AGDC is currently tasked with overseeing both the ASAP and Alaska LNG projects and has developed a cost allocation model to share Corporate costs between fund source 1229 AK Gasline Development Corporation In-State Pipeline Fund and fund source 1235 Alaska Liquefied Natural Gas Project Fund (AGDC-LNG). The budgeted personnel costs for the 2nd half of FY15 are approximately \$2.9mm. The FY15 operating costs through December for AGDC from fund source 1229 AK Gasline Development Corporation In-State Pipeline Fund are approximately \$2.4mm.

Project Funding Status

Alaska LNG

Alaska Liquefied Natural Gas Project Fund (AS 31.25.110)	
(\$ Millions)	
Total Legislative Appropriations	\$ 69.8
Expenditures through Year End FY14	\$ (1.0)
Forecast Expenditures: FY15	\$ (25.1)
Forecast Expenditures: FY16	\$ (43.7)
Projected Funds @ FEED	\$ 0.0

The Alaska LNG Project Fund was established in FY14 (SB 138)

ASAP

In-State Natural Gas Pipeline Fund (AS 31.25.100)		
(\$ Millions)		
	Activity Scenarios	
	ASAP aligns to AKLING FEED	ASAP continues to sanctioning
Total Legislative Appropriations*	\$ 419.8	\$ 419.8
Expenditures through Year End FY14	\$ (120.0)	\$ (120.0)
Forecast Expenditures: FY15	\$ (98.0)	\$ (150.0)
Forecast Expenditures: FY16	\$ (51.0)	\$ (449.8)
Projected Funds @ FEED/Sanctioning	\$ 150.8	\$ 0.0

The In-State Natural Gas Pipeline Fund was established in FY13 (HB4)

** \$419.8 represents all appropriations towards ASAP from FY10-FY14*

- Alaska LNG Pre-Feed activities projected to conclude 1Q16 – AGDC’s participation fully funded
- Modifying ASAP work activities to complement either option and to align with an Alaska LNG Feed decision, delays \$150mm in ASAP expenditures
- Should Alaska LNG falter, the \$150mm will be required to move ASAP through Open Season and on to Project Sanctioning

