

# President's Report

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Frank Richards, President  
February 4, 2021



## Working or Recreating in the Cold

Working or recreating outdoors during the coldest times of year poses unique health and safety hazards. Cold Stress occurs when skin temperatures and the bodies core temperature are lowered as a result of exposure.



### Risk Factors:

- Wetness/dampness (sweat or environmental), dressing improperly and exhaustion
- Predisposing health conditions such as hypertension, hypothyroidism and diabetes
- Poor physical conditioning

### Most common cold induced illnesses/injuries?

- Hypothermia
- Frostbite
- Trench Foot

### Dressing properly is extremely important to preventing cold stress.

- Wear at least three layers of loose fitting clothing
- Wear a hat or hood to help keep your whole body warmer
- Use a knit mask to cover the face and mouth (if needed)
- Use insulated gloves to protect the hands (water resistant if necessary)
- Wear insulated and waterproof boots (or other footwear)

- Progressing strategic plan
- Advancing development agreement with Strategic Parties and discussing participation with interested entities
- Filed comments of Fort Wainwright EIS
- Developing economic recovery project option
- Finalizing 8-Star Alaska, LLC asset structure
- Negotiating for State lease and obtaining final Federal ROW's
- Working with NMFS and ADEC on final permits
- Monitoring LNG market actions and trends
- Addressing cultural resource obligations
- Reporting 2020 update to Senate and House Resources Committees
- Contracting for new in-house legal counsel – Holland & Hart
- Streamlining operations – accounting
- Following Covid 19 mandates and advisories

- Meetings & Presentations
  - November 30 – North Slope Borough Assembly Work Session
  - December 7 & 9 – Alaska Congressional Delegation
  - December 14 - Golden Valley Electrical Association Board Work Session
  - January 29 – Barrow Whaling Captains Meeting
- Upcoming
  - February (TBD) – Legislature Committee Meetings
  - February 8-11 – Alaska Eskimo Whaling Commission

## ALASKA GASLINE DEVELOPMENT CORPORATION

### Fiscal Year to Date Statement of Activities

(in thousands of dollars)

as of December 31, 2020 Unaudited

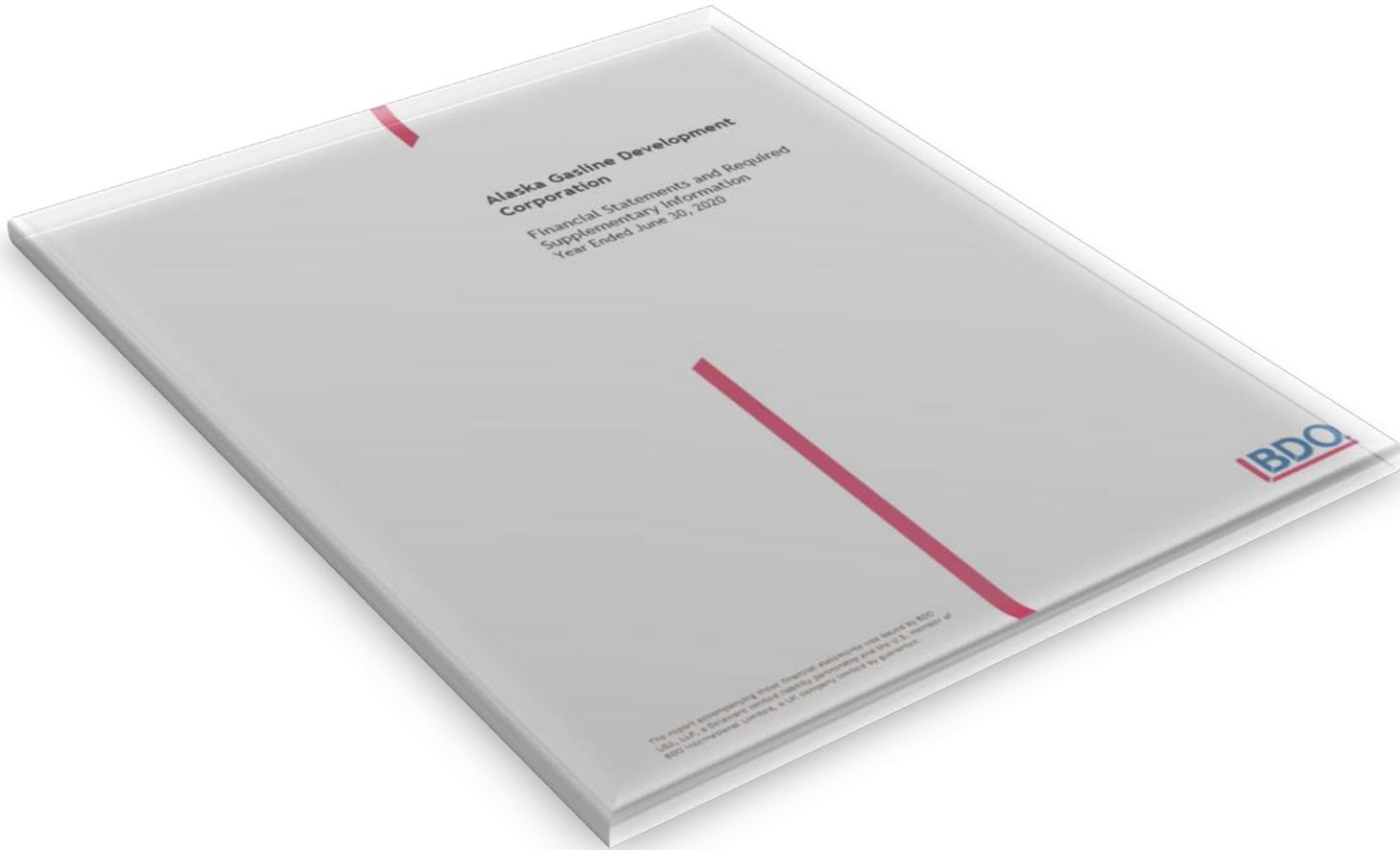
	<u>YTD Costs</u>		<u>YTD Costs</u>	
LNG Project Expenditures	1,681			
AGDC General & Admin	1,553			
<b>Total</b>	<u><u>3,234</u></u>			
		<b>General and Administrative by Function</b>		
			<u>YTD Costs</u>	
		Personnel	788	G&A by Function
		Travel		
		Services	732	
		Commodities	9	
		Depreciation	24	
		<b>Total</b>	<u><u>1,553</u></u>	
		<b>LNG Project Expenditures</b>		
			<u>YTD Costs</u>	
		Venture Development	539	AKLNG Expenditures
		Core PMT & Systems	566	
		ERL	576	
			<u><u>1,681</u></u>	

- FY22 Operating Budget
  - \$3,081,600 authorization
    - 10% reduction from FY21
    - Authorizes use of funds from Alaska LNG Project Fund
  - Covers personnel, office rent, utilities, contracts and travel
  - No new appropriation needed
  - Future funding sources
    - Statutory Designated Program Receipts
      - \$50,000,000 (private sector funds)
    - Federal Receipt Authority
      - Economic Stimulus/Infrastructure Funds

# Independent Audit Report

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# Alaska LNG Project Update

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- Accomplishments
  - FERC EIS and Order
  - Federal Right-of-Ways: Bureau of Land Management, National Park Service (Denali National Park & Preserve)
  - 35 Additional major permits/approvals
- Remaining major permit/approval work underway
  - NMFS marine mammal permit for West Dock expansion
  - ADEC air permit for liquefaction facility
  - Cultural Resources Management Plan (CRMP)
  - State ROW lease
- Legal challenge responses/preparation
- Fort Wainwright Central Heat and Power Plant Upgrade
  - Comments submitted on draft Environmental Impact Statement
- Compliance Assurance Program

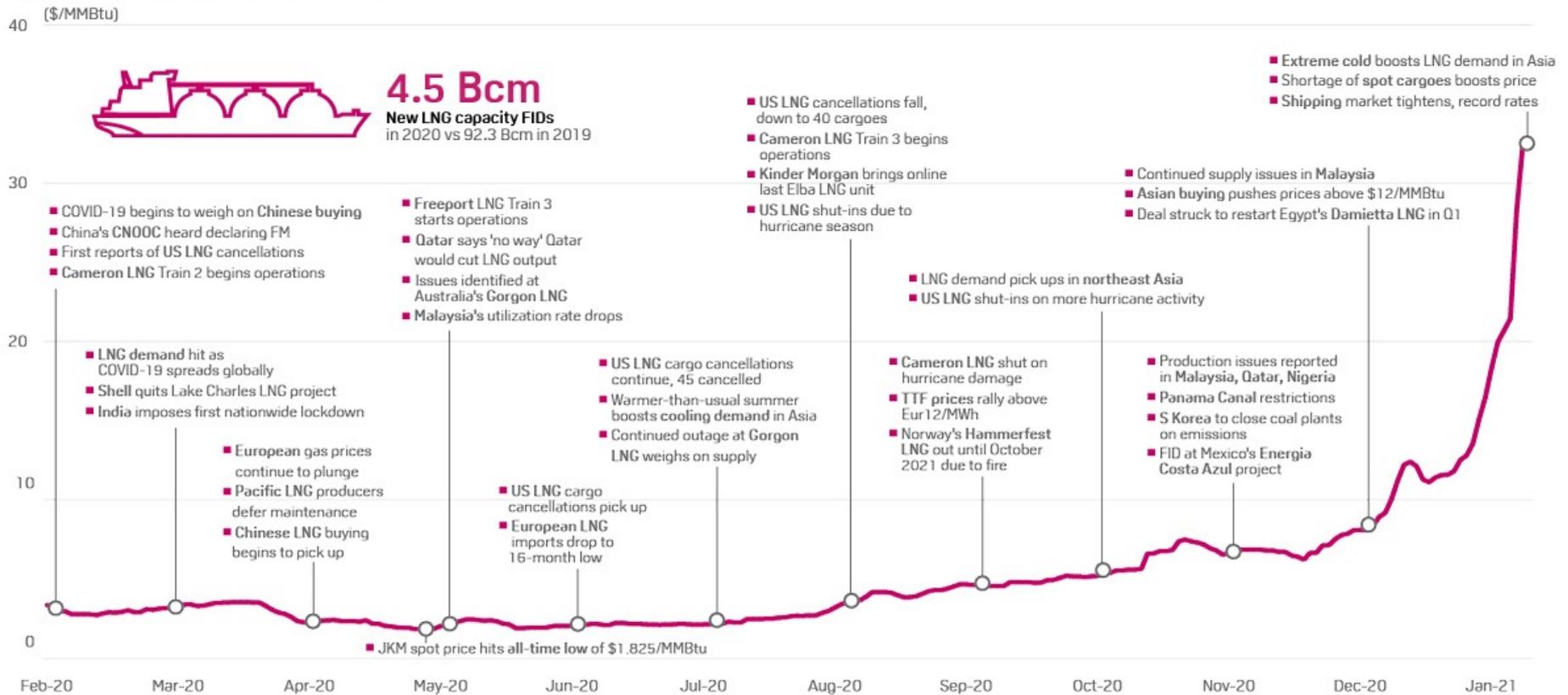
- The LNG market saw a rapid recovery as winter set in:
  - The **S&P Global Platts JKM** (Japan Korea Marker) was assessed at a record high of **\$32.494/MMBtu** on Jan. 12, a record high for the LNG benchmark
  - This spot price has settled down to just below \$9/MMBtu
  - *Spot prices for liquefied natural gas (LNG) delivery in Asia jumped to a six-year highs as lower-than-normal temperatures in key LNG importers and continued growth in China's industrial activity boost demand (OilPrice.com 12/18/2020)*
  - *"Natural gas futures in Europe and Asia climbed to their highest levels in more than a year due to a sharp increase in demand late in 2020, especially out of China..." (Reuters 12/23/20)*
- Long-term pricing is still in the \$7/MMBtu range into Asia:
  - *"The successful completion of our FEED confirms our ability to offer industry leading pricing of 115% of Henry Hub plus \$2.00 for 20 year transactions."* Delfin CEO Dudley Poston (Lowest cost Gulf of Mexico Project)
  - *At \$2.50/MMBtu Henry Hub and \$2.00/MMBtu shipping this equates to an Asia landed LNG price of (\$6.88/MMBtu)*

- *“Japan’s coal phase-out may create 22 million tons per year LNG demand” (Institute of Energy Economics Japan 12/23/2020)*
- BP, ExxonMobil, Total, and Shell are forecasting a doubling of LNG demand by around 2040
- The competition all have their own hurdles:
  - Security issues delaying projects in Mozambique
  - Unresolved land rights continue to cause delays in Canada
  - Yamal and Arctic 2 struggle to deliver to Asia during peak winter demand season
- Carbon-zero targets for Japan, Korea and China are expected to increase LNG demand from 2030 to 2040

## LNG PRICE BONANZA: JKM SPOT PRICE RALLIES TO RECORD HIGH IN 2021

Since May, when the JKM Asian spot LNG price bottomed out below \$2/MMBtu due to oversupply, the market has enjoyed a remarkable rally, the JKM increasing more than 16-fold to a record high of \$32.50/MMBtu in January. This was driven first by an unprecedented supply-side response to low prices, with US LNG cancellations starting to rebalance the market through the summer, followed by strong winter buying demand from Asian buyers in the fall and a number of supply-side issues. Since the start of 2021, cargo shortages, transportation bottlenecks, record shipping rates, and plunging winter temperatures have lent further support to the market.

### JKM spot LNG price rallies from summer lows

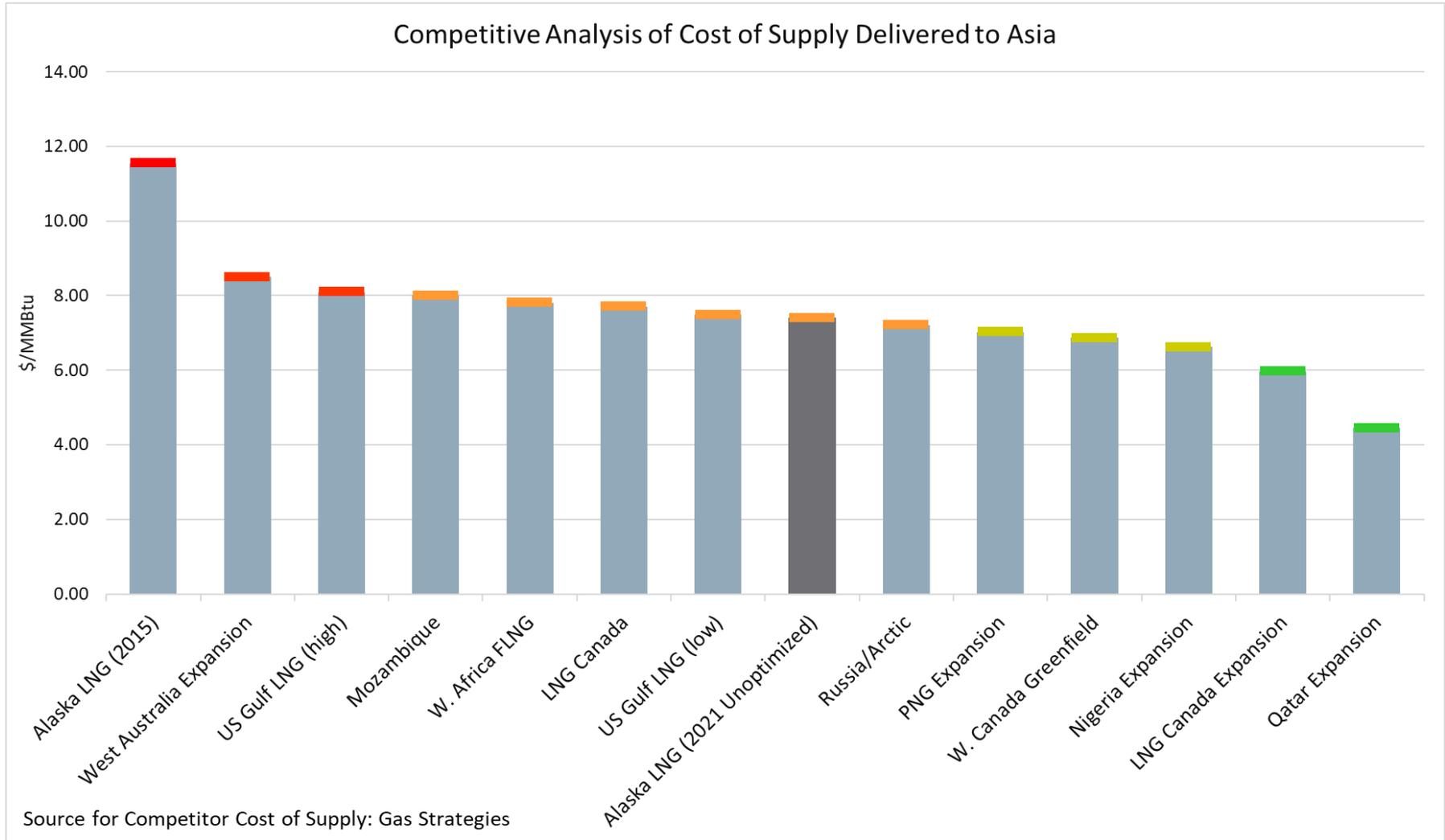


# Henry Hub has Seen a Similar Recovery

Henry Hub Prompt Month Fixed Prices 2019-01-01 to 2021-01-04

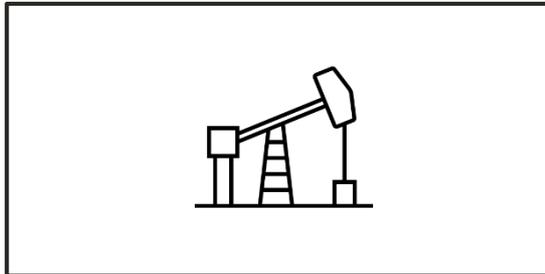


# Alaska LNG vs. Competition

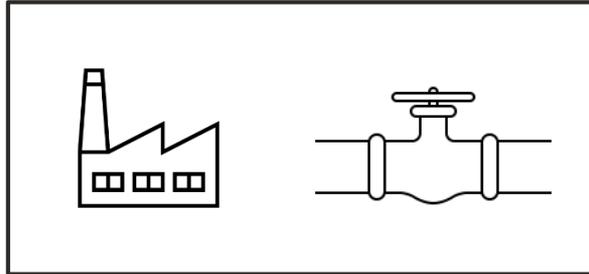


# Proposed Commercial Structure

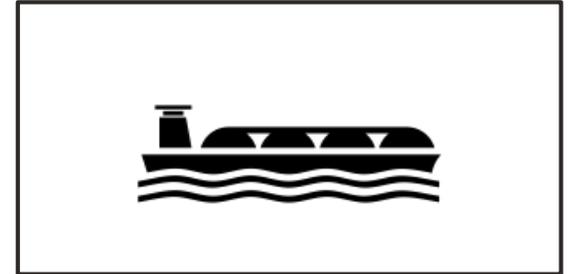
The project will have a non-integrated structure to attract a broad range of potential investors by allowing investors to target specific asset classes, and risk return profiles.



Will unlock otherwise stranded gas for upstream investors



Infrastructure investors can focus on the GTP and Pipeline



LNG off-takers can focus on the Liquefaction Plant

## Key Benefits

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"><li>• Market for significant gas resource which would otherwise be stranded</li></ul> | <ul style="list-style-type: none"><li>• Low risk, long life assets</li><li>• Credit worthy counterparties</li><li>• Long terms capacity agreements</li><li>• Experienced operator</li></ul> | <ul style="list-style-type: none"><li>• Fixed price LNG with no commodity price risk</li><li>• Low exposure to shipping costs</li><li>• Excellent location to enable portfolio swaps and optimisation</li></ul> |
|---|---|---|

- We are continuing to advance the structure and leadership of the project with a Strategic Party group consisting of:
  - North Slope Producers
  - A major pipeline developer
  - LNG buyers
  - Banks and financial corporations
- This group has the technical and financial capacity to bring this project to completion
- A likely lead party for each of the Gas Treatment Plant and the Pipeline have been identified
- But there are hurdles remaining:
  - A lead party for the LNG plant needs to be identified
  - The project needs fiscal stability
  - Property tax issues need to be addressed

# Gas Strategies Benchmark of Competition

Project	Relevant takeaways
<b>LNG Canada</b>	A large suite of fiscal incentives to enable the project. Accelerated capital depreciation and steel duty exemptions have made the largest difference. Upstream incentives exist for challenging plays, and apply across the whole sector
<b>US (Lower 48)</b>	Changes to the overall corporate tax and depreciation regime have significantly reduced tax burden on LNG projects. State and Local property tax exemptions are typically granted, and any payments in lieu of tax are low
<b>Australia</b>	No LNG specific tax regime. Upstream tax rates are relatively high. Midstream subject to corporate taxes, which are higher than others globally. Projects have intrinsic advantages of proximity to market and existing infrastructure
<b>Russia (Yamal)</b>	Accelerated depreciation and tax holidays have been granted, and specific project incentives have been granted upstream. Significant state infrastructure investments also made. In Russia, clearly, the state has a greater role and greater control
<b>Nigeria LNG</b>	NLNG received a 10 year tax holiday (5 years longer than typical). With capital accruals, the project did not pay tax during the first 12 years of operation
<b>PNG LNG</b>	Tax exceptions and allowances to incentivise frontier greenfield development in a competitive environment mean little income is received by the government. The government is not granting as generous terms for future projects
<b>Mozambique</b>	A small tax reduction in years 1-8, but little other incentivisation. The state receives a healthy take, expected to be over 60% across the project. Fiscal stability was recognised as an issue and addressed as part of new legislation

## Fiscal stability is widely available

- The majority of jurisdictions around the world recognise the importance of fiscal stability to capital intensive, 20+ year, gas infrastructure projects and grant them some form of stabilisation

## Property taxes are typically not significant

- Property taxes are not common, and where they do exist (e.g., USA, Russia), there are a number of examples of long exceptions being granted (10 years)
- Where payments are made these are of the region of \$1s to \$10s of million

## Incentivization is common, through simple 'levers'. Marginal projects rely on more measures

- Projects are typically incentivised through tax holidays and/or accelerated capital depreciation
- Where projects are marginal or challenging, specific incentives and/or government investments are used to help enable the project (e.g., Canada, Russia)

## Fiscal Stability

- It is difficult to imagine a scenario where the private sector would invest \$38 billion, when any future legislature can essentially change contract terms at any time.
- Most other resource owner states are able to offer a Fiscal Stabilization Clause.
- Compounding this issue is the fact that the State can change it's election for royalty and tax between "in-kind" and "in-value" – this project relies on long-term, 20+ year contracts to work and that requires fiscal stability.

## Payment in Lieu of Tax (PILT)

- Property tax for project is an order of magnitude higher than other projects in North America (\$0 – 50 MM p.a.).
- Competing projects globally don't pay property tax, or it is back loaded in the project life.

## And ultimately decide on level of participation

## State Participation

State equity participation can help facilitate the project.  
State participation helps create alignment between the state and the project.  
It is not uncommon for to see sovereign ownership in infrastructure.  
The State should only have a minority stake and not an operatorship role.  
Equity participation will also increase the State's take from the project

## Fiscal Stability & Terms

- Fiscal stability is not only to tax rates, but also to the mechanism used to claim state take (royalty-in-kind (RIK) or royalty-in-value (RIV))

### Tax take

For a \$38 billion investment, the private sector can't have the uncertainty of future tax changes. Most other resource-owner states offer this to investor through Fiscal Stabilization Clauses in their licenses.

### Royalty Mechanism (RIK vs RIV)

Alaska LNG is being structured in a way that relies on long-term (20+ year) stable contracts. Royalty gas will also be subject to these long-term contracts. There needs to be up-front certainty on royalty-in-kind or royalty-in-value.

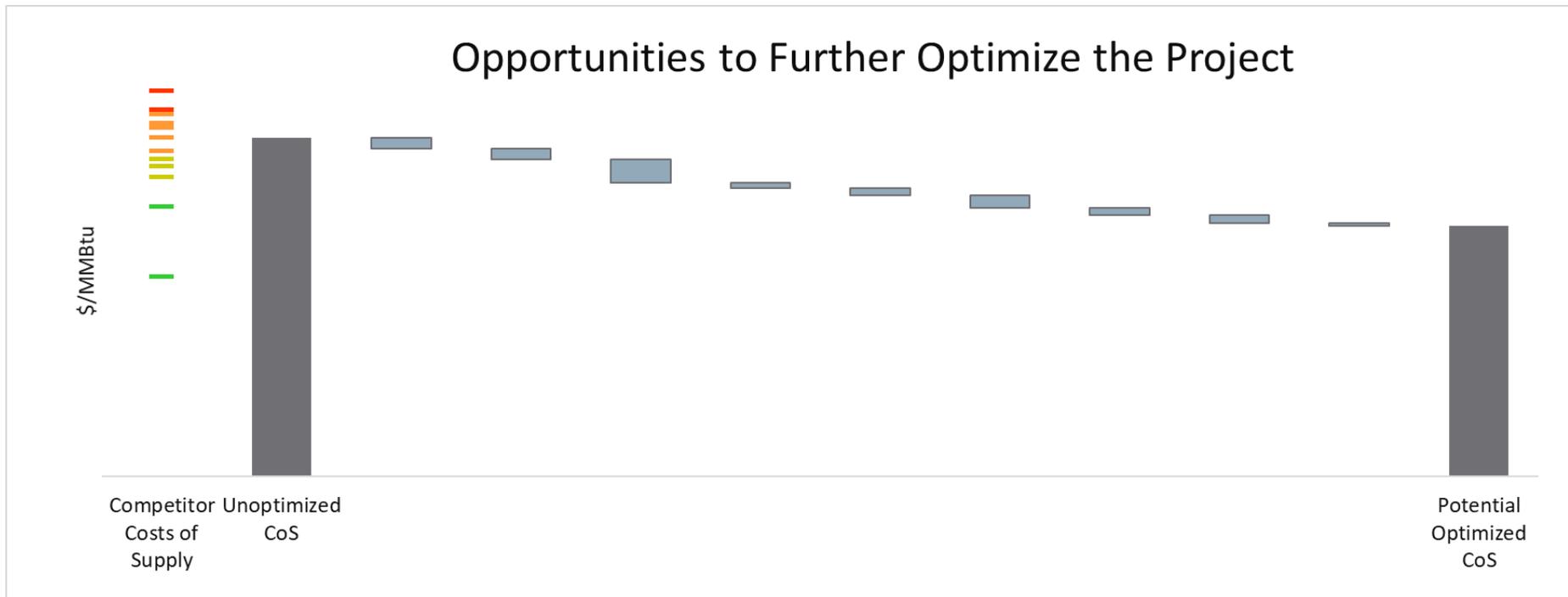
Payment in  
Lieu  
of Tax (PILT)

- The approach to oil & gas property taxation in Alaska is unique and the taxes benchmark an order of magnitude higher than in other jurisdictions

Alaska	Canada	Russia	US Cove Point	US Louisiana	US Corpus Christi
\$400+ MM or 1% of capex	\$10-30 MM p.a.	12 yr holiday 2% thereafter	~ \$50 MM p.a. for 5 yrs 42% reduction for next 9 years	10 year exemption	10 year exemption, \$1 MM p.a. PILT

To optimize the project, these issues **must** be addressed:

1. Property tax, or “Payment in Lieu of Tax”
2. Fiscal Stability

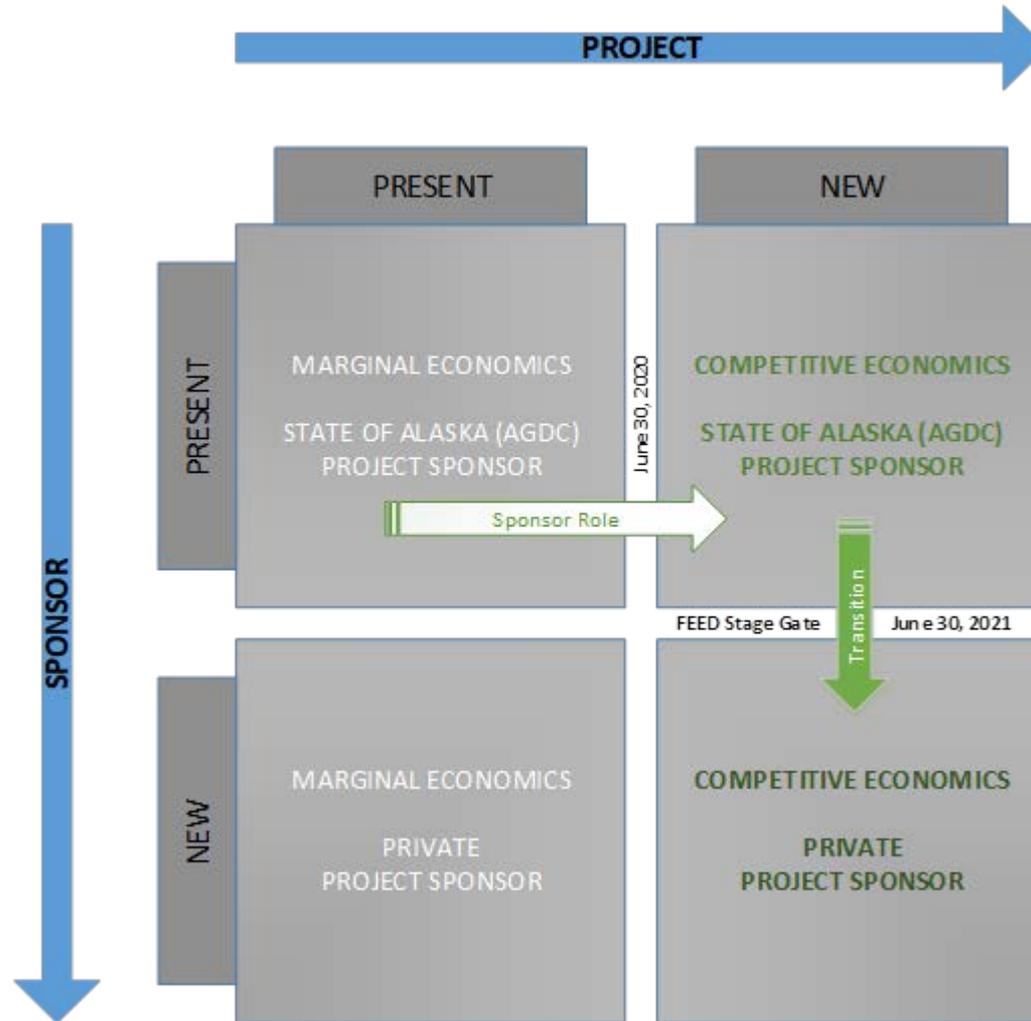


# Strategic Plan Status

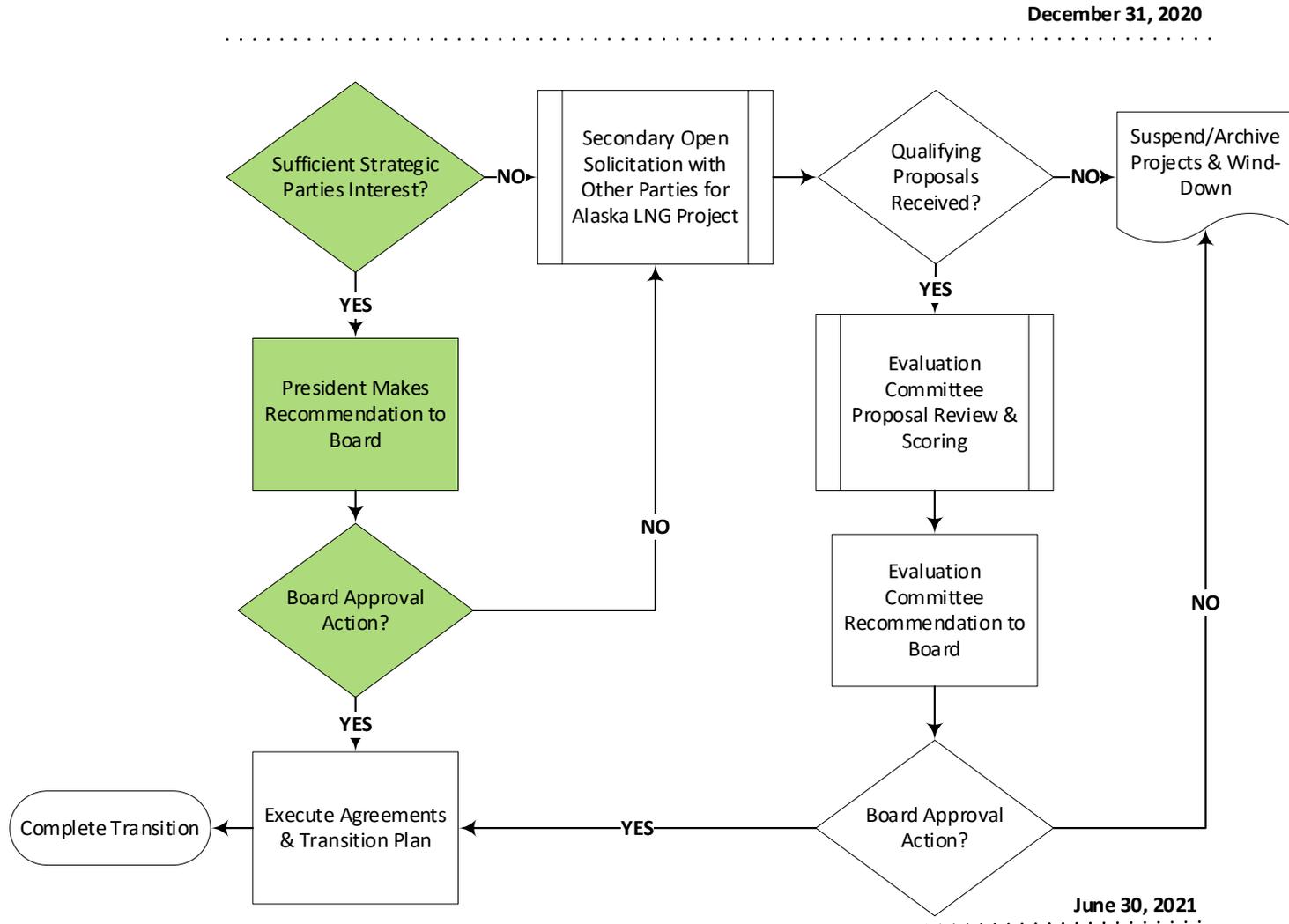
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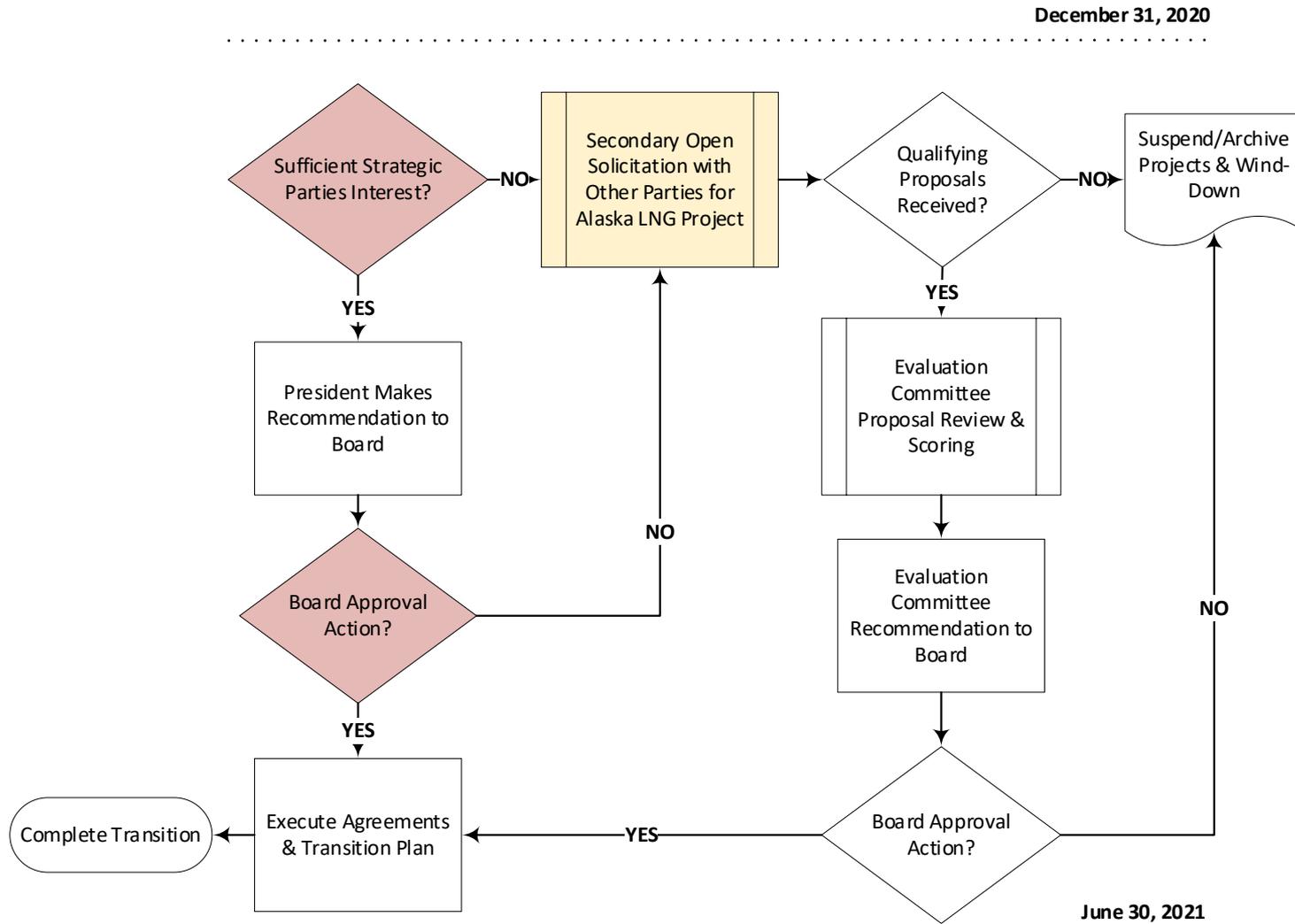
# AGDC's Strategic Plan Objective



# Strategic Party Stage Gate – Success Case



# Strategic Party Stage Gate – Non-Success Case

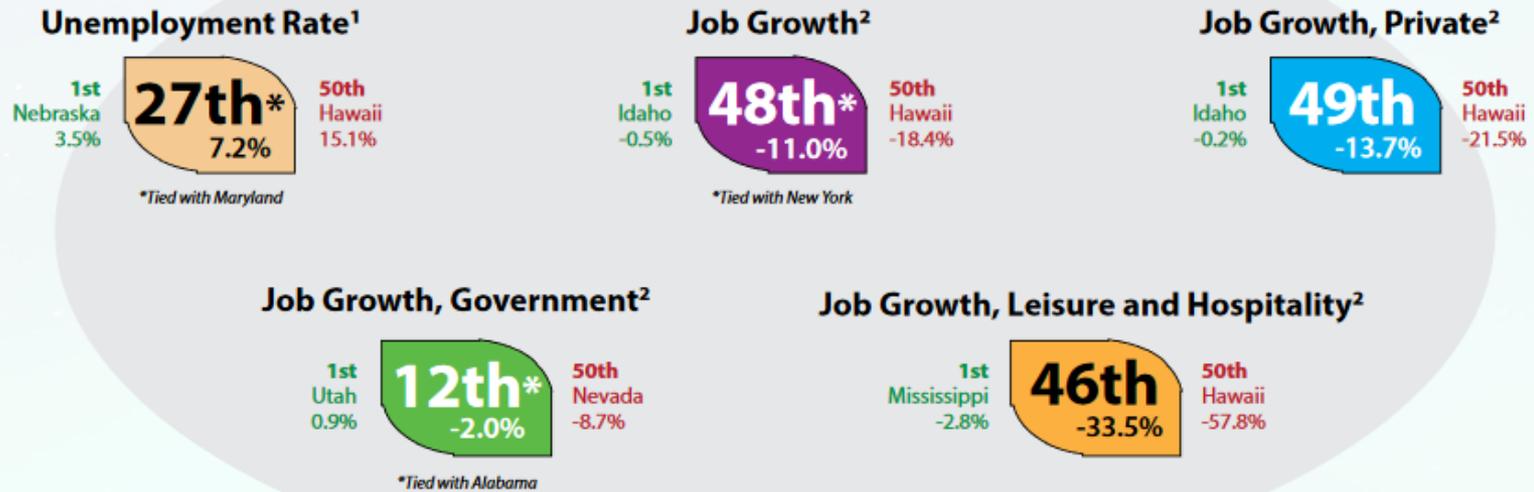


# Economic Recovery Initiative

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## How Alaska Ranks



Note: Government employment includes federal, state, and local government plus public schools and universities.

<sup>1</sup>September seasonally adjusted unemployment rates

<sup>2</sup>September employment, over-the-year percent change

Sources: U.S. Bureau of Labor Statistics and Alaska Department of Labor and Workforce Development, Research and Analysis Section

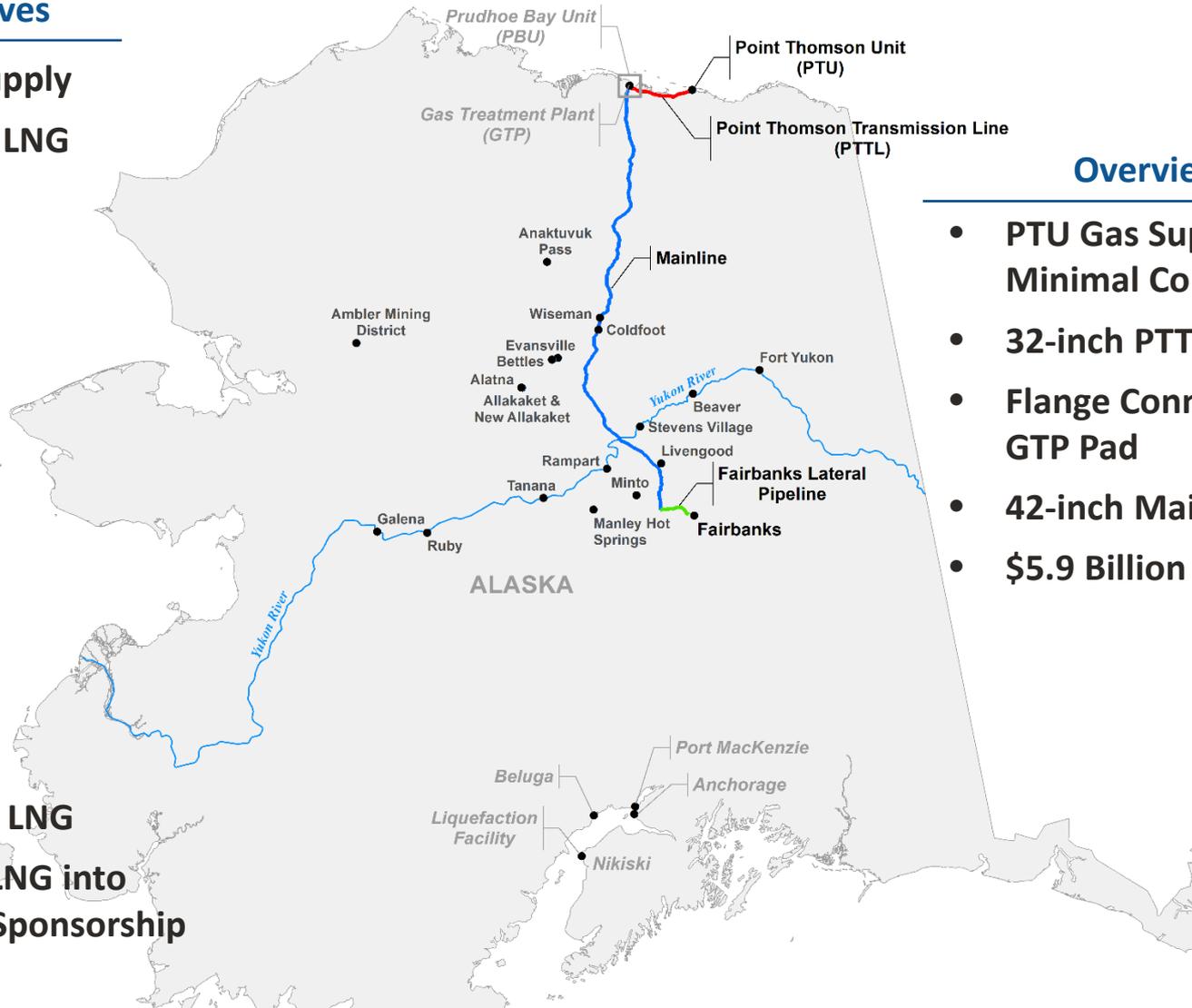
- 293,500: Alaska November 2020 employment
- 23,500: Number of jobs lost in Alaska since November 2019, a loss of 7.4%
- 7,000: Number of jobs lost in the leisure and hospitality sector, a loss of 22%
- 3,100: Number of jobs lost in the transportation, warehousing and utilities sector, a loss of 15%
- 2,900: Number of jobs lost in the oil and gas sector, a loss of 30%
- 2,200: Number of jobs lost in the professional and business services sector, a loss of 8%

- Alaska has an energy infrastructure project that can immediately ignite our economy, put thousands of Alaskans back to work, clean our air, improve health, and reduce energy bills
- The Alaska LNG Project can be phased, starting with a \$5.9 billion U.S. clean energy infrastructure initiative that will resolve longstanding climate, pollution, and energy problems affecting vulnerable rural populations and strategically located Department of Defense installations
- Attracting stimulus and private funding in the near future for the initial phase of the Alaska LNG Project will quickly revitalize Alaska
- Alaska LNG is unique: the project has major permits required to start work now

# Accelerated Initial Phase to Deliver Early Gas

## Project Objectives

- In-State Gas Supply
- Phase 1 to Full LNG Export



## Overview

- PTU Gas Supply with Minimal Conditioning
- 32-inch PTTL
- Flange Connection at GTP Pad
- 42-inch Mainline
- \$5.9 Billion

- De-risks Alaska LNG
- Moves Alaska LNG into Private Sector Sponsorship

- Propels a near-term economic recovery for Alaska:
  - ✓ \$1.5 billion impact in first 24 months
  - ✓ 1,400+ high-paying direct jobs
  - ✓ 20,000+ indirect jobs
- Immediate benefit to hardest-hit service industries (e.g., restaurants, hotels, transportation, etc.)
- Delivers natural gas to Interior Alaska in 2025
- The private sector would build, own, and operate

## Alaska State Legislature Letter of Intent for SB-138:

- Employ Alaska residents and contract with Alaska businesses to the extent they are qualified, available, ready, willing and cost competitive;
- Use, as far as practicable, job centers and associated services operated by the Department of Labor and Workforce Development;
- Participate with the Department of Labor and Workforce Development to update the training plan for an LNG export project including main operations;
- Advertise for available positions locally and use, as far as practicable, Alaska job service organizations to notify the Alaska public; and
- Work with the Department of Labor and Workforce Development and other organizations to provide training.

AGDC signed a 2018 “Alaskans first” hiring agreement with local labor organizations for the construction of the Alaska LNG Project:

- Memorandum of Understanding (MOU) with the South Central Alaska Building & Trades Council, Fairbanks Building & Trades Council, and the Alaska Petroleum Joint Craft Council
- Provides the framework necessary to advise engineering, procurement, and construction (EPC) firms regarding negotiations of project labor agreements (PLAs)
- Agreement terms include work and rotation schedules, drug and alcohol test requirements, and safety training. Wages will be established in accordance with prevailing wage rates for local public construction contracts.
- “An Alaskans-first agreement guarantees qualified Alaska residents will be first in line to construct and operate the major components of this gasline” (Alaska AFL-CIO President Vince Beltrami, Oct 2018)

# Create Near-term Jobs



Construction  
(average 1,005  
employees)



Engineering  
(average 402  
employees)



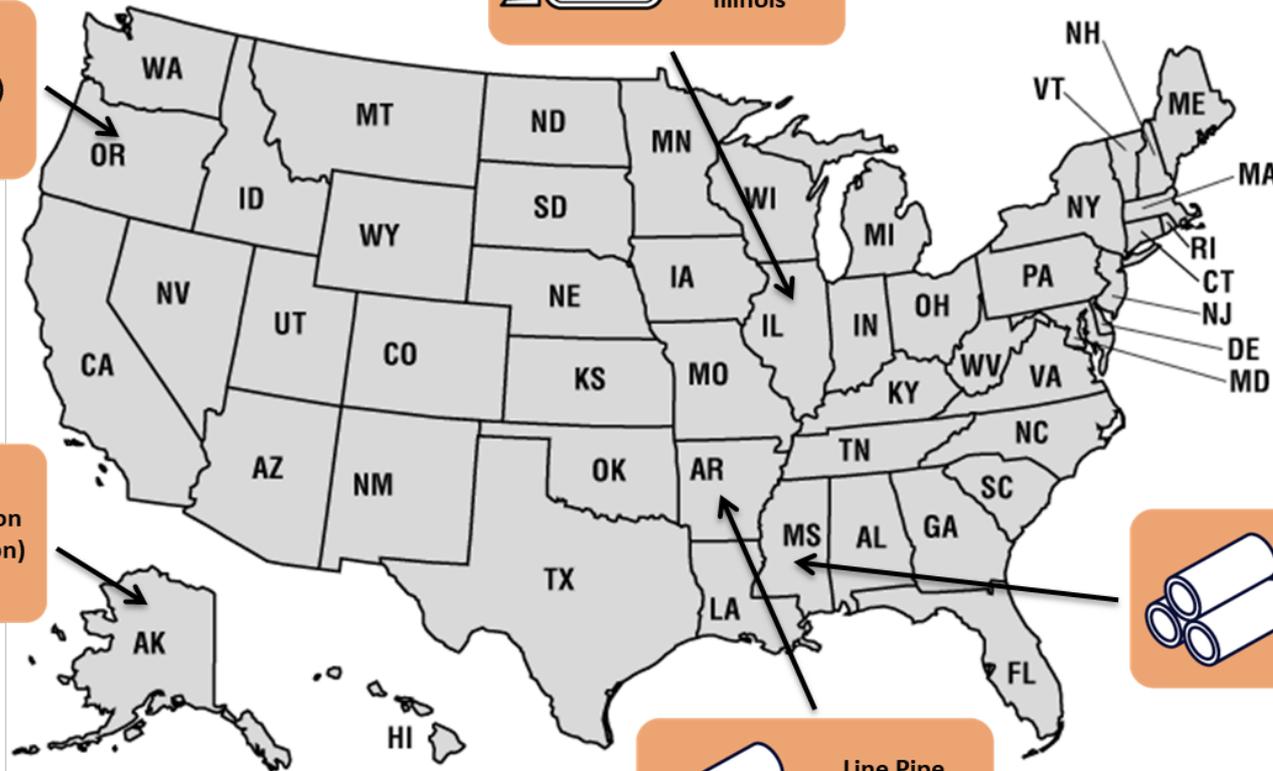
Construction  
Equipment  
(\$80 million)  
Illinois



Line Pipe  
(\$48 million)  
Oregon



Civil  
Construction  
(\$775 million)  
Alaska



Line Pipe  
(\$283 million)  
Mississippi



Line Pipe  
(\$333 million)  
Arkansas

- Clear the air in Fairbanks and Interior Alaska, which has some of the worst air quality in the nation
- Bring relief to residents with no alternative to diesel or wood
- In the midst of a respiratory virus pandemic, this need has never been more urgent
- Boosts military efforts to alleviate major climate impacts of defense infrastructure in strategically important Alaska
- Boost military readiness through consistent, sustainable, and reliable energy access
- Reduce costs for producing minerals essential for manufacturing renewable energy and electric vehicle components

- Alaskans with limited income spend a disproportionate amount of their money for heat and light while we sit on one the largest untapped natural gas reservoirs in the world.
- Lower energy bills by 25% rural communities with construction of initial phase
- Lower energy bills further - as much as 75% - when the Alaska LNG Project is complete
- Provide the opportunity for direct investment in the project

“...launch a national effort aimed at creating the jobs we need to build a modern, sustainable infrastructure now and deliver an equitable clean energy future.”

- Build a Modern Infrastructure
- Achieve a Carbon Pollution-Free Power Sector by 2035
- Make Dramatic Investments in Energy Efficiency in Buildings, including Completing 4 Million Retrofits and Building 1.5 Million New Affordable Homes
- Pursue a Historic Investment in Clean Energy Innovation
- Advance Sustainable Agriculture and Conservation
- Secure Environmental Justice and Equitable Economy Opportunity
- Position the U.S. Auto Industry to Win the 21st Century with technology invented in America

- Electric grids face a dual challenge: meeting growing demand for power while also decarbonizing the energy it supplies
- Natural gas will play an indispensable role in managing the risk that a precipitous leap to renewables will make electricity more expensive and potentially less reliable
- Gas plays an indispensable role in renewable energy expansion by providing an instantly dispatchable source of electricity
- Retaining sufficient natural gas generation to backstop wind and solar power would reduce costs and increase reliability compared to a grid that relies entirely on renewables
- Political debate around energy and climate policy often presents Americans with a false choice between natural gas and renewable energy - the two are intertwined

*Progressive Policy Institute*

*Wind, Solar, and Gas: Managing the Risks of America's Clean Energy Transition*

*December 2020*

- Stimulus or infrastructure funding is key to attract outside investment
- AGDC supports greater flexibility for States to prioritize initiatives
- Alaska congressional delegation has voiced support for stimulus funding and greater flexibility
- Contracted with Brownstein Hyatt Faber Schreck and Holland & Hart to provide strategic counsel and assist with communications
  - Congressional committee leadership
  - President-elect transition teams
  - Support organizations

- Fund the project alongside private sector Lead Party:
  - ✓ Owner Builder Operator (OBO) would invest capital
  - ✓ OBO to receive minimum return ahead of any State payback
  - ✓ Gas is delivered to Fairbanks for \$15/MMBtu
- Significantly de-risks Alaska LNG
- Once Alaska LNG is sanctioned by investors, gas prices drop to under \$5/MMBtu in Interior and Southcentral Alaska
- The Alaska LNG project final phase will bring additional job creation
- Alaska LNG's clean-energy infrastructure positions Alaska to remain a major energy exporter far into the future by exporting LNG and eventually hydrogen

ALASKA  
GASLINE  
DEVELOPMENT CORP.

