

Alaska Gasline Development Corporation
Project Name: Alaska LNG Project
AUTHORIZATION FOR EXPENDITURE

X	CAPITAL	EXPENSE
TITLE:	<u>FY24 Alaska LNG Project</u>	AFE # <u>24-001</u>
Start Date:	<u>July 1, 2023</u>	Original Authorization: <u>\$5,500,000</u>
Completion Date:	<u>June 30, 2024</u>	Rev # <u>0</u>
Responsible Manager:	<u>Frank Richards</u>	TOTAL <u>\$5,500,000</u>

Budgeted – Yes/No	Yes		Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
EXPENDITURE FLOW (\$000s):			\$1,375	\$1,375	\$1,375	\$1,375

SUMMARY OF ESTIMATED COSTS (\$000s)	
Items/Description	FY24
(1) Venture Development	\$1,989
(2) Core PMT & Systems	\$2,321
(3) ERL	\$1,190
TOTAL	\$5,500

Justification

The Alaska Gasline Development Corporation (AGDC) is an independent, public corporation of the State of Alaska, with a legal existence separate and distinct from the State of Alaska. AGDC currently has the overall responsibility of developing a project to monetize Alaska’s vast North Slope natural gas. AGDC was originally formed to develop the Alaska Stand Alone Pipeline (ASAP) Project in 2010. The ASAP Project was idled following the completion of major permitting and is not currently active. AGDC is presently leading the development of the Alaska LNG Project.

An initial AGDC Strategic Plan was developed with the AGDC Board of Directors (Board) in early 2020. The Board approved the initial Strategic Plan (Revision 0) on April 9, 2020, and the Strategic Plan has been updated annually since, through Revisions 1 and 2. Revision 3 of the Strategic Plan is progressing while we work with Lead Party and Investors on completing commercial negotiations.

Several major accomplishments have been achieved for the Alaska LNG Project since 2020, including the following:

- Secured major federal and state permits and authorizations.
- Maintained the viability of project documentation, data, systems, and tools for transition to new private sector lead parties.
- Obtained the Notice of Availability of the Alaska LNG Project Final Environmental Impact Statement from the Federal Energy Regulatory Commission (FERC).
- Interfaced with the Legislature to provide Project updates and request budget authorizations for the Operating Budget and Statutory Designated Program Receipt authority for Fiscal Year 2021, Fiscal Year 2022, Fiscal Year 2023, and Fiscal Year 2024.
- Completed Project cost reduction studies and an update of the Class 4 Project Cost Estimate.
- Obtained the Section 3 Order authorizing construction of the Project from FERC.
- Completed an economic assessment review with Strategic Parties using the updated Joint Economic Model.
- Presented an Economic Stage Gate decision support package to the Board.
- The Board made a positive Economic Stage Gate decision indicating that the project has a potential to deliver LNG to markets at a competitive price.
- Established the 8-Star Alaska, LLC asset structure and transferred Project assets as directed by the Board.
- Completed an initial stage gate review with Strategic Parties to identify ongoing interest and alignment with the Project.
- The Board made a positive Strategic Party Stage Gate decision based on Strategic Party interest and participation.
- Signed a formal agreement with a world-class pipeline company to lead the pipeline subproject.
- Continued to defend permits and authorizations from third-party litigation against the U.S. Department of Energy (DOE) and FERC.
- Completed a comprehensive greenhouse gas lifecycle analysis for the Project including upstream and downstream emissions.
- Developed compliance management system to identity and track legal obligations.
- Successfully petitioned Congress to authorize the Alaska LNG Project to be eligible for \$30 billion of existing Federal Loan Guarantees.

- Facilitated an update of the third-party competitiveness analysis and cost of supply for the Project.
- Developed an economic decision model representing total Alaska take because of building the Project.
- Initiated a hydrogen transition plan to represent futureproofing of the Project in the emerging clean energy transition.
- Provided economic inputs to the Alaska Department of Revenue (DOR) resulting in their independent State of Alaska Revenue Forecast for the Alaska LNG Project.
- Participated in high-level Alaska LNG Project summits in Japan and Korea.
- Engaged with Goldman Sachs to solicit and commercially structure a consortium of private-sector Lead Parties and Investors who will fund and complete Front-End Engineering Design (FEED) in exchange for 75% of Alaska LNG Project equity through 8-Star Alaska, LLC.

The current revision of the Strategic Plan (Rev. 2) addresses strategic planning elements as well as the tactical actions necessary to reach AGDC's objectives. AGDC's objectives for the Alaska LNG Project include:

1. Lead Project development on behalf of Alaska and provide overall coordination for the Project through transition to the private sector.
2. Secure private sector funds for project development activities.
3. Develop and sign project development agreements with Lead Parties to advance Project through FEED to Final Investment Decision (FID).
4. Achieve the maximum benefit from the Project to Alaskans, while minimizing ongoing AGDC spend.
5. Maintain a common Project Economic Model in association with Strategic Parties and validate the integrated Alaska Total Value Model with the Alaska Department of Natural Resources and Alaska Department of Revenue and inform key stakeholders and policy makers.
6. Leverage the Project by leading the Alaska Hydrogen Hub proposal to the DOE and execute the program within a new AGDC hydrogen subsidiary upon successful award. [Note: This objective has been overcome by events due to the DOE negative response to the Alaska Hydrogen Hub Concept Paper in December 2022]

The overall AGDC Work Program & Budget (WP&B) for Fiscal Year 2024 (FY24) covers the period between July 1, 2023, through June 30, 2024. The WP&B consists of major functions around (1) Venture Development; (2) Core Project Management Team (PMT) & Systems; and (3) Environmental, Regulatory, & Lands (ERL).

Operational expenditure for AGDC corporate operations was approved by the Board of Directors for FY24 prior to this Authorization for Expenditure (AFE) request and was included in the Governor of Alaska's FY24 budget passed by the Legislature. This scope of this AFE is associated with the baseline capital expenditures for the Alaska LNG Project outside of corporate operations.

(1) Scope of Work

1.1 – Venture Development

Primary Budget Items:

1. Contractors (Embedded Staff)
2. Contractors (Policy Support)
3. Contractors (Market Investment/Outreach)
4. Contractors (Third Party Analysis)
5. Legal Support
6. RSA Expenditure
7. Other Direct Costs

Contractors (Embedded Staff)

Venture development activities will continue to be the responsibility of the AGDC Venture Lead with a primary focus on aligning the Alaska LNG Strategic Parties, attracting third party capital through Investors, and eventually transitioning the project to third-party majority ownership through divesting the State of Alaska's equity in 8 Star Alaska, LLC. The core objective of these Strategic Party and Investor alignment activities will be to identify an LNG Lead Party and obtain the commercial commitments by the Strategic Parties/Investors sufficient to underpin funding FEED and reaching FID.

AGDC embedded staff will advance commercial alignment with the Strategic Parties/Investors through established meetings, the use of an online portal for collaboration and data sharing, and continuous, direct communication with Strategic Parties/Investors, as necessary, to align the Alaska LNG Project for a successful FEED entry.

AGDC will support a FEED entry stage gate targeted in 2023. At the time of FEED entry, it is expected that Strategic Parties will execute Purchase Option Agreements for an ownership stake in 8-Star Alaska, LLC, and the formal decision by owners to enter FEED will be taken. Funding levels by each optional Investor will be defined in agreements.

Contractors (Policy Support)

AGDC will continue to lead the development of State of Alaska and federal support for the Alaska LNG Project during the FY24 period and will utilize specialty contractors to support the efforts. These support opportunities include a lower cost approach to addressing property tax, federal processes to establish loan guarantees for debt financing of the Project, supporting third-party fiscal stability to reduce Project risk, coordination with the US Export-Import Bank, and accelerated depreciation or tax holidays to improve Project economics. AGDC will work closely with Strategic Parties and Investors to inform decision makers and establish the strategy required to reach desired support.

Contractors (Market Investment/Outreach)

AGDC will continue to engage industry consultants and financial advisors for financing the Alaska LNG Project during the FY24 period and will utilize specialty contractors to support the efforts.

Contractors (Third Party Analysis)

AGDC will continue to model the economics of the Alaska LNG Project during the FY24 period through the Joint Economic Model. AGDC will utilize specialty contractors to conduct third party analysis, as necessary, to validate project economics and sensitivities to key inputs.

Legal Support

AGDC has continued to solicit interest from new parties in joining the Strategic Party group with a focus on identifying an LNG Lead Party and Investors. AGDC will lead efforts with the LNG Lead Party and other Strategic Parties/Investors to advance commercial alignment and execute the agreements necessary for the Strategic Parties/Investors and AGDC to approve FEED funding. Specialized commercial legal support contractors will be utilized in this effort.

8-Star Alaska, LLC was established as an AGDC subsidiary to provide a vehicle for AGDC to transfer Project ownership to the private sector. AGDC embedded staff will be responsible for drafting and final approval of an 8-Star Alaska, LLC Equity Option Agreement that will be offered to Strategic Parties and Investors. Finally, AGDC embedded staff will develop the optimal longer-term equity structure of 8-Star Alaska, LLC and will finalize ownership structure.

RSA Expenses

AGDC will directly fund an agency RSA associated with ongoing and independent economic modeling for the Alaska LNG Project. This RSA is with the Alaska Department of Revenue.

Other Direct Costs

Other direct costs will be incurred in FY24 to support Strategic Party/Investor field tours and conferences.

1.2 – Core PMT & Systems

Primary Budget Items:

1. Contractors (Embedded Staff)
2. Contractors (Engineering)
3. Other Direct Costs

Contractors (Embedded Staff)

AGDC's PMT will maintain an embedded staff of owner representatives with project management and technical subject matter experts (SMEs) sufficient to achieve the program objectives and maintain viability of the Alaska LNG Project in future phases of development. The AGDC PMT oversees all technical work activities for the Alaska LNG Project assets.

The AGDC PMT will continue to staff highly qualified individuals with experience in managing megaprojects, as well as familiarity with Alaskan and Arctic oil and gas projects, and the technical elements of the Alaska LNG Project. PMT embedded staff will also continue to coordinate with venture functions and interface with Strategic Party/Investor regulatory and technical contacts. In the event of major decision points or transitions, the PMT will provide the structure and process to support major project changes and transitions.

Contractors (Engineering)

AGDC will utilize contracted SMEs to support due diligence and transition activities, as needed, during FY24. Technical interface with these companies at the single-point-of-contact (SPOC) level will be the responsibility of the Alaska LNG Project Manager. The objective of SME support will be to add value to the Alaska LNG Project as opportunities arise and maintain close alignment with the efforts of AGDC's Venture Team.

Other Direct Costs

Project management systems are in-place within AGDC and will continue to be maintained to ensure the continuity of Alaska LNG Project information and its efficient use across the PMT. These core systems include the Documentum System, Firmex Data Room, Transmittal Log System, Request for Information (RFI) System, Compliance Management System, ESRI GIS/Geodatabase, R Drive server files, Permit Tracking Tool, MOC Change Log, Project Control reports, and Project archives. Project management systems will continue to have a bias for being cloud-based and structured to support future transition.

AGDC maintains the Nikiski Seismic Monitoring Station through a Reimbursable Support Agreement (RSA) with the University of Alaska, Fairbanks. AGDC plans to conduct a full-project field tour for Lead Parties in FY24 and has included estimated costs to execute this effort.

1.3 – Environmental, Regulatory, and Lands (ERL)

Primary Budget Items:

1. Contractors (Embedded Staff)
2. Contractors (Major Permitting & Approvals)
3. Legal Support
4. RSA Expenses
5. Permit Fees & Land Lease
6. Other Direct Costs

Contractors (Embedded Staff)

AGDC's ERL team will maintain an embedded staff with regulatory, lands, and stakeholder expertise sufficient to achieve the program objectives and maintain viability of the Alaska LNG Project in future phases of development. The AGDC ERL team will continue to staff highly qualified individuals with experience in permitting and regulatory requirements specific to the Alaska LNG Project.

AGDC will maintain a comprehensive accounting of the legal requirements applicable to the Alaska LNG Project through a clearly defined Compliance Assurance Process under the direction of the ERL Manager. A compliance assurance process maintains current knowledge of what legal requirements apply to Project activities, what tasks need to be performed, who has responsibility for compliance tasks, and the controls used to maintain compliance. Legal requirements include federal, state, and local laws and regulations, enforceable agreements, agency orders, permits, and contractual requirements. The Compliance Assurance Process will support transition to new lead parties and major phases of Project development (e.g., entry to FEED).

Contractors (Major Permitting & Approvals)

AGDC will continue to maintain the active major permits and approvals previously obtained for the Alaska LNG Project. Specialized contractors will be utilized for maintenance of permitting and approvals in FY24.

ROW use conflict assessments and feedback are anticipated as a baseline activity throughout FY24. This work involves looking at conflicting applications for land use, evaluating potential impacts on the project, and providing feedback to agencies/stakeholders, as appropriate, under AGDC's official policy.

Legal Support

With the FERC Final Order issued in 2020, interveners have initiated legal challenges. In addition, issuance of DOE's export license to non-free trade agreement countries has been challenged. AGDC's President and ERL Manager will work with legal counsel and technical resources, as needed, to continue to identify potential intervener legal strategies and take preemptive actions to mitigate intervener delay or adverse effect to the Project. Specialized litigation legal support contractors will be utilized in this effort.

RSA Expenses

AGDC directly funds various agency RSAs associated with ongoing permitting and approvals for the Alaska LNG Project. These RSAs include the U.S. Bureau of Land Management (BLM), the Alaska Department of Natural Resources, the U.S. National Park Service (NPS), and the ADEC.

Permit Fees & Land Lease

AGDC is required to pay ongoing permit and land lease fees to maintain active status for use by the Alaska LNG Project. These recurring annual fees include BLM right-of-way rent, NPS right-of-way rent, and ADEC air permit fees.

Other Direct Costs

AGDC will incur costs for stakeholder engagement travel and outreach activities related to major permits, lands, and cultural resources.

(2) Review Process

The work scope detailed in this AFE has been developed internally within AGDC and reviewed and approved by the AGDC President.

(3) Options Considered

The Alaska LNG Project is the sole project being pursued by AGDC to commercialize North Slope natural gas. Funding of the Venture Development, Core PMT & Systems, and ERL functions represent the minimum budget required to complete the AGDC Strategic Roadmap tasks and reach AGDC's Strategic Objectives. Suspending these functions would stop the Alaska LNG Project and not allow AGDC to implement the AGDC Strategic Plan further towards the FEED Stage Gate. No direction has been provided to suspend activities, so this option was not considered.

The FY24 WP&B breakdown from the scope above in Section 1 is as follows:

ALASKA LNG PROJECT			
FY 2024 WORK PROGRAM & BUDGET (WP&B)			
Sub-Program	Budget Item	Basis Detail	FY24 AFE Budget
6650 Venture Development	6655 Contractors (E mbedded Staff)	FY 24 Baseline Embedded Staff Plan	\$ 833,700
	6655 Contractors (Policy Support)	Brown stein	\$ 120,000
	6655 Contractors (M arket Investment/Outreach)	C3; Diamond	\$ 175,000
	6660 Legal Support	HLL; Jones Day; Latham Watkins	\$ 750,000
	6665 RSA Expenses	DOR Modelling Support RSA	\$ 60,000
	6675 Other Direct Costs	Venture Field Tour/Conference Expenses	\$ 50,000
	Subtotal		\$ 1,988,700
6700 Core PMT & Systems	6710 Contractors (E mbedded Staff)	FY 24 Baseline Embedded Staff Plan	\$ 1,808,583
	6710 Contactors (Engineering)	Due Diligence and Transition SMEs	\$ 275,000
	6780 Other Direct Costs	(\$100,000) Documentum; (\$30,000) Firmex; (\$7,500) Niskis Seismic UAF; (\$100,000) Technical Field Tour Expenses	\$ 237,500
	Subtotal		\$ 2,321,083
6850 Environmental, Regulatory, & Lands (ERL)	6855 Contractors (E mbedded Staff)	FY 24 Baseline Embedded Staff Plan	\$ 519,750
	6855 Contractors (Major Permitting and Approvals)	(\$80,000) E/P support including cultural resources; (\$30,000) Air Permitting Support if we need it for updated BACT analysis for GTP.	\$ 110,000
	6860 Legal Support	(\$200,000) Greenberg Traurig through DCL; (\$50,000) Ryan Steen through Stibel Rives	\$ 200,000
	6865 RSA Expenses	(\$30,000) ADEC GTP Air Permit RSA; (\$25,000) ADN R ROW & Cultural RSA	\$ 55,000
	6870 Permit Fees & Land Lease	(\$284,000) BLM ROW Rent - due January 1 of 2024; (\$11,000) NFS ROW Rent; (\$10,000) ADEC GTP and LFAir Permit Fee.	\$ 285,000
	6875 Other Direct Costs	Travel (stakeholder engagement activities directly related to ERL permits and approvals, such as SEIS outreach; cultural resource activity engagement)	\$ 20,000
	Subtotal		\$ 1,189,750
AFE TOTAL			\$ 5,499,533

(4) Spend Comparison to Overall Legislative Sanction and Current Year Fiscal Budget

The requested funds are aligned with the Strategic Plan and legislative sanction for AGDC pursuant to Alaska Statutes. There will be sufficient funds within AGDC's Alaska LNG Project Fund (1235) to cover the baseline WP&B.

(5) Risks of Delivery or Non-Delivery

The following major risks have been identified for the Alaska LNG Project:

- Megaprojects have increased exposure to major cost overruns, major schedule delays, major operational problems, and regulatory delays.
- Global competition from competing LNG projects.
- Alaska projects are more expensive and have higher execution risk than U.S. Gulf Coast equivalents because of difficult logistics and remoteness from needed services. These issues can amplify impacts of cost overruns and schedule delays.
- Overlapping regulatory oversight by federal, state, and local agencies.
- Financing institutions putting pressure on new oil and gas investments in the Arctic.
- Slippage in schedule due to lack of commercial contracts and funding, delayed permitting/approvals, or authorization of expenditure.
- Alaska Legislature can appropriate AGDC's funds to apply to other state priorities or can re-define AGDC's abilities through new legislation.

(6) Cost Phasing

The cash flow associated with this AFE is based on cost estimates in the FY24 WP&B. There are no phasing issues associated with the proposed baseline scope. Contract commitment of funds will be need-driven during the fiscal year and obligated as needed in the period. In the event additional funds are made available to AGDC from Strategic Parties/Investors or from a federal appropriation administered by the DOE, a revised AFE will be submitted for Board approval.

(7) Resources

Required resources will be provided by existing AGDC Venture Development, Core PMT & Systems, and ERL staff and contractors, selected technical subcontractors with subject matter expertise, and Strategic Party SMEs. The AGDC President and staff will provide owner's representation and technical oversight of the work scope and interfaces between cooperating parties.

(8) Cost Contingencies

The budget for the scope of work has been built-up and spread monthly with no contingency included. A 10% cost contingency has not been added to this AFE per previous direction from the Board of Directors due to the strong definition of scope for FY24.

(9) Risks of Delivery and Mitigation

AGDC will mitigate risks of deliverability by managing AGDC work efforts through owner's representatives. Individual leads for Venture Development, Core PMT & Systems, and ERL will provide overall leadership and governance for the authorized WP&B work efforts. AGDC owner's representatives will be supported by leveraging the services of specialized contractors who have senior technical, management, financial, and legal expertise. The risk of delivery will be mitigated by authorizing expenditure and expeditiously entering appropriate key contractual relationships.

AGDC RECOMMENDATION/APPROVAL	
Originator & Financial Authority:	
Title: President	Date:
BOD Approval:	
Title: Board Chair	Date: