

TO: Kenai Peninsula Borough Assembly Members

THROUGH: Mayor Mike Navarre

FROM: Larry Persily, special assistant

DATE: Nov. 25, 2015

RE: LNG project updates

A lot has happened with the Alaska LNG project over the past couple of months, particularly concerning the Kenai Peninsula and especially Nikiski-area residents.

- The borough held its first community meeting on the project in Nikiski, listening and answering questions for a couple of hours before almost 100 people at the Nikiski Recreation Center on Nov. 12. The next meeting is scheduled for Dec. 10, with regular meetings to follow to ensure that residents have the same information the borough has about the project and its potential impact on their area. Community concerns at the Nov. 12 meeting focused on land use, property values, traffic, noise and water wells.
- The Alaska LNG project team held a community meeting in Nikiski on Oct. 19 to introduce the route options, selection criteria and timeline for possibly relocating the Kenai Spur Highway away from the proposed LNG plant site. The project team presented a map of multiple options (available on the borough website) and explained that further review of route alternatives is planned for 2016, with right-of-way acquisition possible in 2017 and construction in 2018 if Alaska LNG decides to proceed with rerouting the highway in anticipation of a 2019 start date for construction at the LNG plant. The Alaska Department of Transportation and the Kenai Borough are part of the discussions, and any reroute would need to conform with borough platting requirements for connector roads and access for property owners. Safety considerations dictate relocating the Kenai Spur Highway away from the barge and ship landing and LNG plant construction zone. Alaska LNG anticipates additional community meetings in 2016 to discuss route options and review selection criteria for its highway project.
- The Federal Energy Regulatory Commission (FERC) has concluded a series of public meetings statewide (12), including a session in Nikiski on Oct. 27, to take public testimony identifying issues that should be addressed in the Alaska LNG project environmental impact statement. Most of the community members at the Nikiski meeting raised issues of water quality and quantity for their wells, traffic, property values and general impacts on their residential area. Written comments to FERC closed on Dec. 4. The borough's comments will be distributed in a separate memo. All of the

issues raised in the FERC process — called “scoping” — will be addressed in the environmental impact statement. Public comments on the project itself and its impacts on the communities will be accepted after FERC issues its draft environmental impact statement for the Alaska LNG project, which could come in late 2017.

- The project partners — ExxonMobil, BP, ConocoPhillips and the state of Alaska — are scheduled to decide by Dec. 4 on their work plan for 2016. That could include more field work to finish up environmental data gathering, additional routing decisions for the pipeline, further refinement of the LNG plant site and marine operations — most anything and everything that will be needed to remain on schedule for a full project application to FERC in the fourth-quarter of 2016.
- The state’s 25 percent interest in the Alaska LNG project is controlled by the Alaska Gasline Development Corp., where the governor last week replaced the chairman and one other board member and where the corporation’s president resigned. Those personnel moves, along with the governor’s decision to pull back the two contractors who had been leading the state’s negotiations with the producer partners and marketing efforts has added a bit of uncertainty to leadership of the state’s gas line project efforts. The personnel changes occurred not long after the legislature voted for the state to buy out TransCanada’s interests in the pipeline, adding that 25 percent stake to the state’s existing 25 percent share of the LNG plant, putting Alaska slightly ahead of BP and ConocoPhillips in ownership percentage of the total project (still behind ExxonMobil). Assuming the AGDC board fills the president’s job within a few months, and assuming the governor’s negotiating team can make progress on commercial and fiscal terms with the producer partners, none of the personnel changes by themselves are expected to affect the project timeline.
- AGDC’s job also includes managing the state’s selection, design and possibly implementation of the off-take points along the main line between Prudhoe Bay and Nikiski. The state will select at least five off-take points for in-state gas distribution. The producer partners are not part of the selection process, nor will they pay for the in-state distribution systems, but they will need to know the connection points on the main line to include in their construction plans to FERC.
- The state and producer partners have agreed in concept to an impact aid fund during project construction and a formula for calculating payments in lieu of property taxes (PILT) during the first 25 years of project operations. The impact aid fund, which would be capitalized with up to \$800 million from the four partners, would be drawn down as needed to cover the cost of additional public services, construction, repairs or community impacts during the five years of construction of the gas treatment plant, pipeline and LNG plant. The impact aid money would be paid in lieu of state and municipal property taxes assessed on construction equipment and project components. The payments in lieu of property taxes during project operations would be based on the project’s original cost, times an annual inflation factor, times a depreciation factor,

times the gas flow (as a percentage of actual flow vs. design capacity). Depending on the flow rate, the PILT could total \$14 billion to \$15.7 billion over the life of the 25-year deal. The intent is to base the payments on an easily discernable production and flow rate rather than an annually contested assessed valuation of the pipeline and infrastructure (an issue that has gone to court multiple times over the decades in assessing property taxes on the trans-Alaska oil pipeline). The questions for the Kenai Peninsula Borough, and the other municipalities that will be affected by the project construction and operation, are how the state intends to allocate (share) the impact aid and PILT dollars. That allocation decisions are a state issue, not up to the producers. The Municipal Advisory Gas Project Review Board is scheduled to meet Dec. 7 in Anchorage to discuss the sharing and allocation plans. Legislation will be required for both. The administration has not yet presented its legislation, nor has the municipal advisory panel settled on its preferred method of sharing the funds.

- As to the latest, proposed, possible project schedule, timeline and decision points:
 - The project partners are to vote by Dec. 4 on their 2016 work plan and budget.
 - Federal regulators anticipate receiving the project's second draft environmental and construction planning reports (called "resource reports") in the first-quarter of 2016.
 - The legislature this coming session will need to appropriate funds for the Alaska Gasline Development Corp. to cover its 25 percent share of project development costs for Fiscal Year 2017.
 - Alaska LNG plans to submit its final resource reports and full project application to FERC in the fourth-quarter of 2016. That would then lead to a decision by the partners whether to proceed to full front-end engineering and design work (known as FEED). The FEED commitment has been estimated at between \$1 billion and \$2 billion.
 - FERC could issue its draft environmental impact statement in late 2017 or early 2018.
 - A final EIS could be issued late in 2018, with a decision by FERC commissioners by the end of 2018 whether to authorize construction and operations. The FERC schedule depends on the completeness of Alaska LNG's resource reports and project application, the EIS process and other regulatory agencies.
 - A final investment decision, known as FID, could come late 2018 or 2019, with construction to start in 2019 — if all goes on schedule, if all goes well. The final investment decision and start of construction would require the state and its partners to each start contributing their respective share toward the multibillion-dollar construction budget.
 - First LNG carriers leaving the dock in Nikiski? Late 2024 or 2025.