Introduction to Documents

The State and the North Slope Oil and Gas Producers have reached consensus on a new and comprehensive approach to commercializing Alaska’s vast natural gas resources.

For the first time, the State and the Producers have aligned their interests towards building a world-scale LNG project, which will provide reliable supplies of natural gas to Alaska, provide opportunities for expansion of gas exploration outside the North Slope, and open foreign markets to Alaska natural gas. All the parties have agreed on a process of commensurate, proportionate steps that reflect a common-sense commercial approach to building a project of this scale, complexity and cost.

The State’s overarching goal is to facilitate a project that provides the maximum benefits for Alaskans. To that end, the State hired independent experts to assess how the State could both enhance the project’s competitiveness, assure the highest returns to the State for the use of its natural resources, and provide new jobs for Alaskans. Those experts concluded that the State could materially advance the project, without sacrificing its royalty and taxes, by taking an ownership interest in the project. The agreements and legislation described below, and enclosed in this packet, together serve to advance this major project in a fashion that provides very substantial benefits for the people of Alaska.

The Heads of Agreement (“HOA”) outlines the guiding principles and understandings for the Producers and the State to advance the Alaska LNG (“AKLNG”) project. It lays out the road map in plain terms so that the public and the Alaska Legislature will understand the proposed commercial structure of the project, including State ownership and Producer obligations, before the Legislature deliberates and votes on Enabling Legislation that authorizes the State to proceed.

The State has also built on its relationship with TransCanada to enlist this pre-eminent North American pipeline company as its partner in the AKLNG project under a more traditional commercial arrangement than existed under the Alaska Gasline Inducement Act (“AGIA”). This arrangement will ensure that the State has an experienced and reliable partner in the project and help spread project risk to another party.

The Memorandum of Understanding between the State and TransCanada (“MOU”) outlines, with commercial specificity, the conditions under which TransCanada proposes to participate in the AKLNG project, including capital structure, and Project expansion provisions. The MOU also provides an option
for the State to increase its return from the Project by acquiring an ownership interest in TransCanada’s equity position in the mid-stream Gas Treatment Plant and pipeline.

**House Bill 277/Senate Bill 138 (HB 277/SB138),** the proposed legislation relating to the Commercial Production of North Slope Natural Gas, authorizes DNR and DOR to enter into the project’s commercial arrangements described in the HOA and the MOU. Among other things, the bill establishes a subsidiary within the Alaska Gasline Development Corporation (“AGDC”), which is progressing the in-state natural gas pipeline, to pursue an equity interest in a large-diameter natural gas project and associated facilities; authorizes DNR to negotiate terms for project services and disposition and sale of gas in a North Slope natural gas project; provides a mechanism for the State to accept royalties and taxes in-kind; allows DNR and DOR to maintain confidentiality of Project information essential to a major project of this scope; provides for review of such information by the Legislature (in executive session); clarifies the essential Project contracts that must be brought back to be approved by the Legislature; authorizes DNR to modify certain lease terms on properties that provide gas to any North Slope natural gas project; and makes changes to Alaska’s Oil and Gas production tax.

It is important to note that the State preserved AGDC’s in-state natural gas pipeline project. While the AKLNG Project will be progressing through the HOA, MOU and proposed legislation, AGDC will continue full speed ahead to progress its in-state natural gas pipeline project. AGDC will be the State’s insurance policy if the AKLNG project falters.

Together, this package of agreements and proposed legislation represent a comprehensive approach to getting Alaska’s gas to Alaskans, getting jobs to Alaskans, and moving forward to markets beyond.