BUILDING A WORLD OF DIFFERENCE

MARCH 26, 2014

TRANSCANADA PARTICIPATION IN AKLNG PROJECT

PRESENTATION TO HOUSE RESOURCES COMMITTEE

PREPARED FOR THE STATE OF ALASKA

BLACK & VEATCH
Building a world of difference.

BLACK & VEATCH PRESENTERS

Peter Abt is a Managing Director in Black & Veatch's Management Consulting Division. He leads the firm's Oil & Gas Strategy practice and holds primary responsibility for delivering advisory services to meet client needs. Mr. Abt has over 32 years of experience in the energy industry focused primarily on natural gas and LNG commercial development. Mr. Abt holds an M.B.A., from the University of Houston and a B.S., Petroleum Engineering from the University of Oklahoma

Deepa Poduval is a Principal in Black & Veatch's Management Consulting Division and is responsible for business strategy and project management. Ms. Poduval focuses on strategic analytical services supporting energy asset valuation and optimization, marketing and business strategy development. She has been involved in providing analysis and commercial support related to Alaska North Slope gas monetization for eight years. Ms. Poduval holds an M.E.M. from Dartmouth College and a M.Sc. Economics and B.E., Mechanical Engineering from BITS, Pilani, India.

Jason De Stigter is a Senior Consultant with Black & Veatch's Management Consulting Division and is responsible for business analysis and project management. Mr. De Stigter's client engagements center on economic, financial, market, and risk analysis of large capital projects. He has extensive experience in developing complex and innovative economic and risk analysis models. Mr. De Stigter holds a B.E., Mechanical Engineering and a B.A. Business Administration from Dordt College and is a Professional Engineer.

MEMORANDUM OF UNDERSTANDING – HIGHLIGHTS OF THE DEAL ON THE TABLE

TC Holds the State's Equity Share in GTP+Pipe

SOA Option to Buy Back 40% of TC's Share at ~FEED

State Commits to 25 Year Transportation Agreement with TC

Agreement Commits TC to a WACC of 6.75%

Various Milestones & Off Ramps for SOA and TC

OPTIONS IDENTIFIED BY STATE FOR EQUITY PARTICIPATION

	GTP	Pipeline	LNG Plant
SOA Alone	SOA : 25%	SOA: 25%	SOA: 25%
SOA + TC No Buyback	TC: 25%	TC: 25%	SOA: 25%
SOA + TC with Buyback	TC: 15% SOA: 10%	TC: 15% SOA: 10%	SOA: 25%

* Assumes 25% State equity participation

IMPLICATIONS OF OPTIONS AND POTENTIAL OFF RAMPS

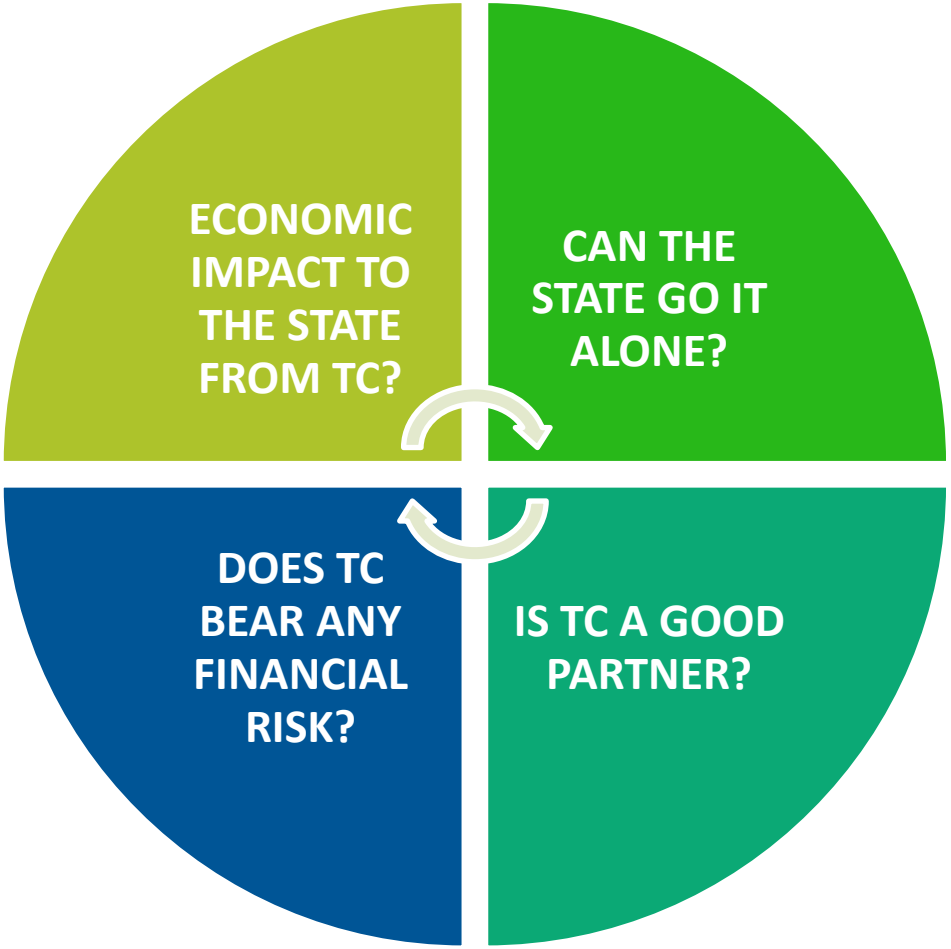
TIMELINE:	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					FID					
PROJECT STAGE:	PRE-FEED		FEED			CONSTRUCTION				

STATE INVESTMENT

SOA GO IT ALONE:	$108M	$450M	$13.2B
TC NO BUYBACK:	$43M	$180M	$6.7B
	Pay TC Dev. Costs of ~$70M (Incl. AFUDC of $5M)	Pay TC Dev. Costs of ~$390M (Incl. AFUDC of $50M)	
TC WITH 40% BUYBACK:	$43M	$360M	$9.3B
	Pay TC Dev. Costs of ~$70M (Incl. AFUDC of $5M)	Pay TC Dev. Costs of ~$230M (Incl. AFUDC of $30M)	

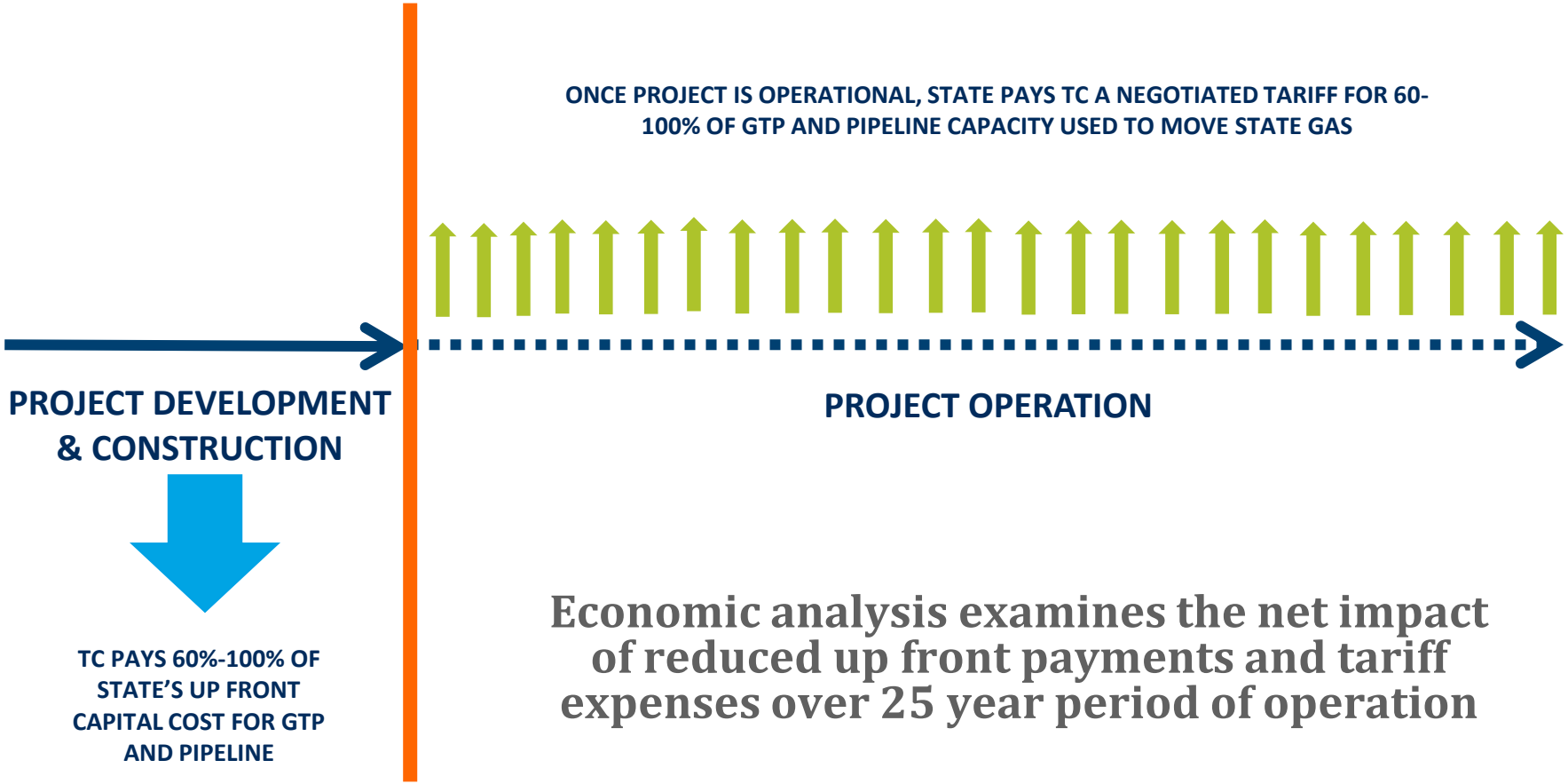
* Assumes 25% State equity participation

KEY QUESTIONS IN LOOKING AT VALUE OF TRANSCANADA'S PARTICIPATION



WHAT IS THE ECONOMIC IMPACT TO STATE FROM TRANSCANADA'S PARTICIPATION?

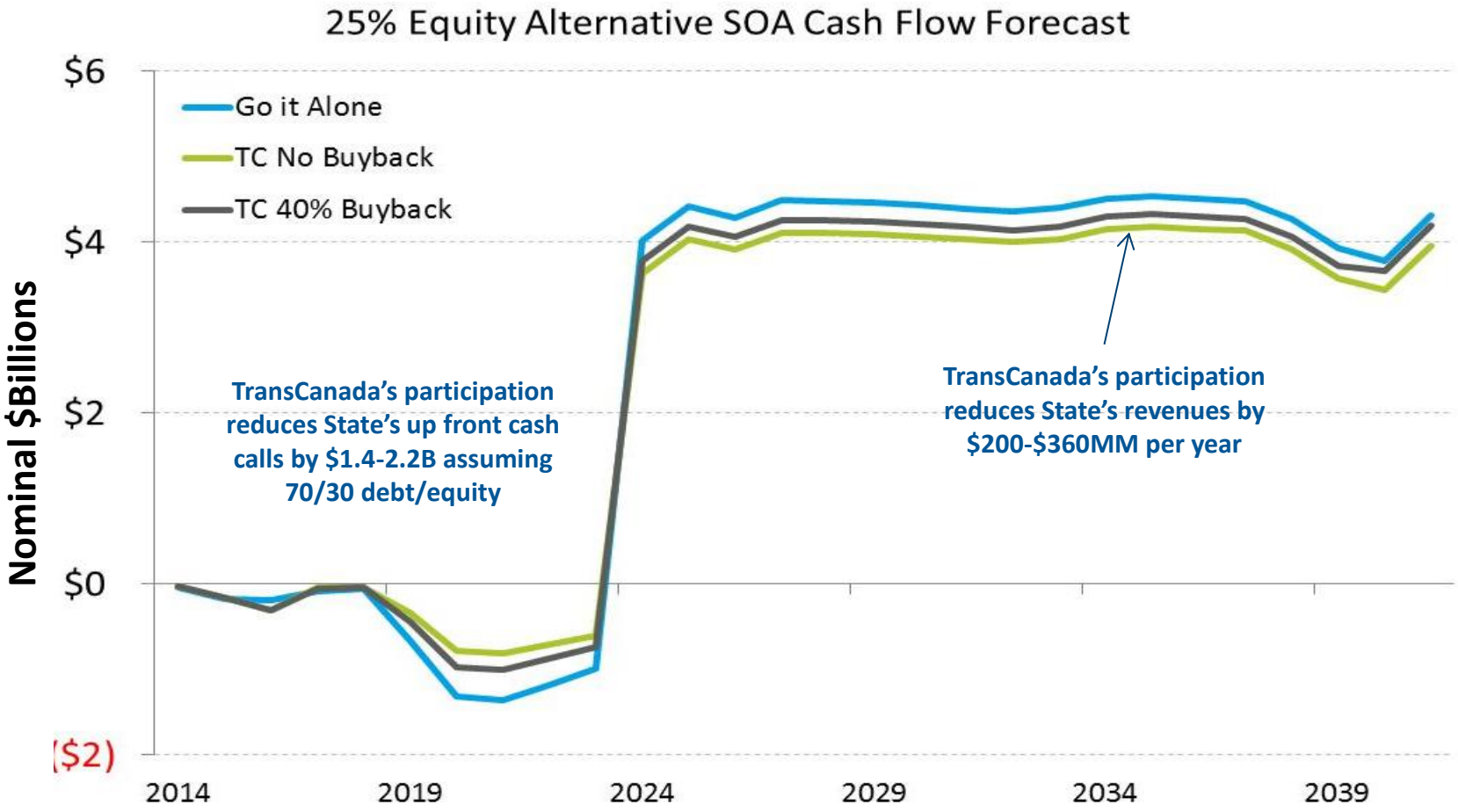
SOA IMPACT



Economic analysis examines the net impact of reduced up front payments and tariff expenses over 25 year period of operation

TRANSCANADA'S PARTICIPATION IMPACTS SOA UP FRONT CASH CALLS AND REVENUES FROM PROJECT

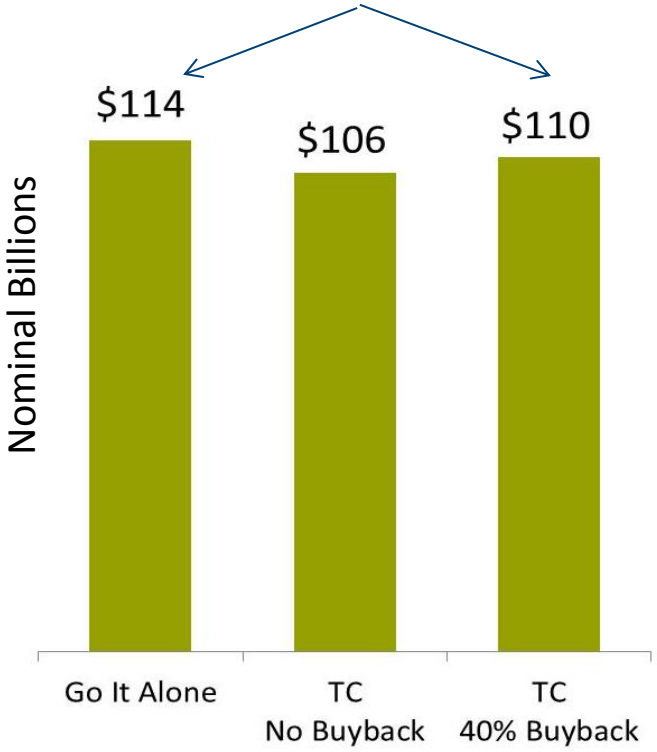
SOA IMPACT



WHAT IS THE ECONOMIC IMPACT TO STATE FROM TRANSCANADA'S PARTICIPATION?

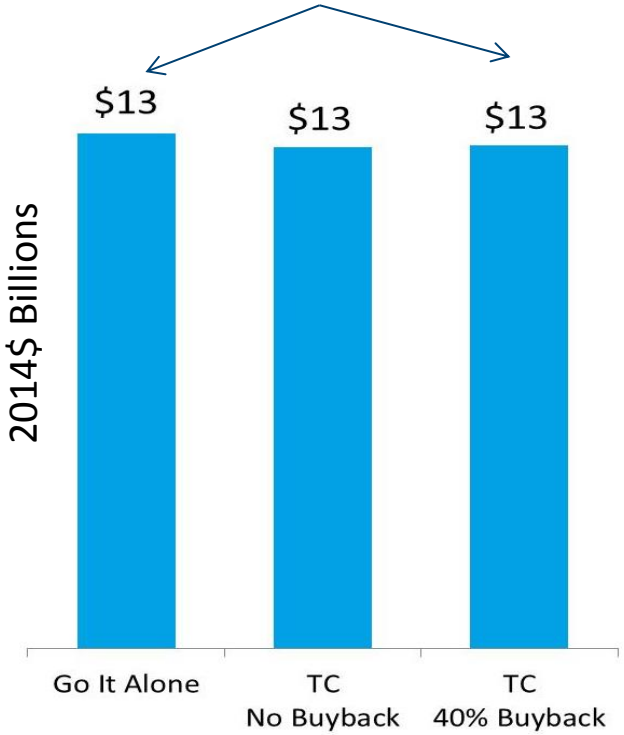
SOA IMPACT

TransCanada participation reduces the State's total cash flows with buy back option



STATE OF ALASKA CASH FLOWS

Minimal impact on the State on an NPV basis with TransCanada participation.



STATE OF ALASKA NPV_{10}

TransCanada's NPV is expected to be $150-$200MM over the initial 25 year period

* Assumes 25% State equity participation

CAN THE STATE GO IT ALONE?

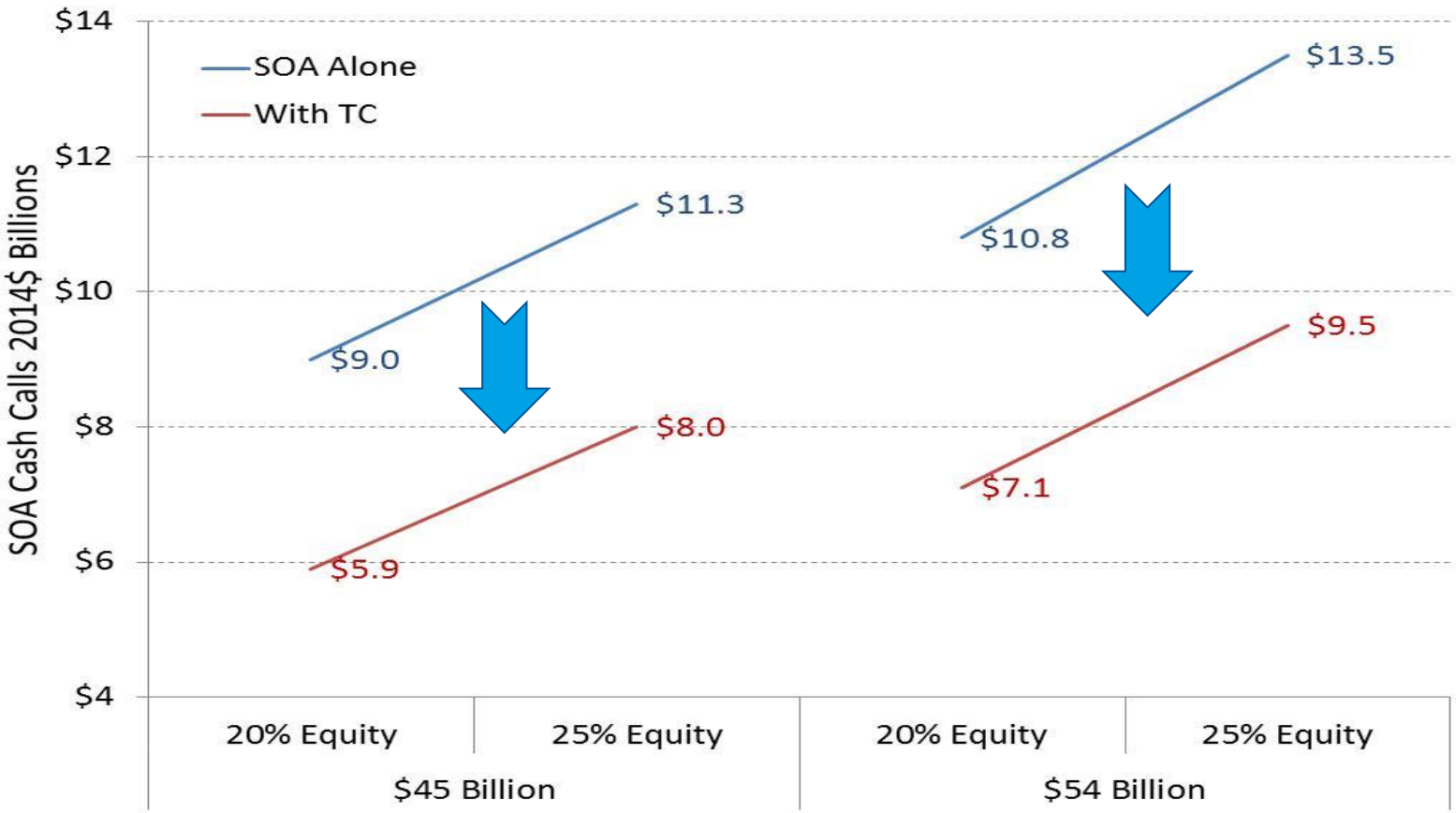
- What are the capital cost and investment implications of going it alone
- What are the debt implications of going it alone?

SOA UPFRONT CAPITAL COST EXPOSURE IS REDUCED THROUGH TC PARTICIPATION

- Highest risk exposure is prior to project start when cash calls are not supported by project revenues
- TransCanada ("TC") participation allows State to retain 20%-25% of gas share while being responsible for only 13%-18% of the upfront costs
- This is especially important if cost overruns occur on project

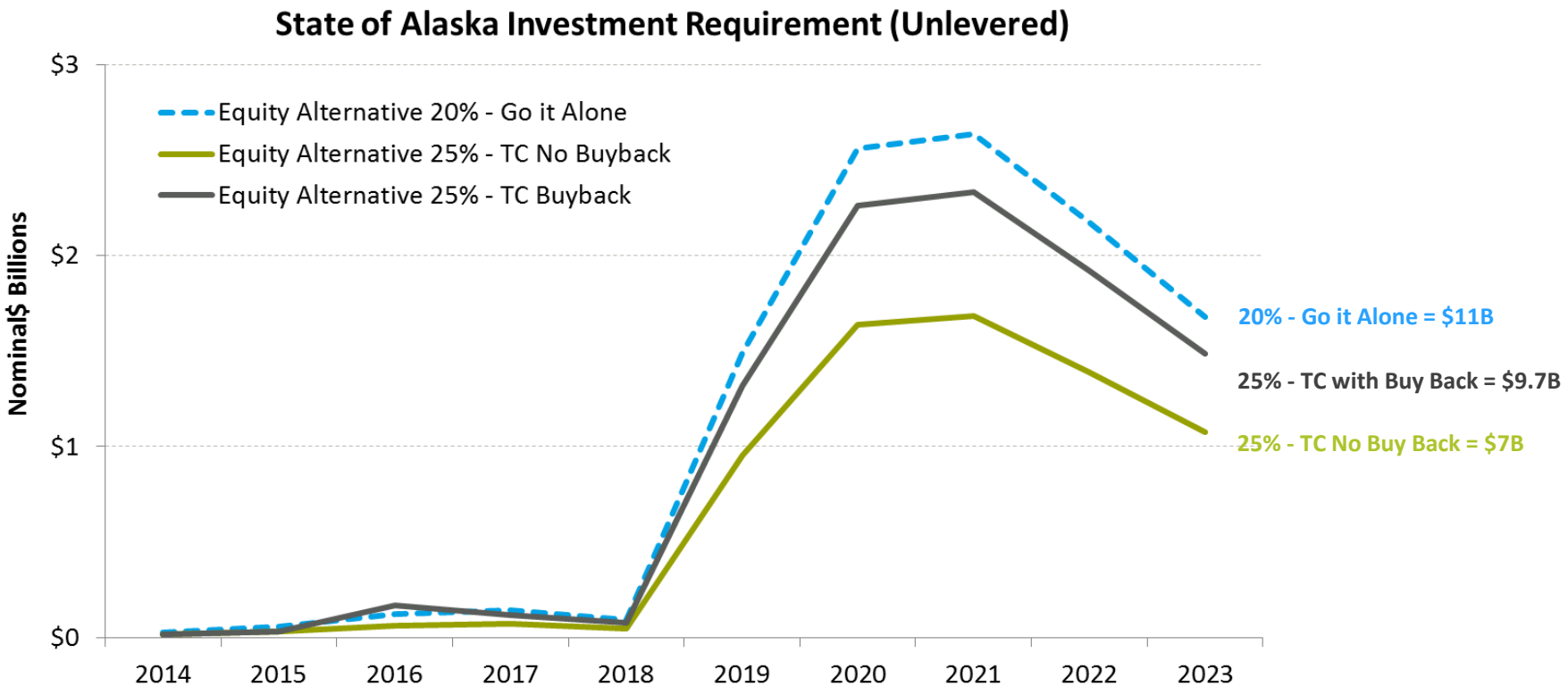
SOA UPFRONT CAPITAL COST EXPOSURE IS REDUCED THROUGH TC PARTICIPATION

TC Participation Reduces Total Upfront Investment by SOA by ~40%



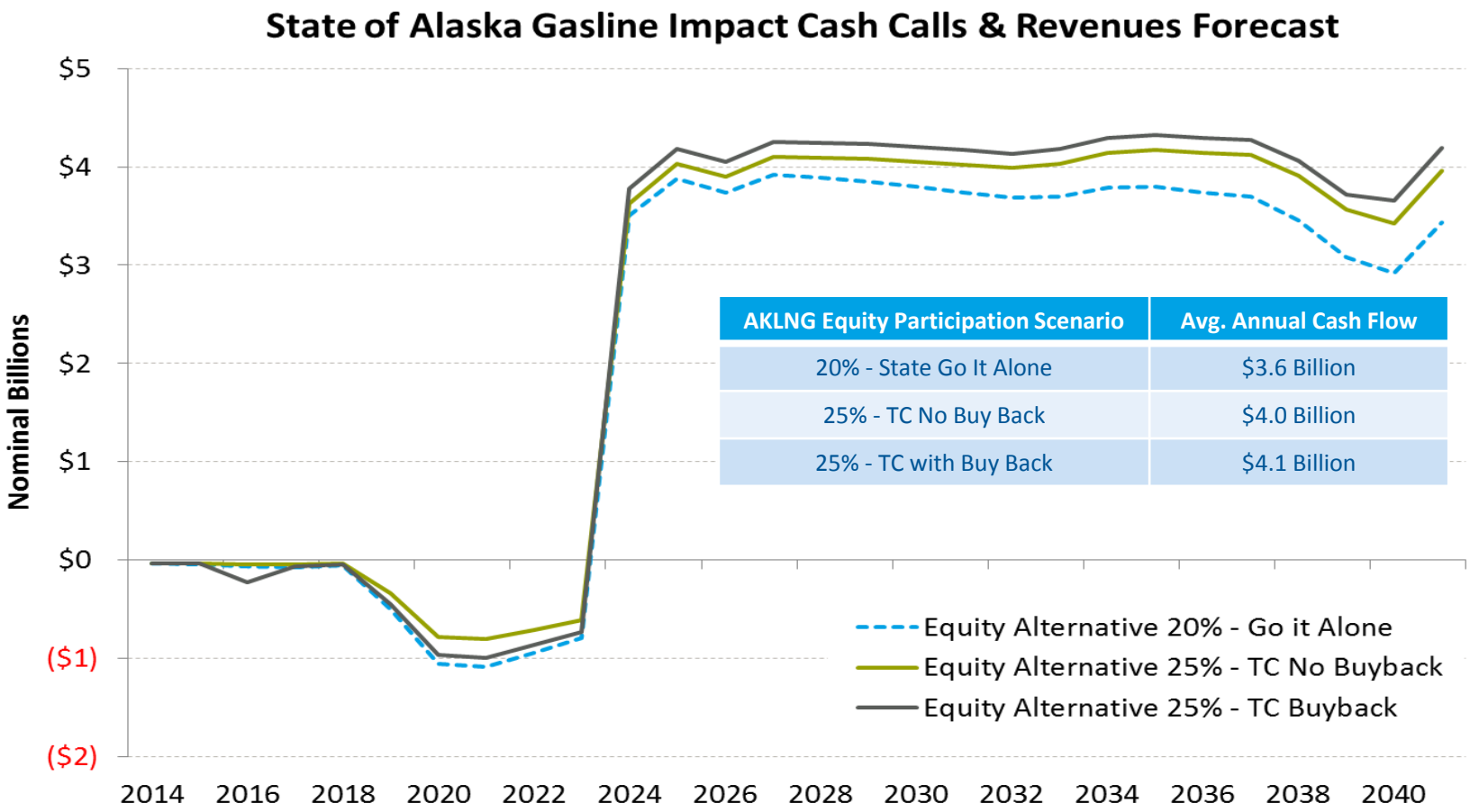
* Assumes State exercises 30%-40% equity buy back with TransCanada

SOA INVESTMENT FOR A 25% OWNERSHIP WITH TC IS EXPECTED TO BE $1.3-$4B LOWER THAN FOR A 20% OWNERSHIP GOING ALONE



SOA REVENUES FOR A 25% OWNERSHIP WITH TC ARE EXPECTED TO BE $0.4-$0.5B PER YEAR HIGHER THAN FOR A 20% OWNERSHIP GOING ALONE

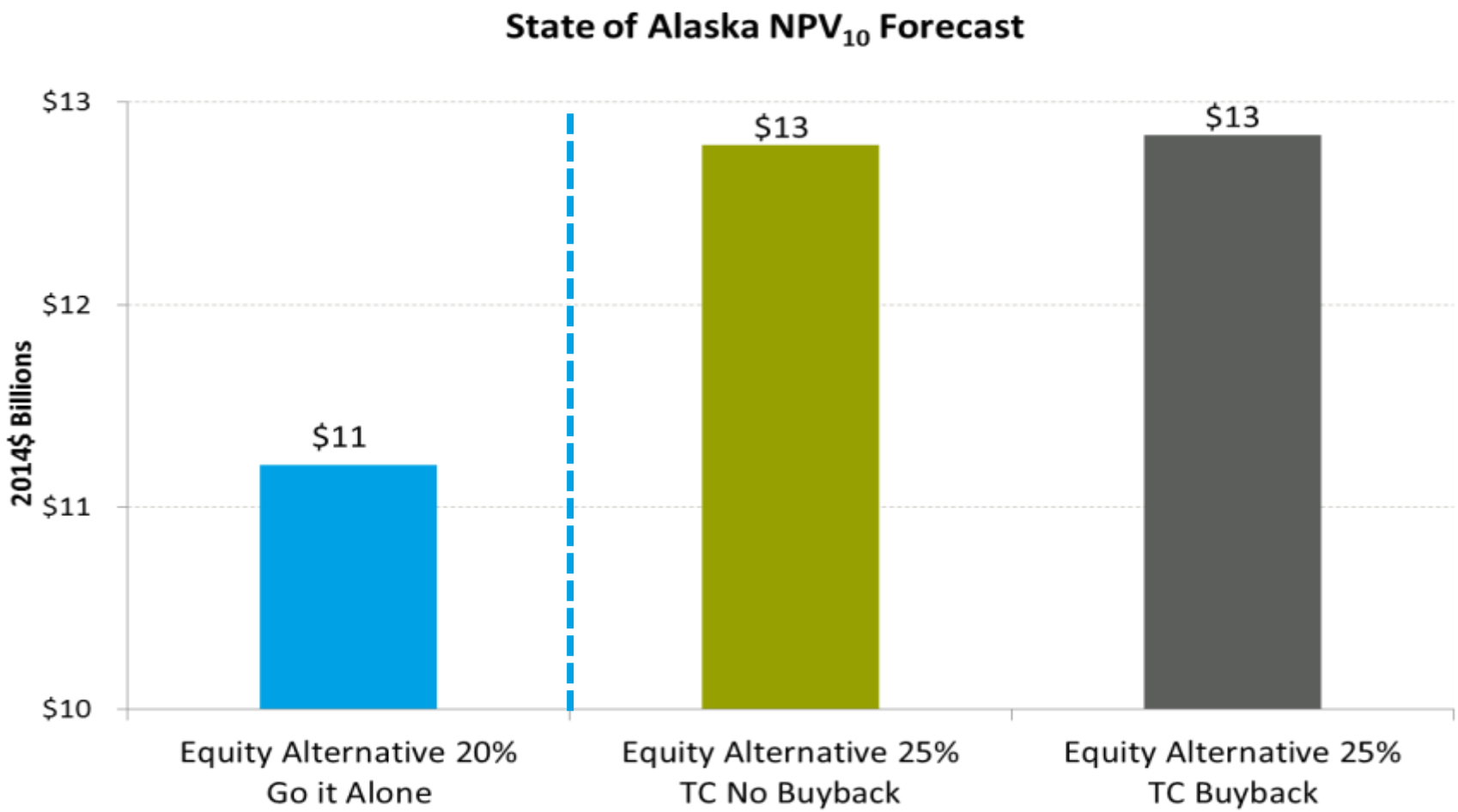
SOA ALONE?



AKLNG Equity Participation Scenario	Avg. Annual Cash Flow
20% - State Go It Alone	$3.6 Billion
25% - TC No Buy Back	$4.0 Billion
25% - TC with Buy Back	$4.1 Billion

25% OWNERSHIP WITH TC INCREASES STATE OF ALASKA NPV_{10} BY $2B COMPARED TO A 20% OWNERSHIP GOING ALONE

SOA ALONE?



* NPV calculated over initial 25-year anticipated term of service agreement with TransCanada

CAN THE STATE GO IT ALONE? - STATE'S DEBT CAPACITY

- **Financing the State's share of the AKLNG Project on the State's balance sheet – key issues:**
  - At what cost of debt?
  - Debt servicing as what % of general fund unrestricted revenue?

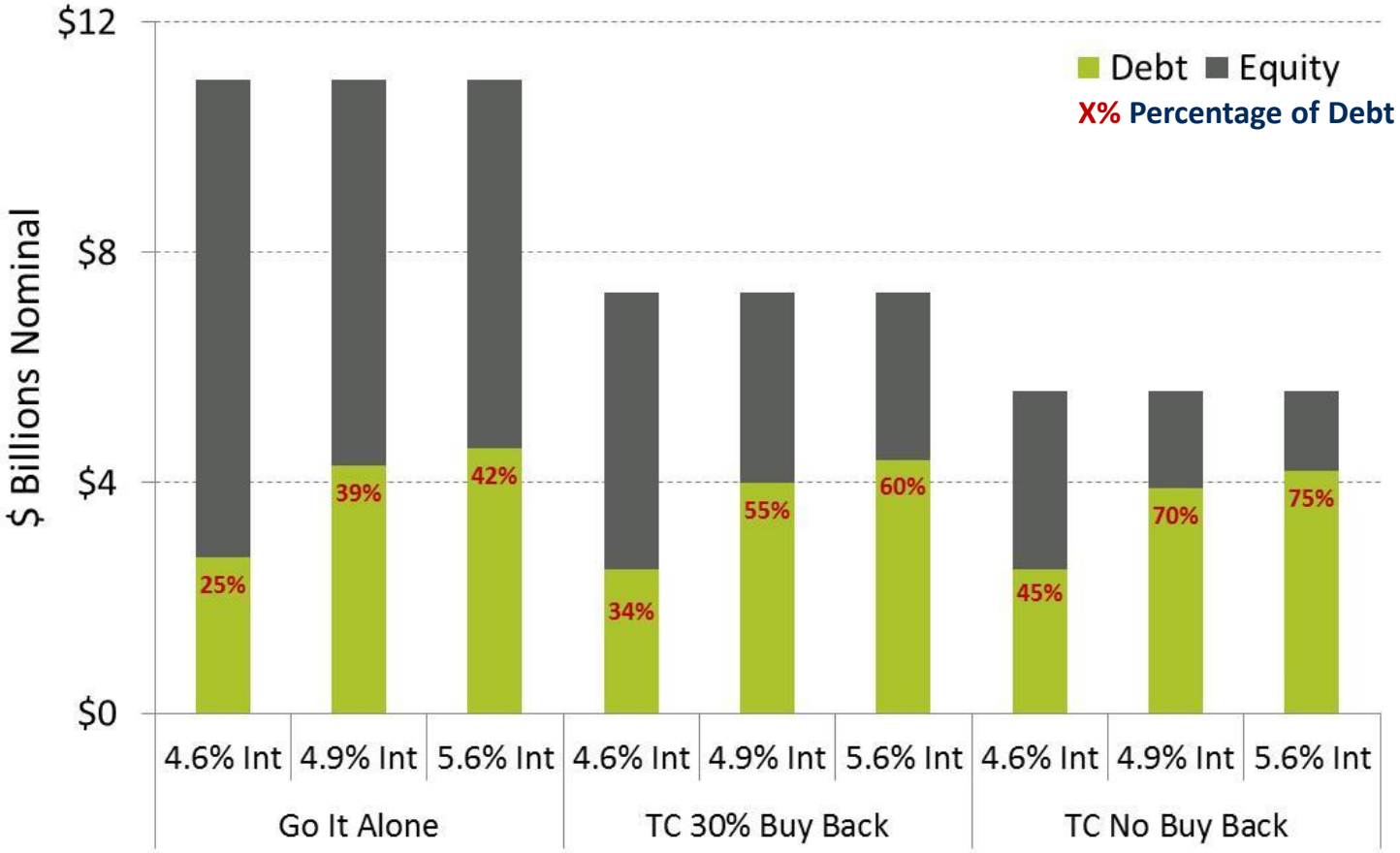
Scenario 1 (lower interest)	• SOA Debt at 4.6% • Debt Service limited to 3% of GFUR
Scenario 2	• SOA Debt at 4.9% • Debt Service limited to 5% of GFUR
Scenario 3 (higher interest)	• SOA Debt at 5.6% • Debt Service limited to 6% of GFUR

*** High-level, indicative assumptions based on input from Department of Revenue**

THE AMOUNT OF CHEAP DEBT AVAILABLE TO THE STATE COULD BE LIMITED

SOA ALONE?

Indicative Levels of Debt for State to Finance 20% Equity Stake in AKLNG Project



*** Analysis based on high-level, indicative assumptions based on input from Department of Revenue. Financing arrangements for the AKLNG project will become clearer further into the development process.**

IS TRANSCANADA A GOOD PARTNER FOR THE STATE OF ALASKA IN THE AKLNG PROJECT?

Extensive experience in building, owning and operating northern pipelines

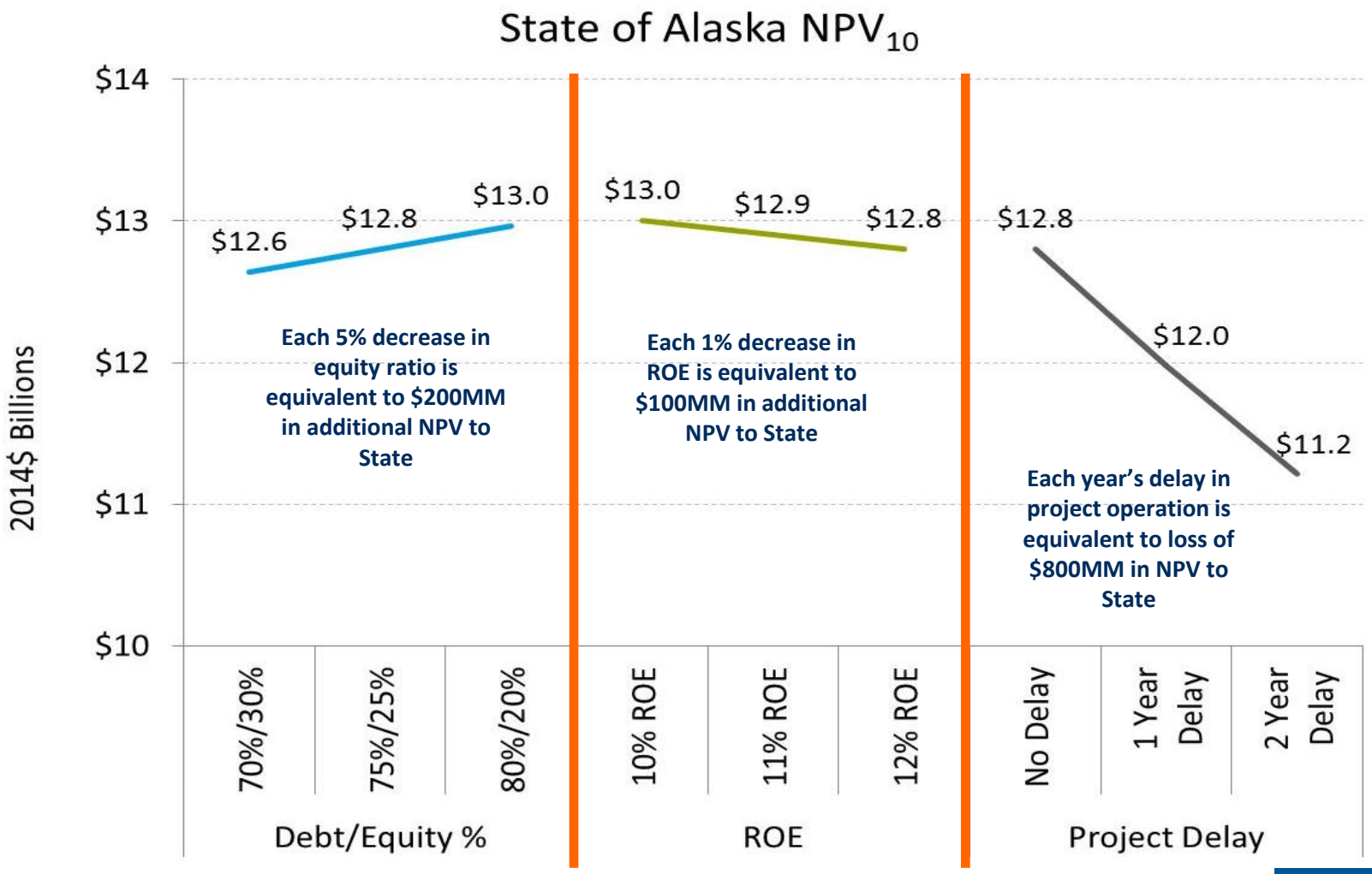
Long history of interest in Alaska Pipeline

Retains momentum in the project

Facilitates expansion

RETAINING MOMENTUM ON PROJECT COULD BE MORE VALUABLE THAN SECURING BETTER COMMERCIAL TERMS

TC AS PARTNER



DOES TRANSCANADA BEAR ANY FINANCIAL RISK?

TransCanada has committed to the following terms for providing treating and transportation services to the State

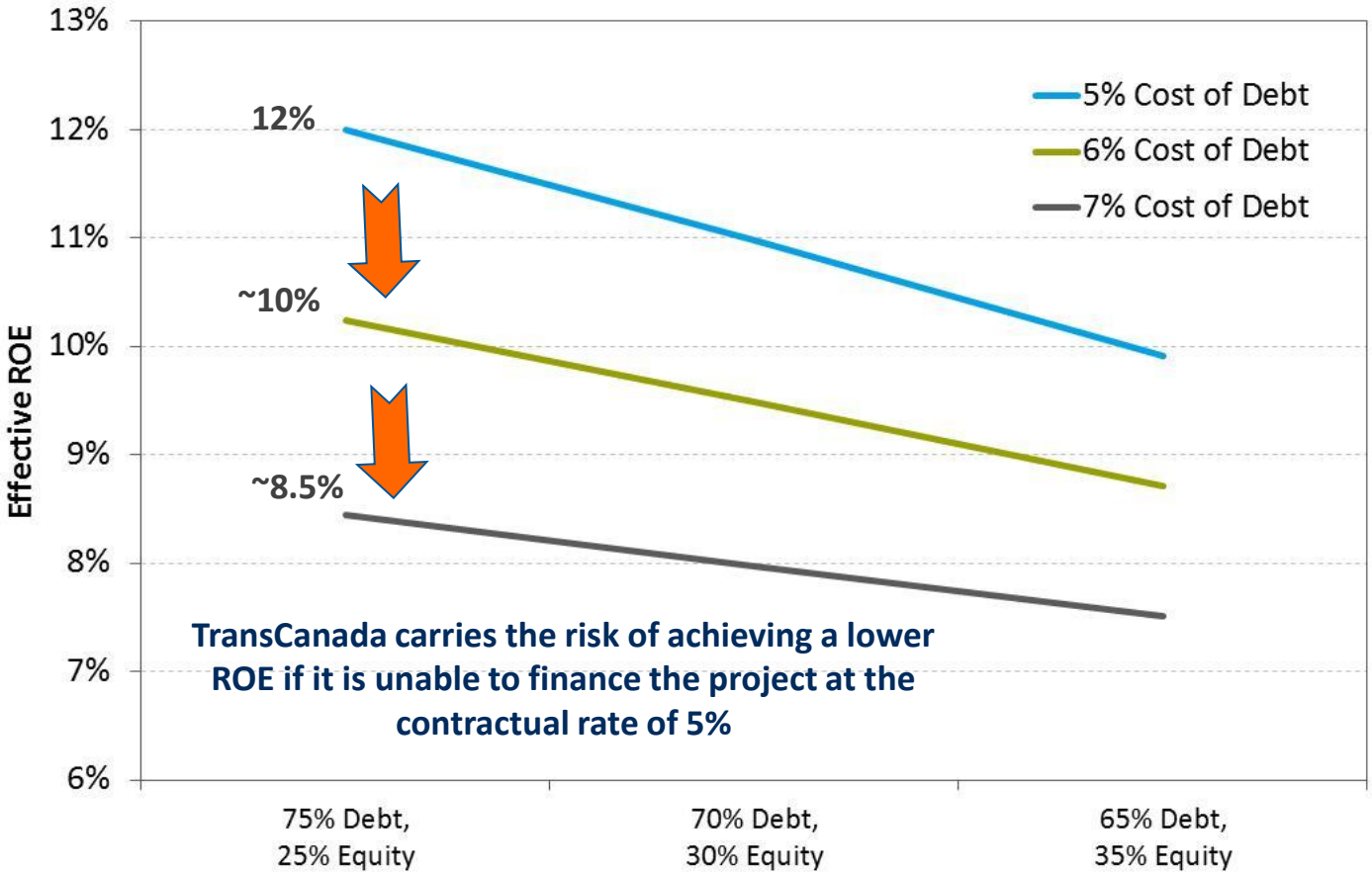
- D/E split of 75%/25%
- Return on equity of 12%; Cost of debt of 5%

Given the scale of this project and the uncertainties associated with it, financing remains a significant risk

Locking in this capital structure before actual financing arrangements have been made for the project places a risk on TransCanada of under-earning its expected return on equity and eroding its expected NPV from the project

DOES TRANSCANADA BEAR ANY FINANCIAL RISK?

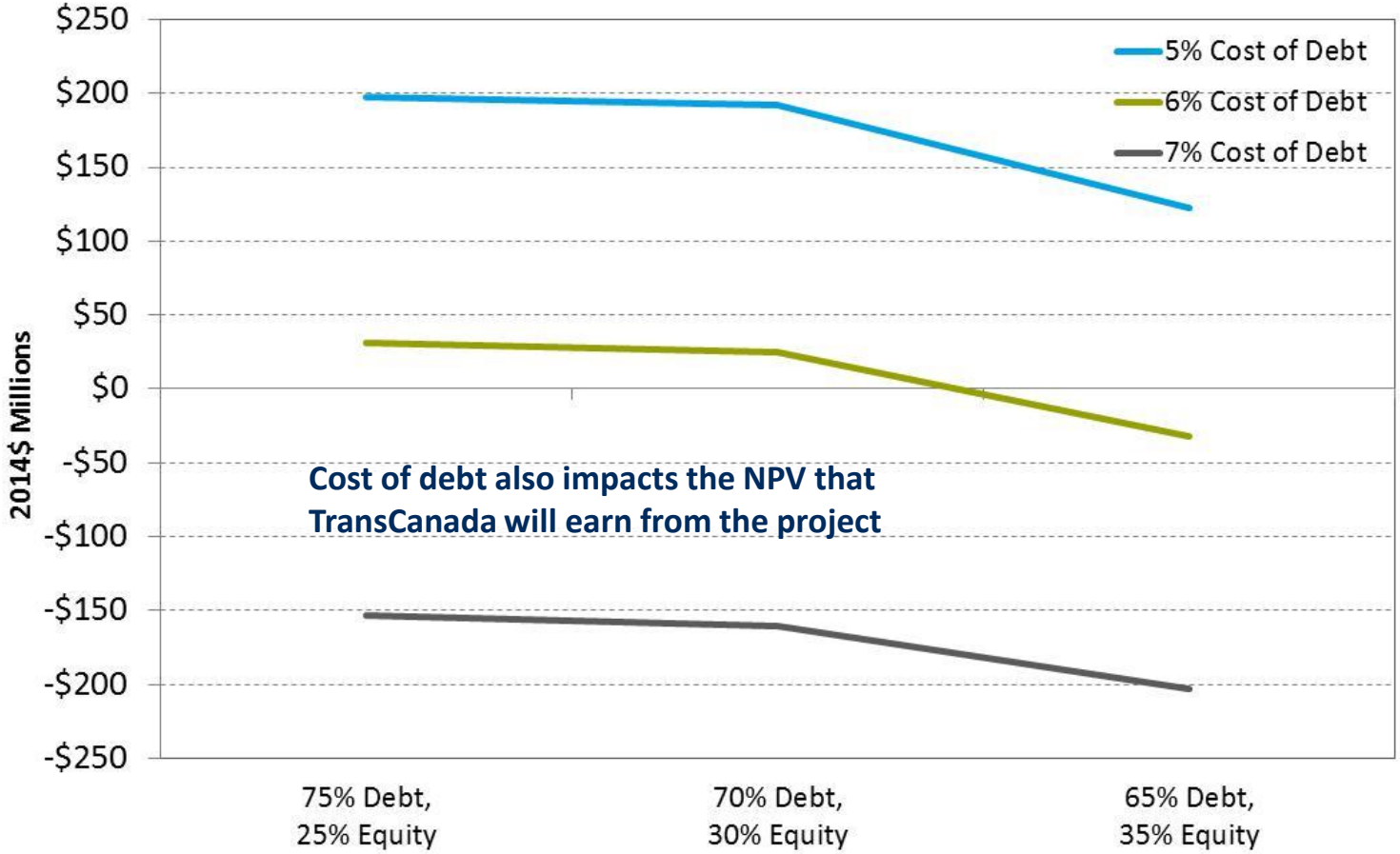
TRANSCANADA EFFECTIVE ROE UNDER DIFFERENT FINANCING ARRANGEMENTS



* Assumes 25% State equity participation without State exercising buy back option

DOES TC BEAR ANY FINANCIAL RISK?

NPV_{10} TO TRANSCANADA FROM AKLNG PROJECT



* Assumes 25% State equity participation without State exercising buy back option

SUMMARY ON 4 KEY QUESTIONS

ECONOMIC IMPACT TO THE STATE FROM TC?

- Total cash flows reduced by $4B; NPV impact is marginal

CAN THE STATE GO IT ALONE?

- TC can reduce SOA investment by$4-$7B
  - SOA may hit debt limits going alone

IS TC A GOOD PARTNER?

- Experience
- Momentum
- Expansion

DOES TC BEAR ANY FINANCIAL RISK?

- Change in financing could materially lower TC's ROE & NPV

THANK YOU

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