BUILDING A WORLD OF DIFFERENCE

MARCH 25, 2014

OBSERVATIONS ON HEADS OF AGREEMENT

PRESENTATION TO HOUSE RESOURCES COMMITTEE

PREPARED FOR THE STATE OF ALASKA

BLACK & VEATCH
Building a world of difference.

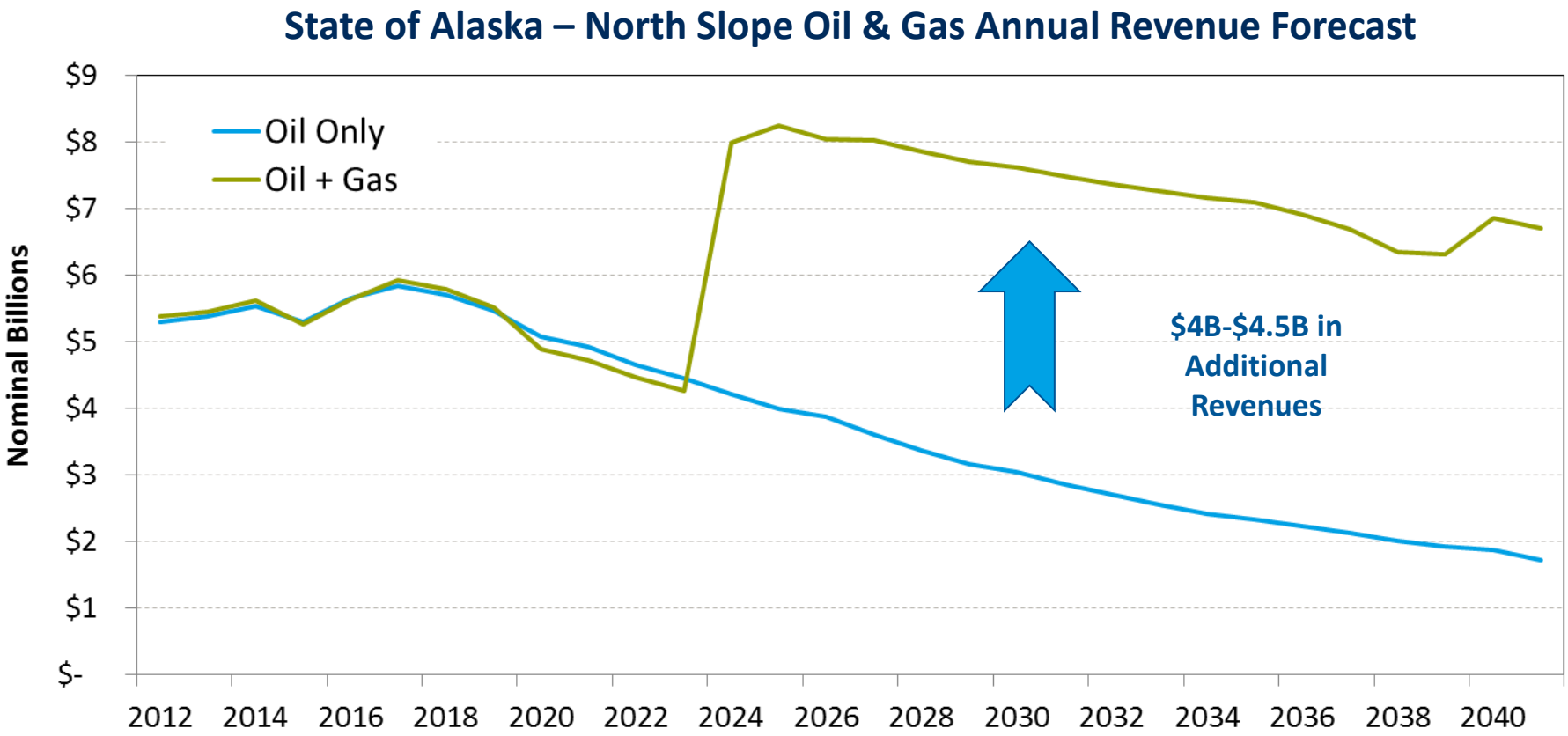
BLACK & VEATCH PRESENTERS

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

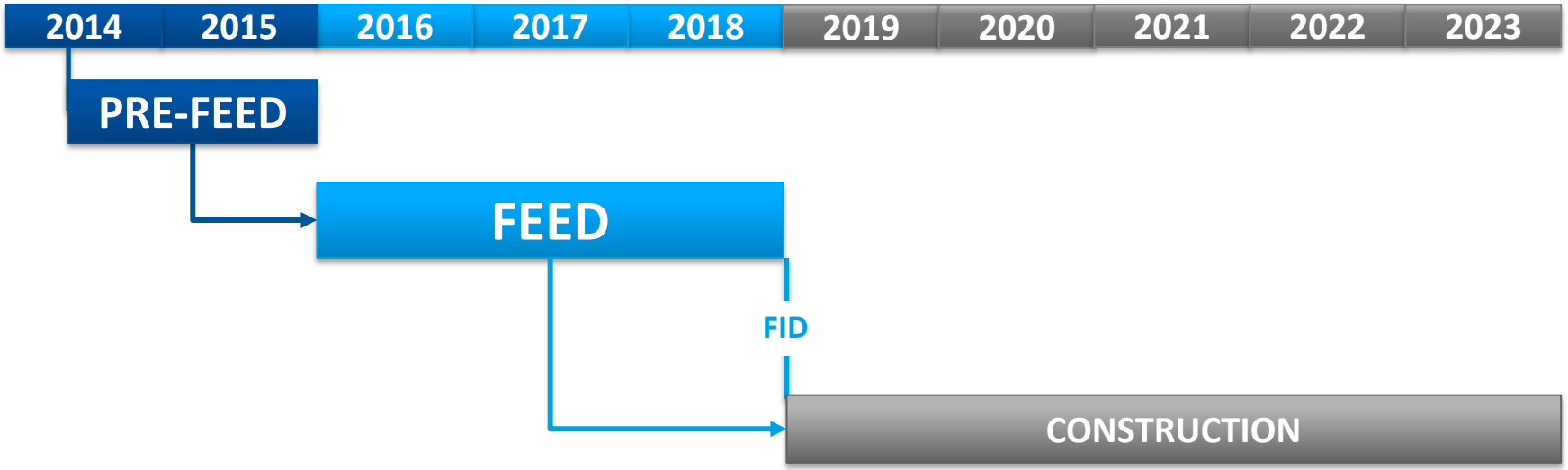
Deepa Poduval is a Principal in Black & Veatch's Management Consulting Division and is responsible for business strategy and project management. Ms. Poduval focuses on strategic analytical services supporting energy asset valuation and optimization, marketing and business strategy development. She has 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.

LONG-TERM NORTH SLOPE OIL & GAS REVENUES ARE DRIVEN BY AKLNG PROJECT SUCCESS



PUTTING THE HOA WITHIN THE CONTEXT OF AKLNG TIMELINE



STATE INVESTMENT

$43 - $108 million or ~1% of Total Investment	$180 - $450 million or ~2%-3% of Total Investment	$7 - $13 billion or ~95%-97% of Total Investment

HOA lays out principles to advance the project to pre-FEED and enter into commercial agreements

ROYALTY STUDY HIGHLIGHTS & RECOMMENDATIONS

STUDY FINDINGS

- GLOBAL LNG MARKET IS GROWING & COMPETITIVE
- GOVERNMENT TAKE & COST STRUCTURE FOR AKLNG PROJECT ARE HIGH
- AKLNG IS EXPECTED TO BE A LARGE, COMPLEX, HIGH COST PROJECT
- PROJECT STRUCTURE IS LIKELY TO BE PRODUCER-OWNED INTEGRATED
- VARIOUS RISKS INHERENT IN PROJECT & STATE PARTICIPATION

RECOMMENDATIONS

- IMPROVE COMMERCIAL ATTRACTIVENESS OF PROJECT
- RETAIN VALUE TO STATE
- CREATE ALIGNMENT BETWEEN STATE AND PRODUCERS
- RECOGNIZE & MANAGE RISKS ACTIVELY

→ STATE EQUITY PARTICIPATION

CRITERIA APPLIED FOR EVALUATION OF HOA TIE IN TO ROYALTY STUDY RECOMMENDATIONS

HOA – ALIGNMENT THROUGH EQUITY PARTICIPATION

ALIGNMENT

Royalty Gas and Tax as Gas = State Gas Share

State Gas Share = State Equity Share

State Equity Share Impacts State Investment and State Revenues

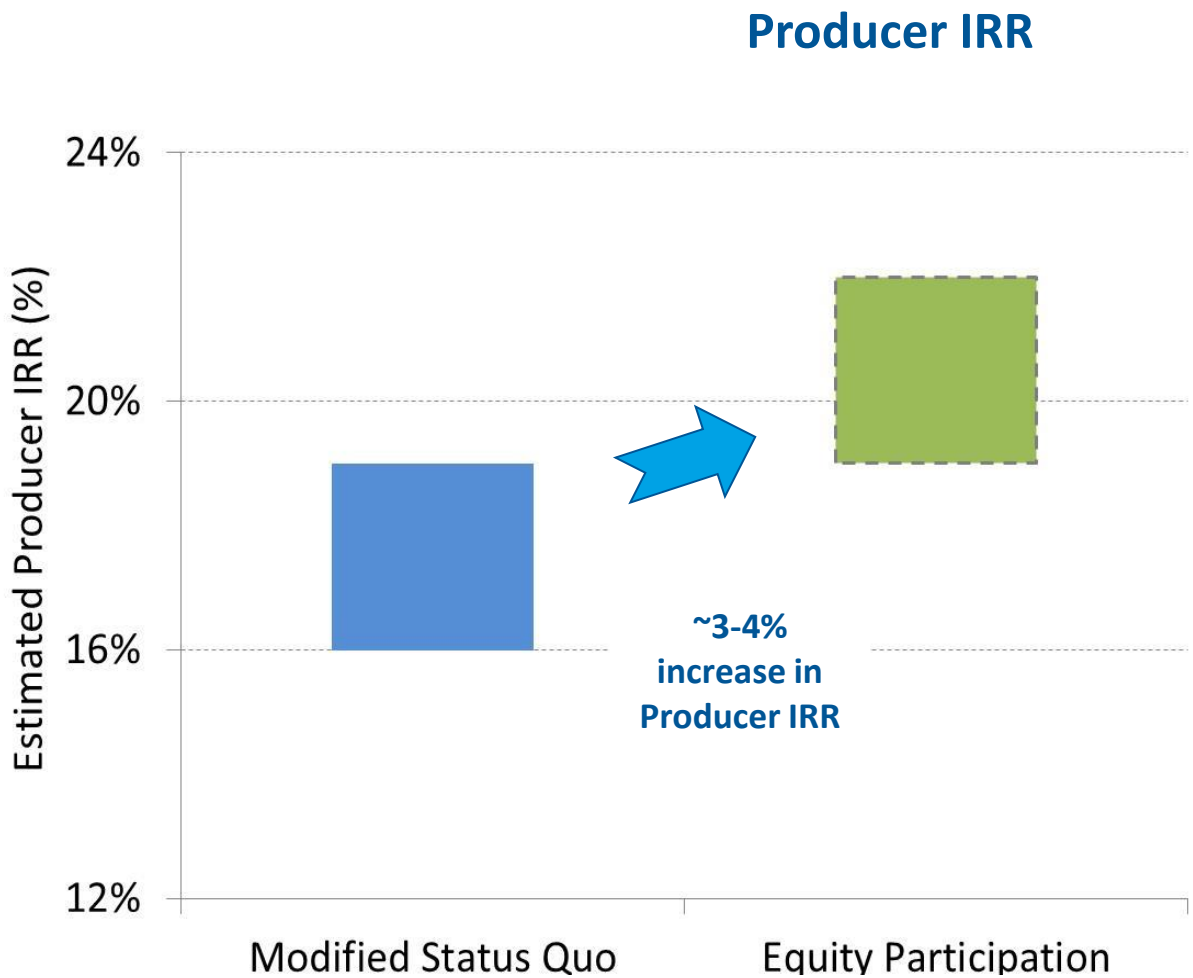
State Holds Equity Along The Entire Supply Chain

Commitments Made In A Stage-Gated Manner

- Current decisions focused on enabling pre-FEED

IMPROVE COMMERCIAL ATTRACTIVENESS OF AKLNG PROJECT

ATTRACTIVENESS



- Reduces upfront investment by Producers
- Risk is shared with the State
- Potentially reduces valuation disputes if State elects RIK

* This analysis assumes a modified status quo wherein the production credits in SB21 are extended to reflect a $5/BOE credit for gas, similar to the credit extended to new oil production

* Assumes 25% State equity participation

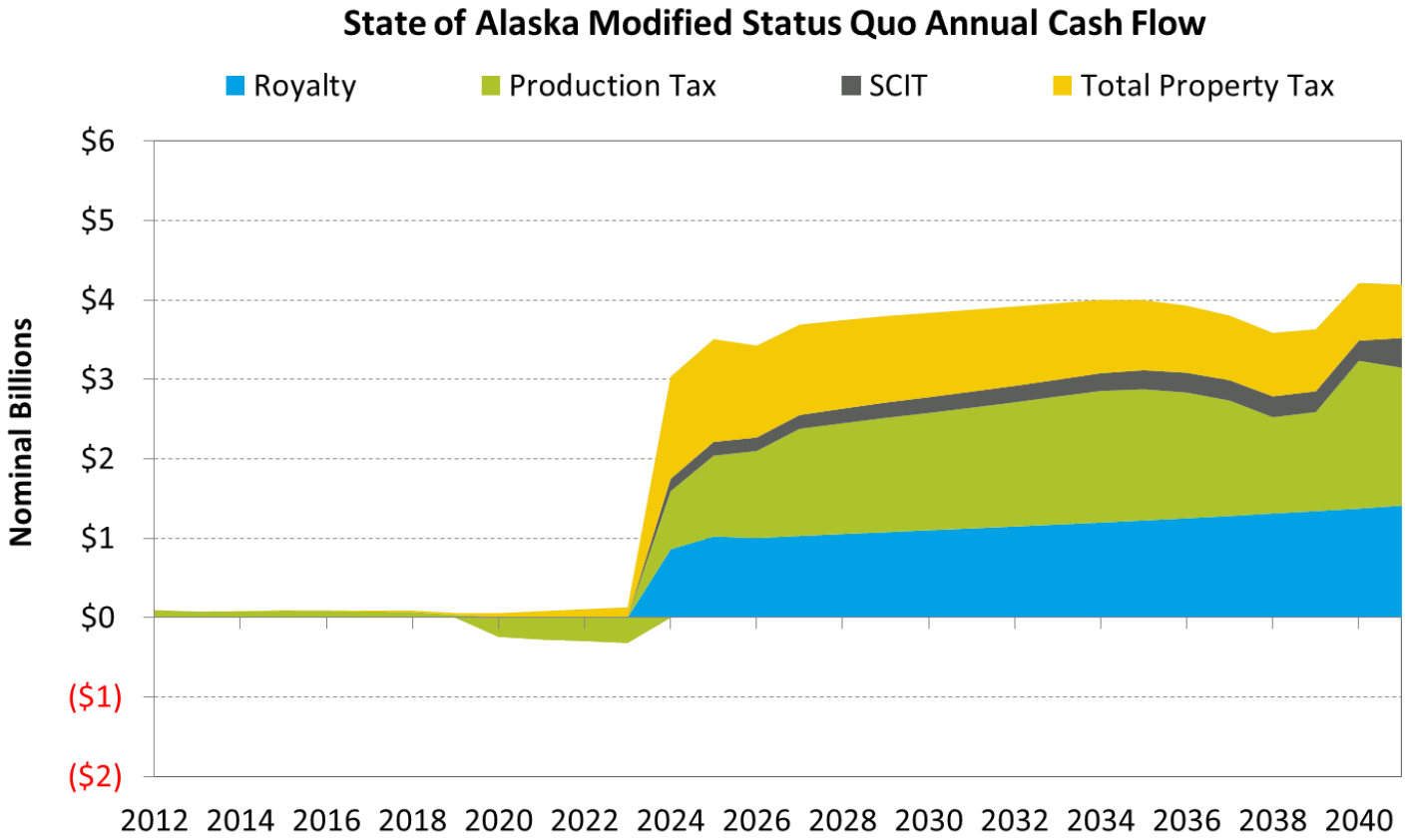
PRESERVE VALUE TO STATE FROM ROYALTY & TAXES

VALUE TO SOA

- Obtain value in return for the State's incentives to the project
- Preserve the State's expected revenues from the AKLNG Project relative to an RIV world without State equity participation

PRESERVE VALUE TO STATE FROM ROYALTY & TAXES

VALUE TO SOA

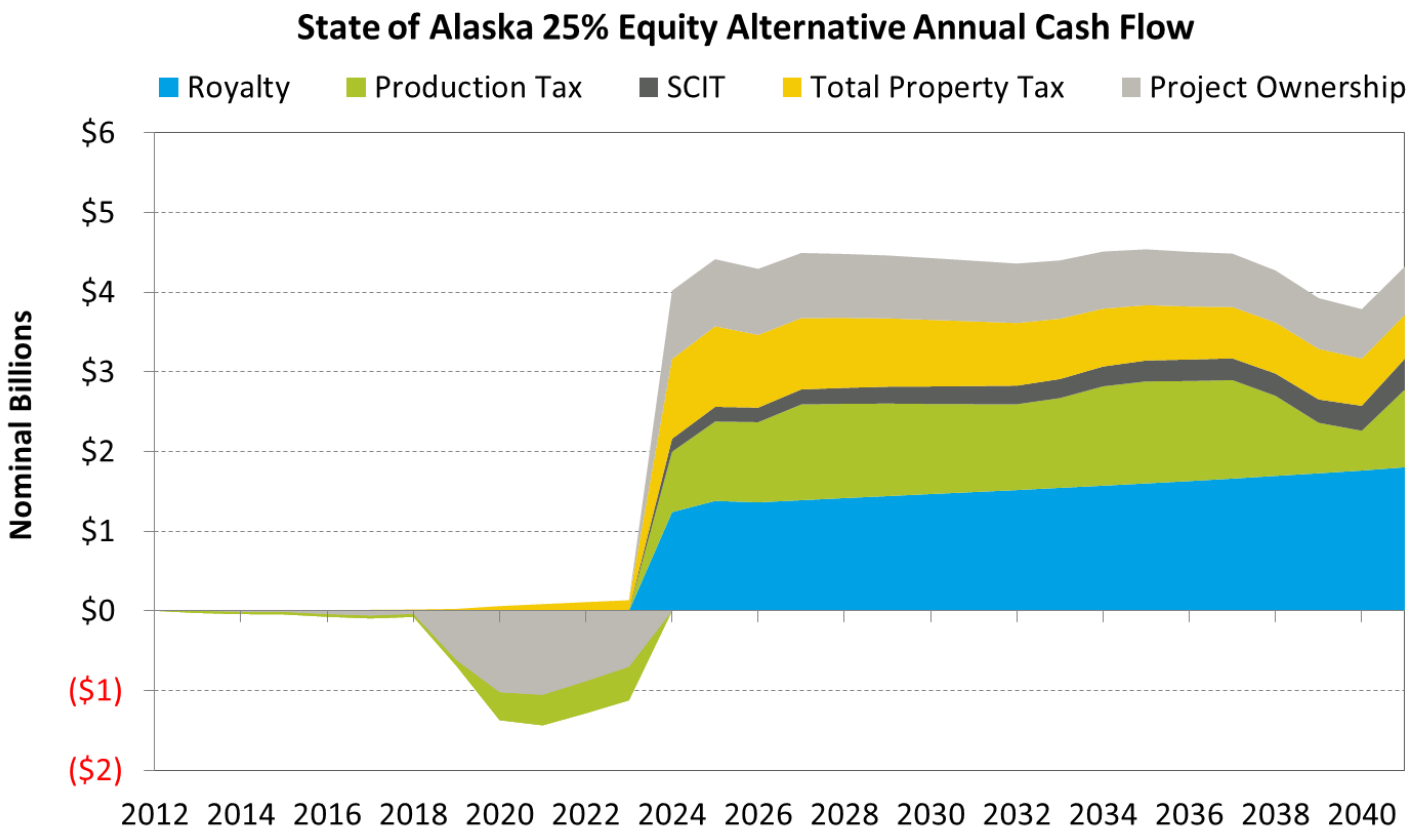


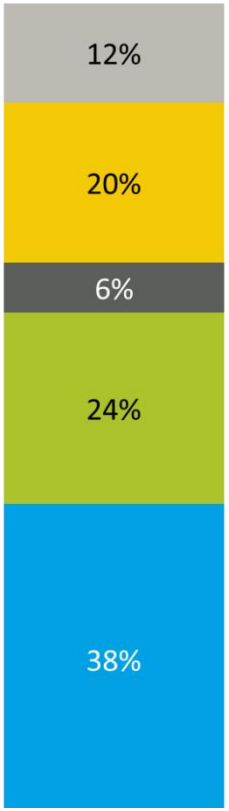
- SCIT = State Corporate Income Tax

Total Cash Flow (Through 2041) = $68 Billion

PRESERVE VALUE TO STATE FROM ROYALTY & TAXES

VALUE TO SOA



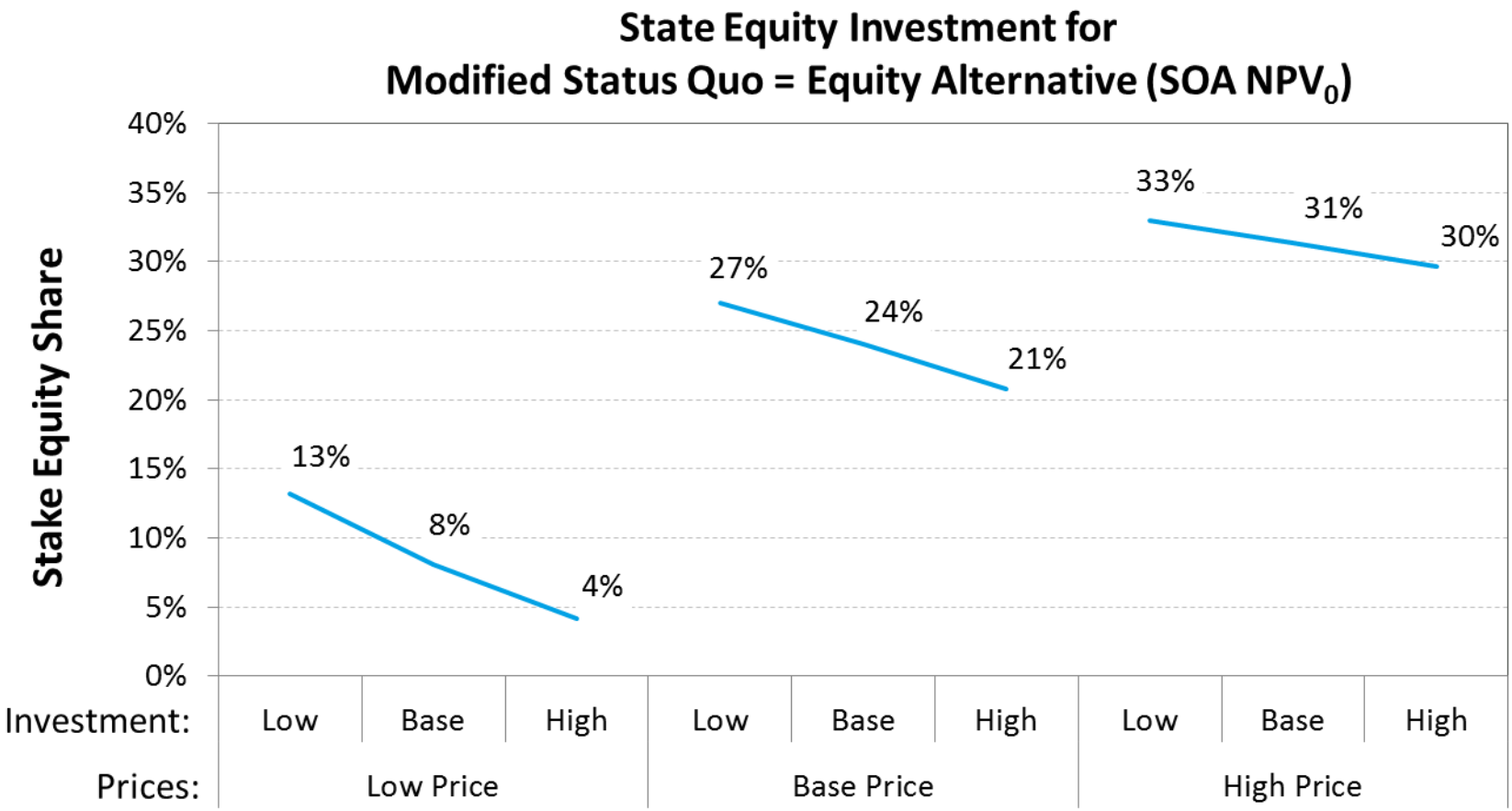


- SCIT = State Corporate Income Tax
- Project Ownership = Return on the equity that the State invests in the AKLNG project

Total Cash Flow (Through 2041) = $72 Billion

PRESERVE VALUE TO STATE FROM ROYALTY & TAXES

VALUE TO SOA



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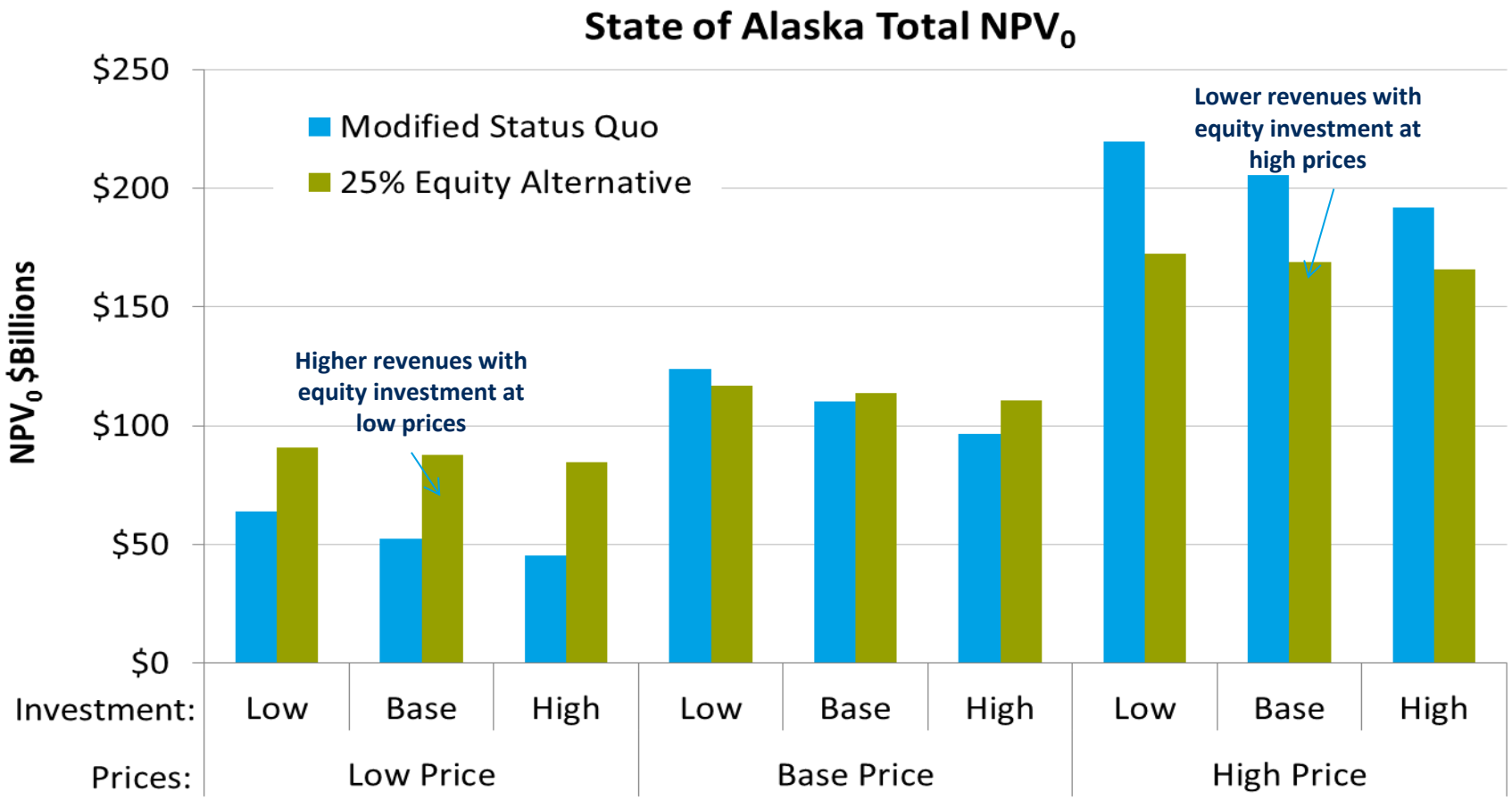
GROSS TAX RATE SETS THE TOTAL STATE GAS SHARE & EQUITY PARTICIPATION

VALUE TO SOA

Royalty Gas	+	Tax Gas	=	Total State Gas Share	=	State Equity Participation	→	State Investment
13%		8%		20%		20%		$9B
13%		10.5%		22%		22%		$10B
13%		14%		25%		25%		$11.3B

MANAGE RISKS – EQUITY INVESTMENT HELPS TO HEDGE PRICE EXPOSURE

MANAGE RISKS



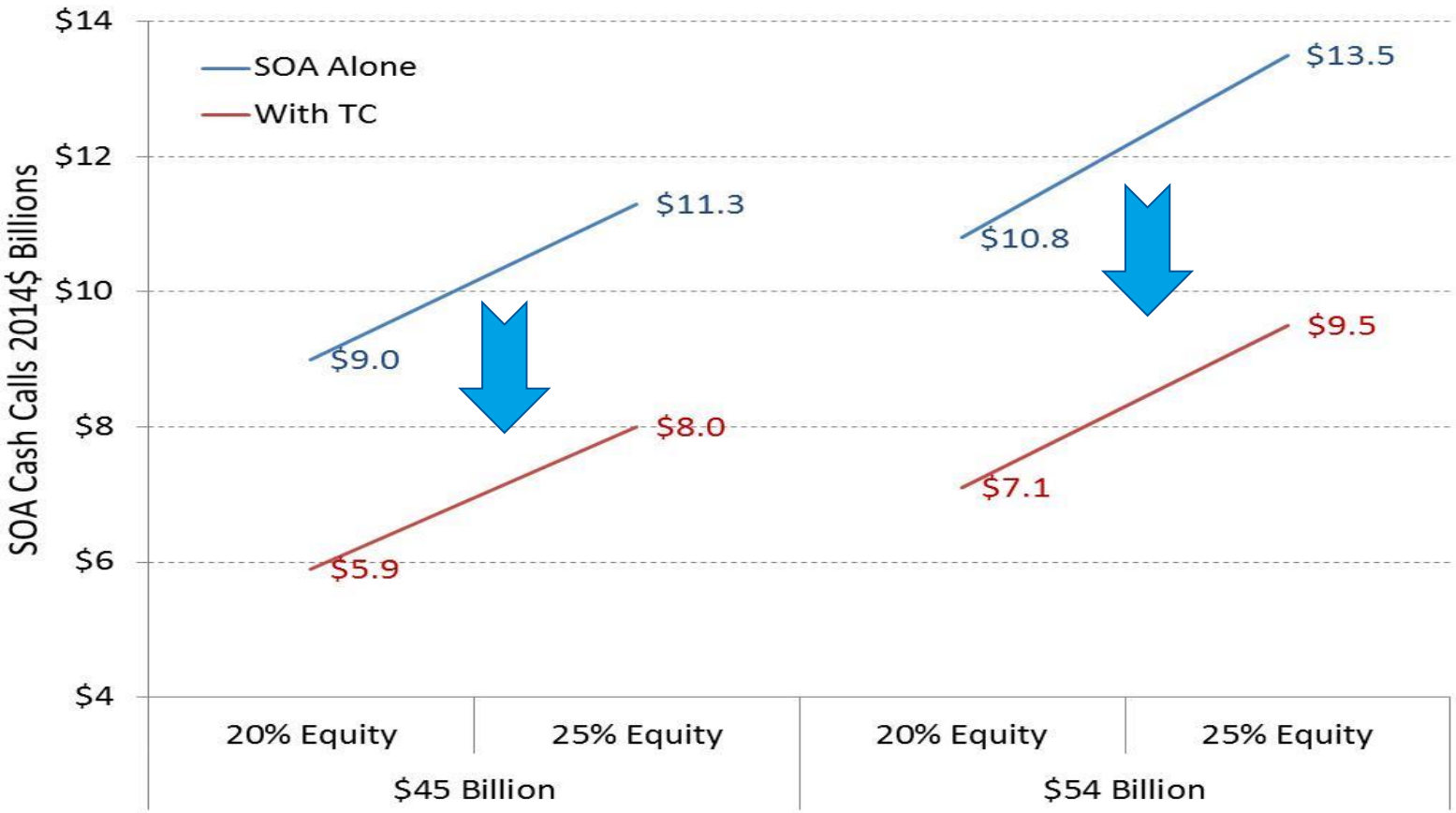
* This analysis assumes a modified status quo wherein the production credits in SB21 are extended to reflect a $5/BOE credit for gas, similar to the credit extended to new oil production

MANAGE RISKS – CAPITAL COST EXPOSURE 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

MANAGE RISKS – CAPITAL COST EXPOSURE REDUCED THROUGH TC PARTICIPATION

TC Participation Reduces Upfront Cash Calls on SOA by ~40%



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

MANAGE RISKS – REDUCE POTENTIAL LOSS OF VALUE THROUGH RIK

RIK MARKETING ALTERNATIVES

SOA MARKETS ITS OWN SHARE

- No current experience or marketing organization
- Competing with Producers

3RD PARTY MARKETS STATE'S SHARE

- Discussions with 3rd parties to gauge interest and terms
- Potential for upside

PRODUCERS MARKET STATE'S SHARE

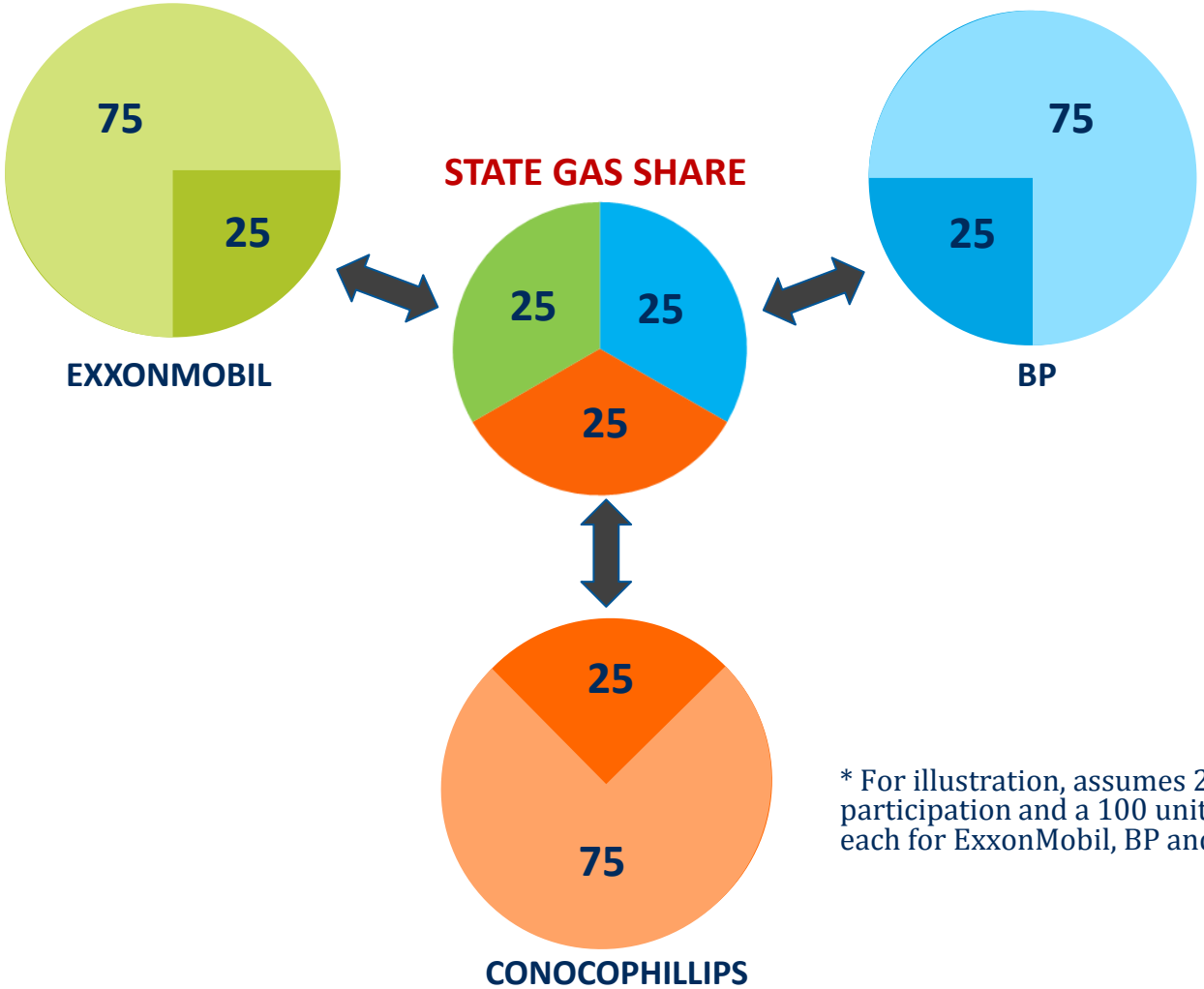
- Benefit from Producer's marketing expertise
- Procure terms similar to what the Producers achieve
- Recreate a key advantage of RIV

MANAGE RISKS – REDUCE POTENTIAL LOSS OF VALUE THROUGH RIK

- HOA includes intent of Producers to offer to negotiate separately to market State's share of gas – proportional to each Producer's share of producer capacity
- SOA to only obligated to elect RIK if the Producers make "satisfactory arrangements for disposition of the State's share of LNG"
- SOA would benefit from Producers marketing expertise rather than competing with them

MANAGE RISKS – REDUCE POTENTIAL LOSS OF VALUE THROUGH RIK

EACH PRODUCER WOULD MARKET "ITS CONTRIBUTION" TO THE STATE GAS SHARE



* For illustration, assumes 25% State equity participation and a 100 units of production each for ExxonMobil, BP and ConocoPhillips.

MANAGE RISKS – STRUCTURE OF PARTICIPATION

HOA ELEMENTS

- PROJECT WITHIN A PROJECT
- ACCESS & PRO-EXPANSION PRINCIPLES
- STAGE-GATED COMMITMENTS
- ACCESS TO INFORMATION

→ **COMMERCIAL AGREEMENTS**

HOA SCORE CARD RELATIVE TO CRITERIA

Royalty Study Recommendations	How HOA Addresses Recommendation	
Alignment Through Equity	Equity Participation Along Supply Chain; Royalty and tax as share of gas	
Improve Commercial Attractiveness	Increases Producer IRR Shares/Reduces Producer Risk	
Preserve Value to the State	State could be Cash Flow Neutral relative to status quo depending on final equity share	
Manage Risks		
Price Exposure	Equity Participation in midstream dampens exposure to prices	
Capital Costs	TC participation lowers State's cash calls prior to commercial operation	
RIK Marketing	HOA reflects intent of Producers to negotiate to market State's share of gas	
Structure of Participation	Project within a project, Stage gated commitments, Access & pro-expansion principles, Access to information	

THANK YOU

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