State/TransCanada Memorandum of Understanding

A Presentation to the Senate Resources Committee

January 29, 2014

Department of Revenue

Angela M. Rodell
Commissioner

Department of Natural Resources

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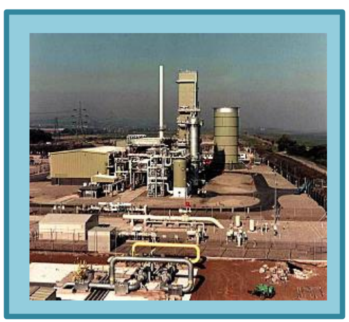
Commissioner

AKLNG Infrastructure Components

In order to understand the context of the MOU, we need to return to the Heads of Agreement (HOA) and State participation in the project as outlined in Articles 5 and 6 of the HOA.

The HOA describes how the parties intend to cooperate in the joint pursuit of the Alaska LNG project – which is comprised of the gas treatment plant (GTP), Pipeline, and LNG Plant.

GTP



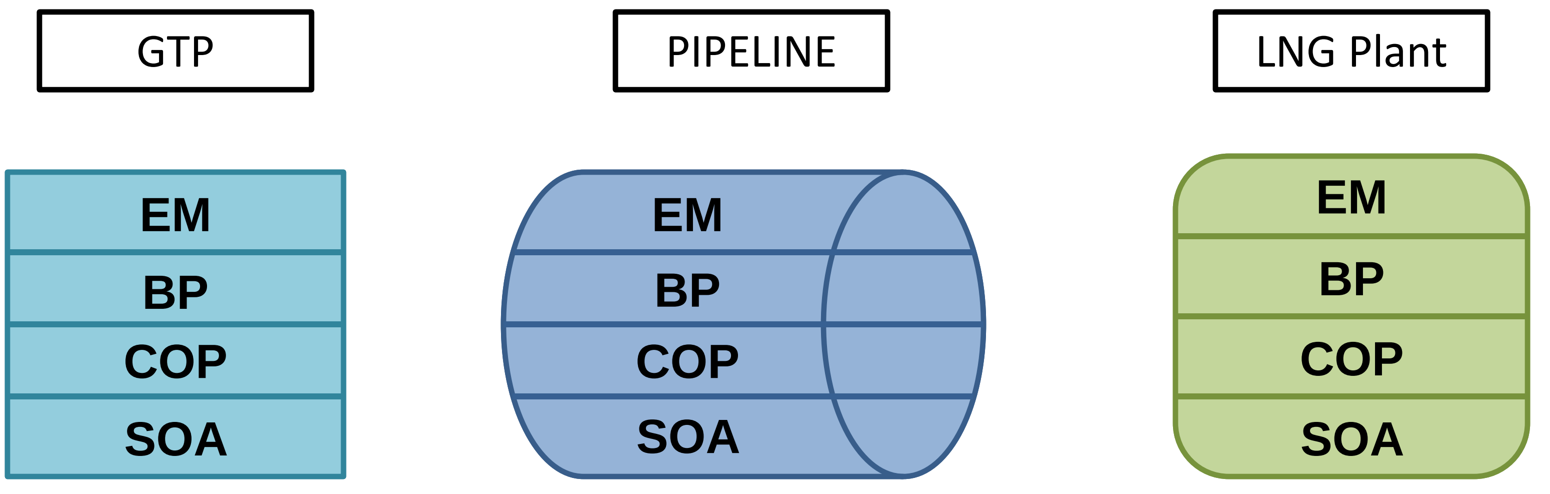
PIPELINE

LNG Plant

Equity Interest in Infrastructure

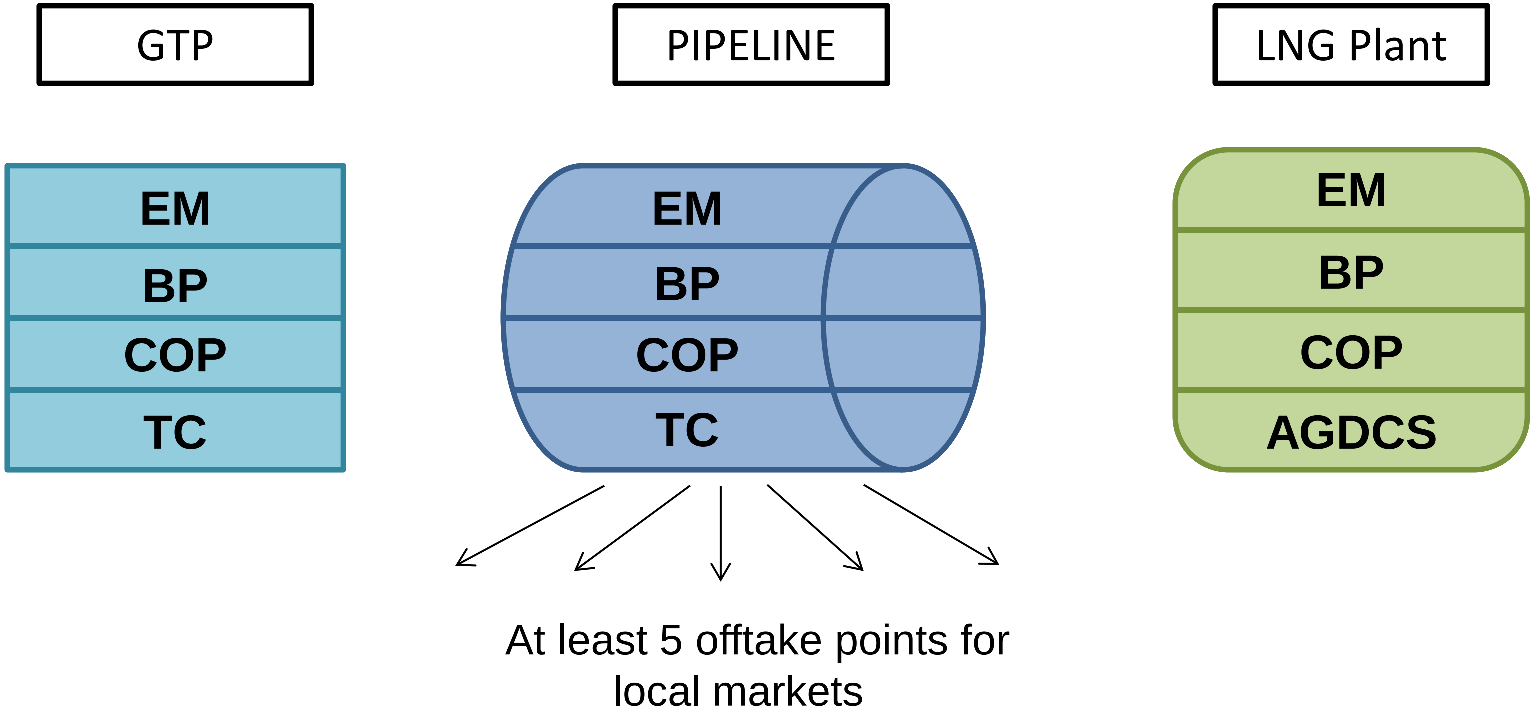
The overall structure of the HOA contemplates an alignment of the State's tax and royalty interests in the gas with an equity interest in each component of the infrastructure.

Each of the Parties will be responsible for the financing and set the terms for access to their share of the project.



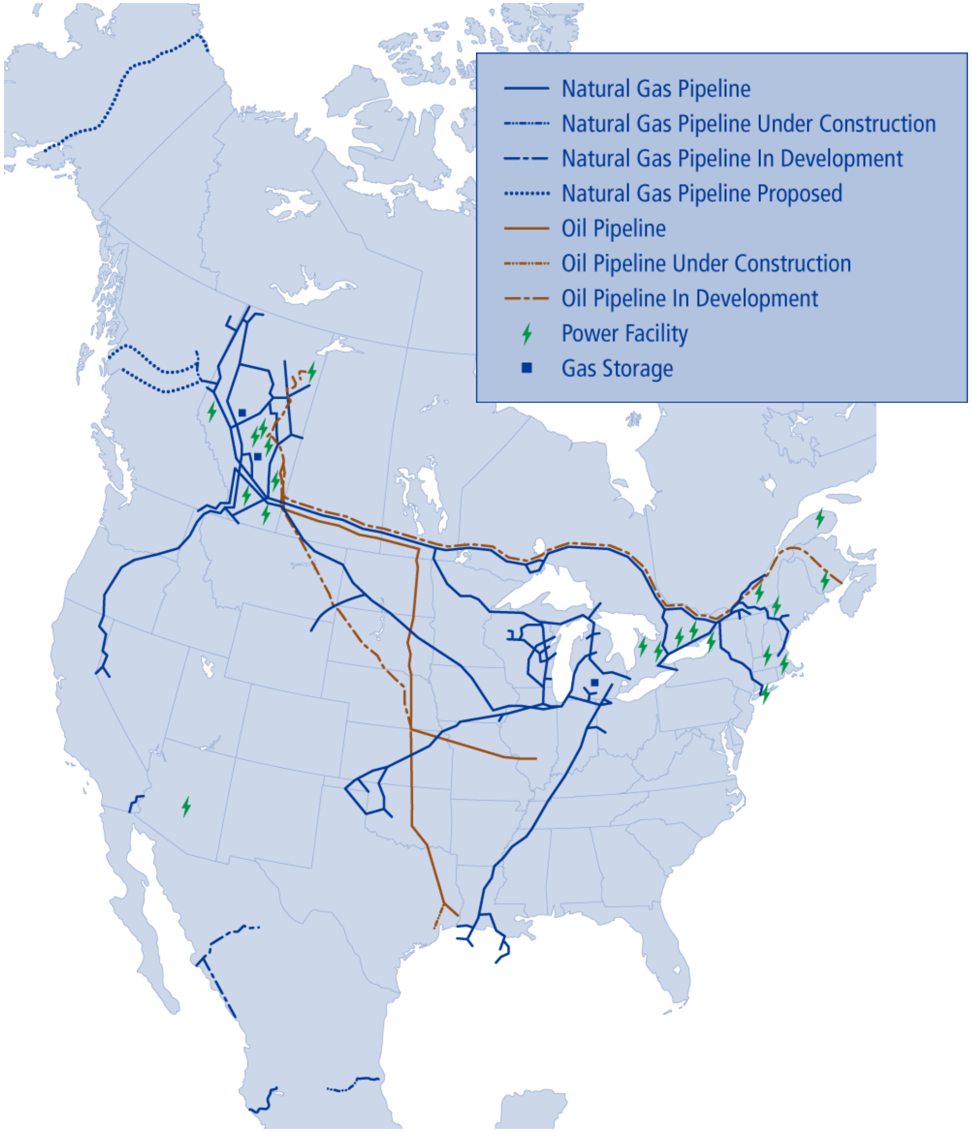
Transporting Alaska's Gas:

The MOU details TransCanada's terms of service for transporting Alaska's State Gas Share via the GTP and Pipeline. It is further contemplated that a subsidiary corporation of AGDC will be established to carry the State's interest in the LNG plant.



TransCanada will create an affiliate, TransCanada Alaska Development Inc. ("TADI"), for the AKLNG project

Why TransCanada?



- Pre-eminent pipeline builder in North America.
- Aligned to operate and expand on terms that are in Alaska's interest.
- The commercial terms provide economic benefits to Alaska and Alaskans.
- Arctic experience, data, and engineering studies will be brought to the new project through transition.
- Provides seamless transition out of AGIA with no impact on the aggressive timeline to get Alaska gas to market.

Photo courtesy of TransCanada

What is an *"MOU"? - Memorandum of Understanding*

According to one definition:

"A legal document outlining the terms and details of an agreement between parties, including each parties' requirements and responsibilities. The MOU is often the first stage in the formation of a formal contract. An MOU is far more formal than a handshake and is given weight in a court of law should one party fail to meet the obligations of the memorandum."

www.investopedia.com

The MOU outlines the terms of the State of Alaska's relationship with TransCanada in the Midstream component of the Alaska LNG Project; however, the MOU will not be binding until the Legislature enacts "Enabling Legislation".

Enabling Legislation

"Enabling Legislation" as defined on page 5 of the MOU describes legislation that, among other things, authorizes negotiations for the Transition Agreements and provides funding for development cost reimbursement.

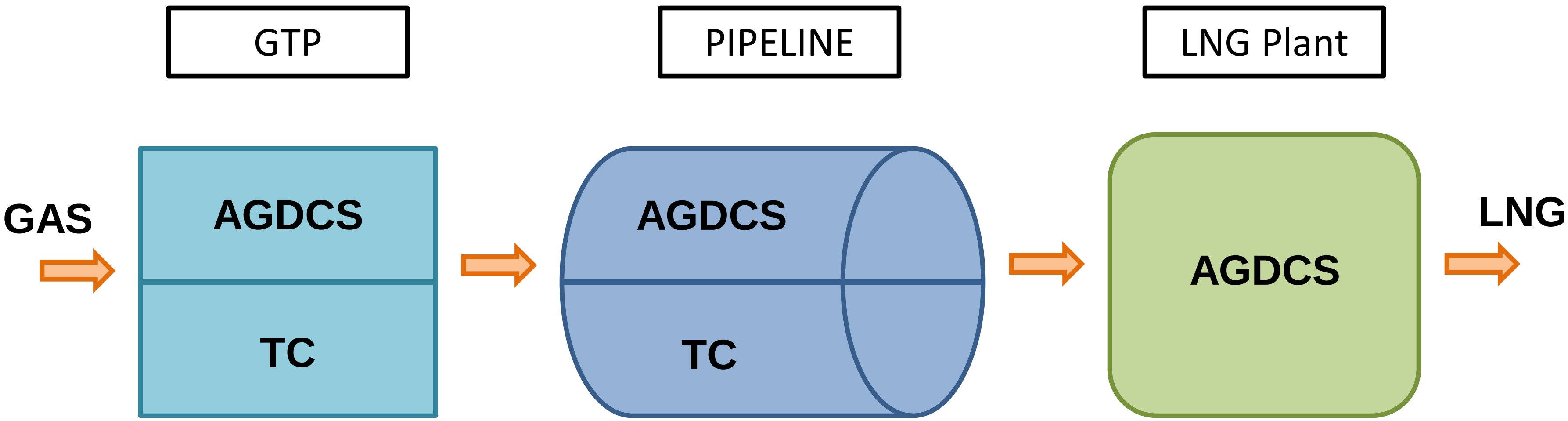
The Timeline[1]

April 2014:	Legislature passes enabling legislation.
July 2014:	Administration and TransCanada develop and execute a Precedent Agreement (PA) and Firm Transportation Services Agreement (FTSA).
2015:	Administration and TransCanada submit FTSA for public review and legislative approval.
	Equity Option available until December 31, 2015.
2015-2016:	Parties decide whether to advance to FEED.

1. The timeline above assumes a success case.

Exhibit B of the MOU:

Contains a term sheet for the State to exercise an equity option up to 40% of the partnership established by TransCanada for the relevant portion of the midstream.



Key Terms of the MOU

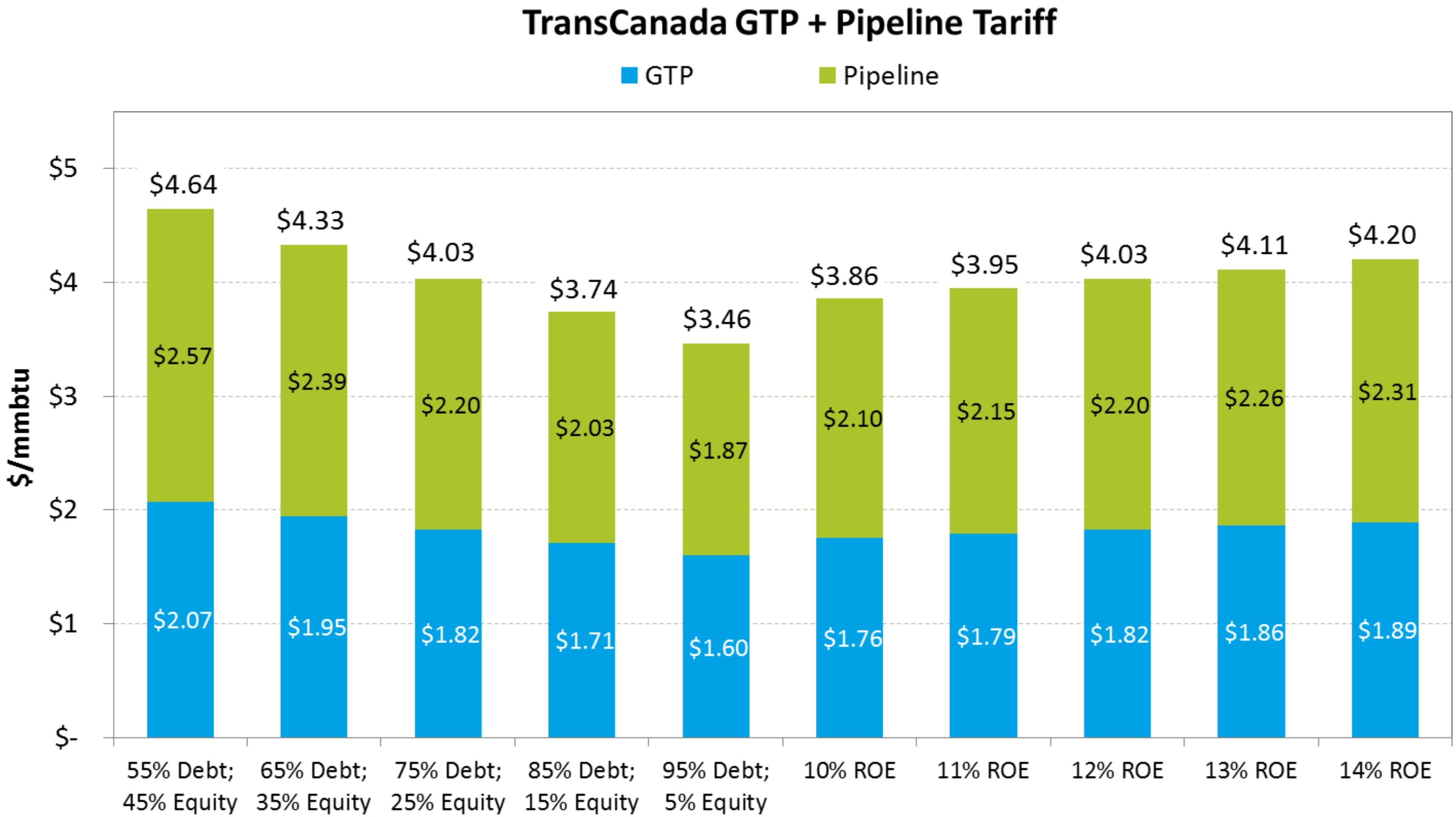
Exhibit C is the Alaska LNG Midstream Services Agreement, which sets out the commercial terms under which TADI shall operate and expand the midstream components of the AKLNG project.

Key Terms of Exhibit C:

1. Favorable Debt to Equity Ratio
   - 75/25 ratio for rate-making purposes reduces the State's tariff.
   - Lower tariffs improve the State's overall cash flows.
2. Cash Contributions by TransCanada
   - TransCanada as project developer reduces the State's exposure to cash calls and obligations until the pipeline is in service.
3. Improved Value to the Treasury
   - When you consider the opportunity cost of utilizing the State's capital (which earns 6% in the treasury), our NPV is improved overall.
4. Expansions
   - TransCanada committed to 70/30 capital structure for expansions.
5. Gas to Alaskans
   - At least 5 offtake points
   - Distance sensitive rates with three zones for delivery

Key Terms of Exhibit C: Favorable Debt to Equity Ratio

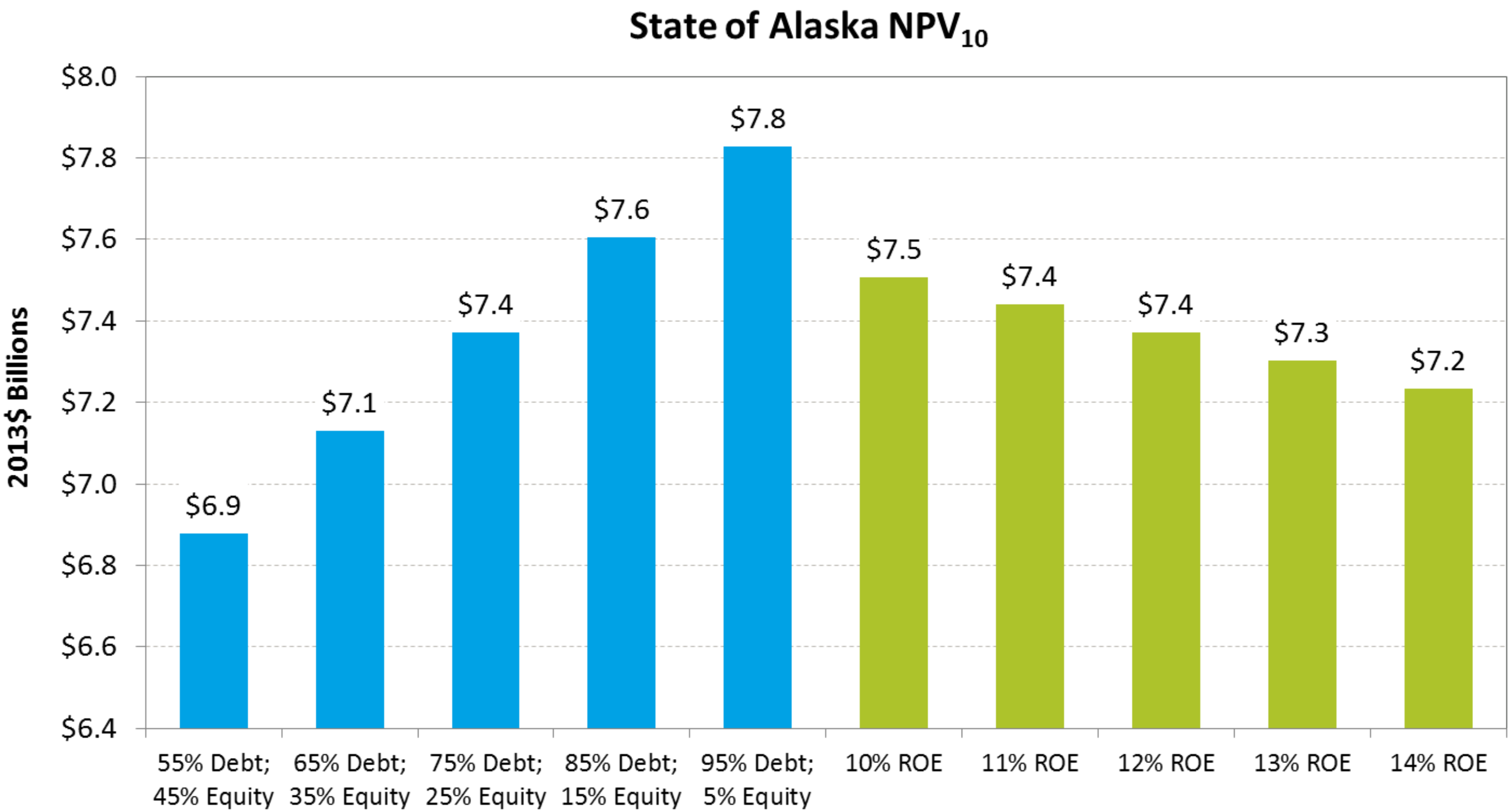
TARIFF ON GTP AND PIPELINE INCREASES BY ~$0.30/MMBTU FOR EACH 10% INCREASE IN EQUITY WHILE INCREASING BY ~$0.08/MMBTU FOR EACH 1% INCREASE IN ROE



Source: Black & Veatch

Key Terms of Exhibit C: Favorable Debt to Equity Ratio

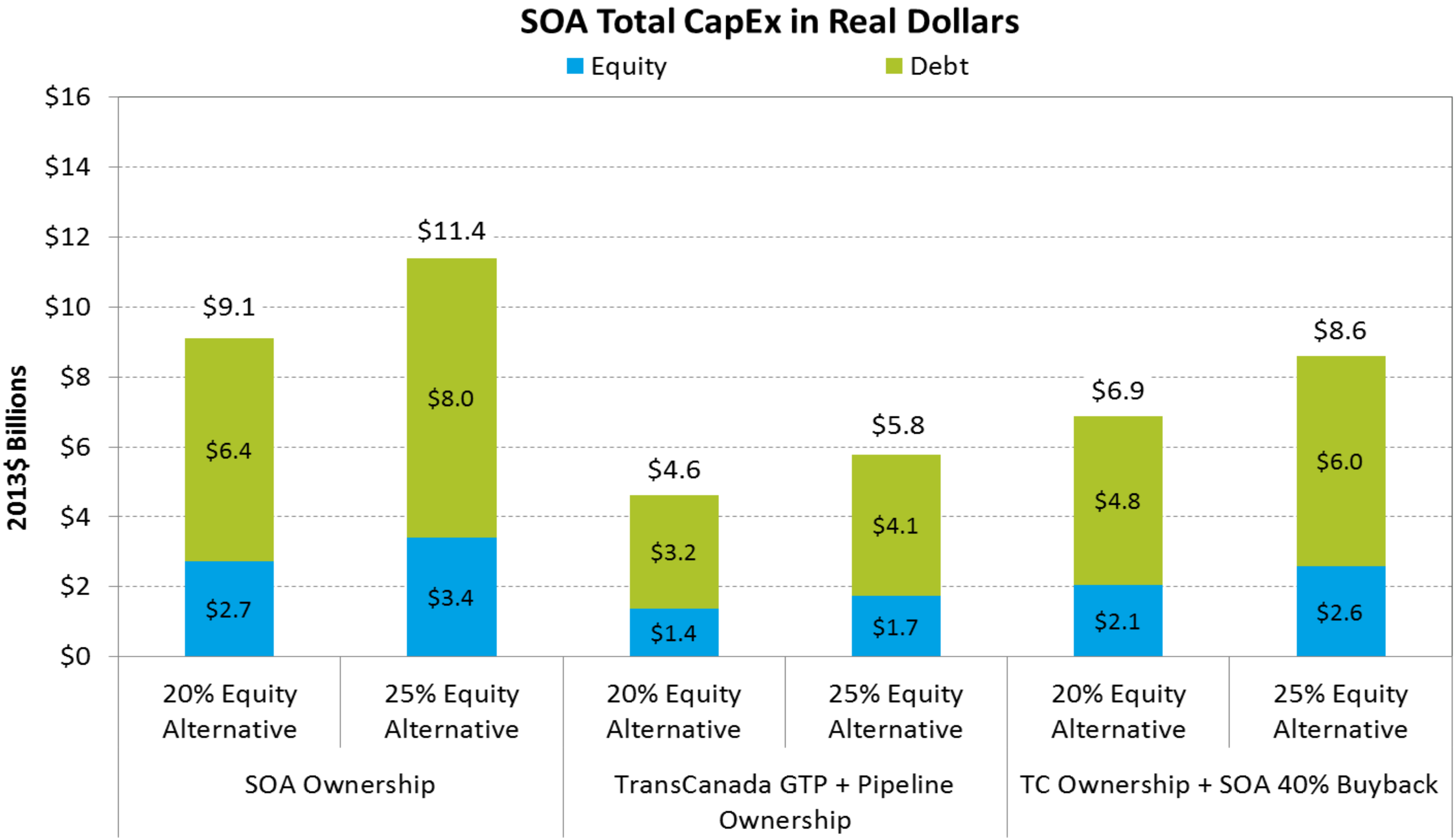
NPV TO THE STATE DECREASES BY ~$300MM FOR EACH 10% INCREASE IN EQUITY WHILE DECREASING BY ~$100MM FOR EACH 1% INCREASE IN ROE



Source: Black & Veatch

Key Terms of Exhibit C: Cash Contributions by TransCanada

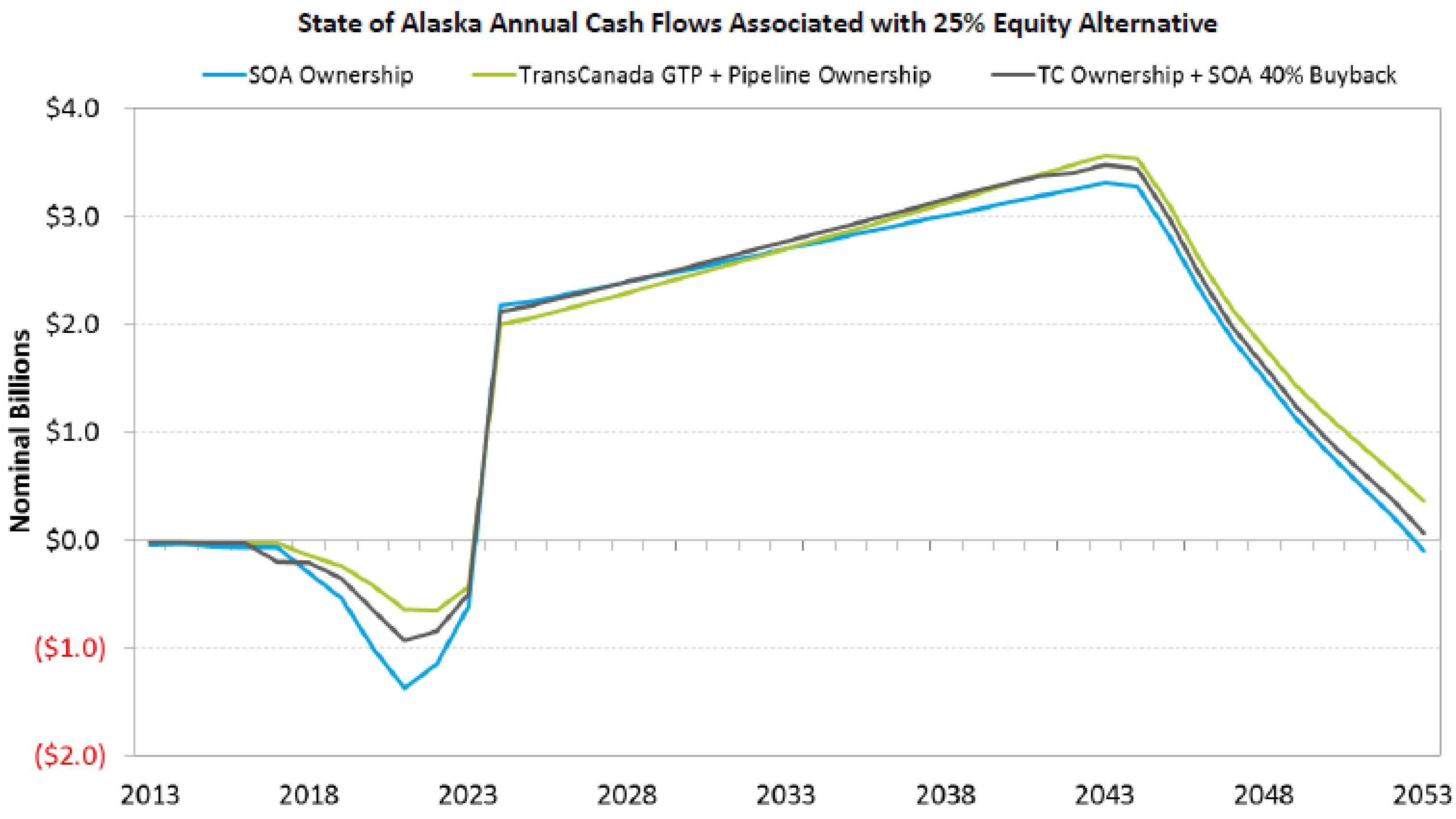
STATE OF ALASKA TOTAL CAPITAL INVESTMENT (IN 2013$)



Source: Black & Veatch

Key Terms of Exhibit C: Cash Contributions by TransCanada

STATE OF ALASKA ANNUAL CASH FLOWS ASSOCIATED WITH THE 25% EQUITY ALTERNATIVE*

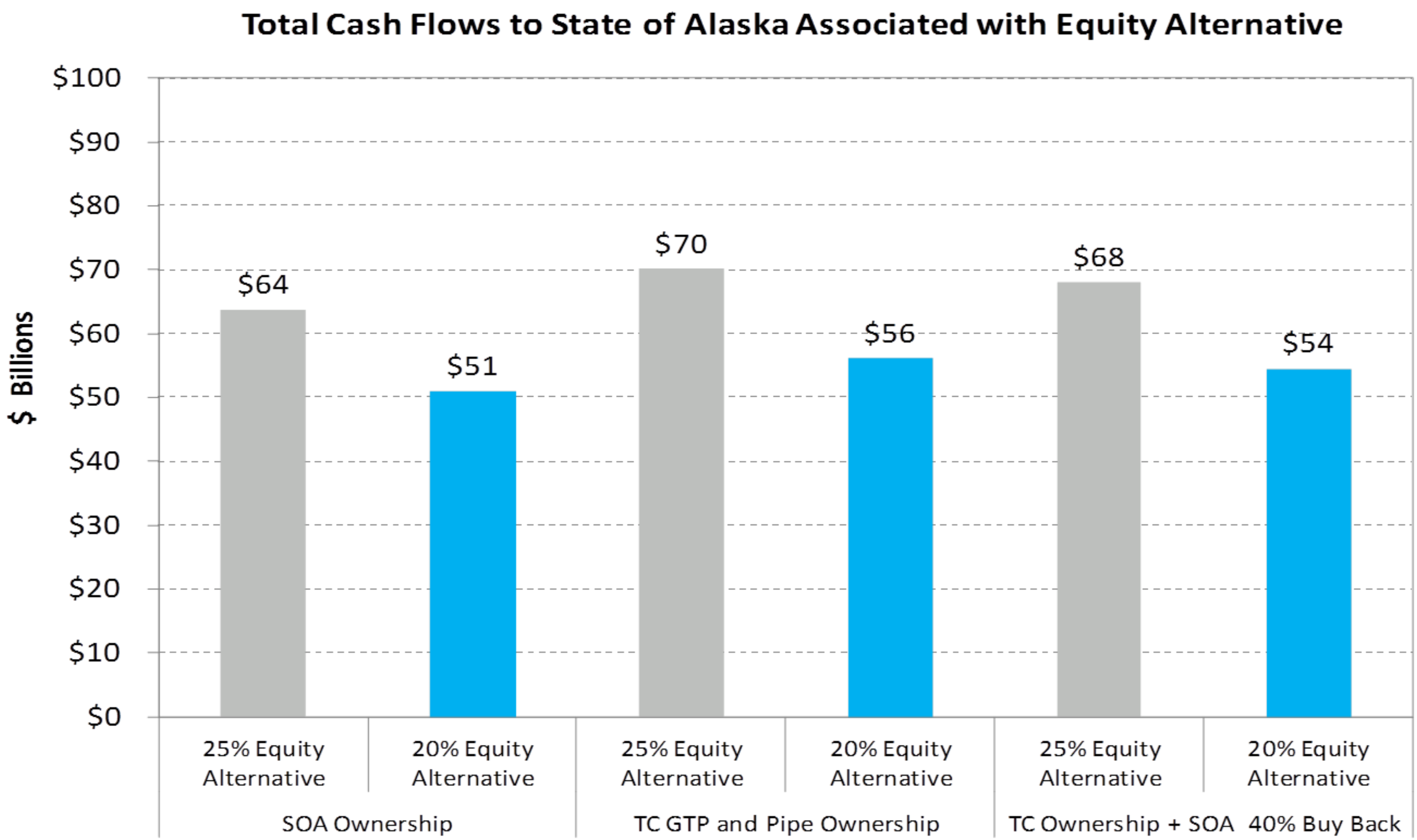


Source: Black & Veatch

*** Annual cash flows over initial 30 years. Cash flows exclude additional revenues to the State from the AKLNG Project such as upstream property and income taxes that are not impacted by TC participation. Values include the estimated impact of opportunity cost to the State which may not be a cash flow element.**

Key Terms of Exhibit C: Improved Value to the Treasury

STATE OF ALASKA TOTAL CASH FLOWS ASSOCIATED WITH EQUITY ALTERNATIVE*

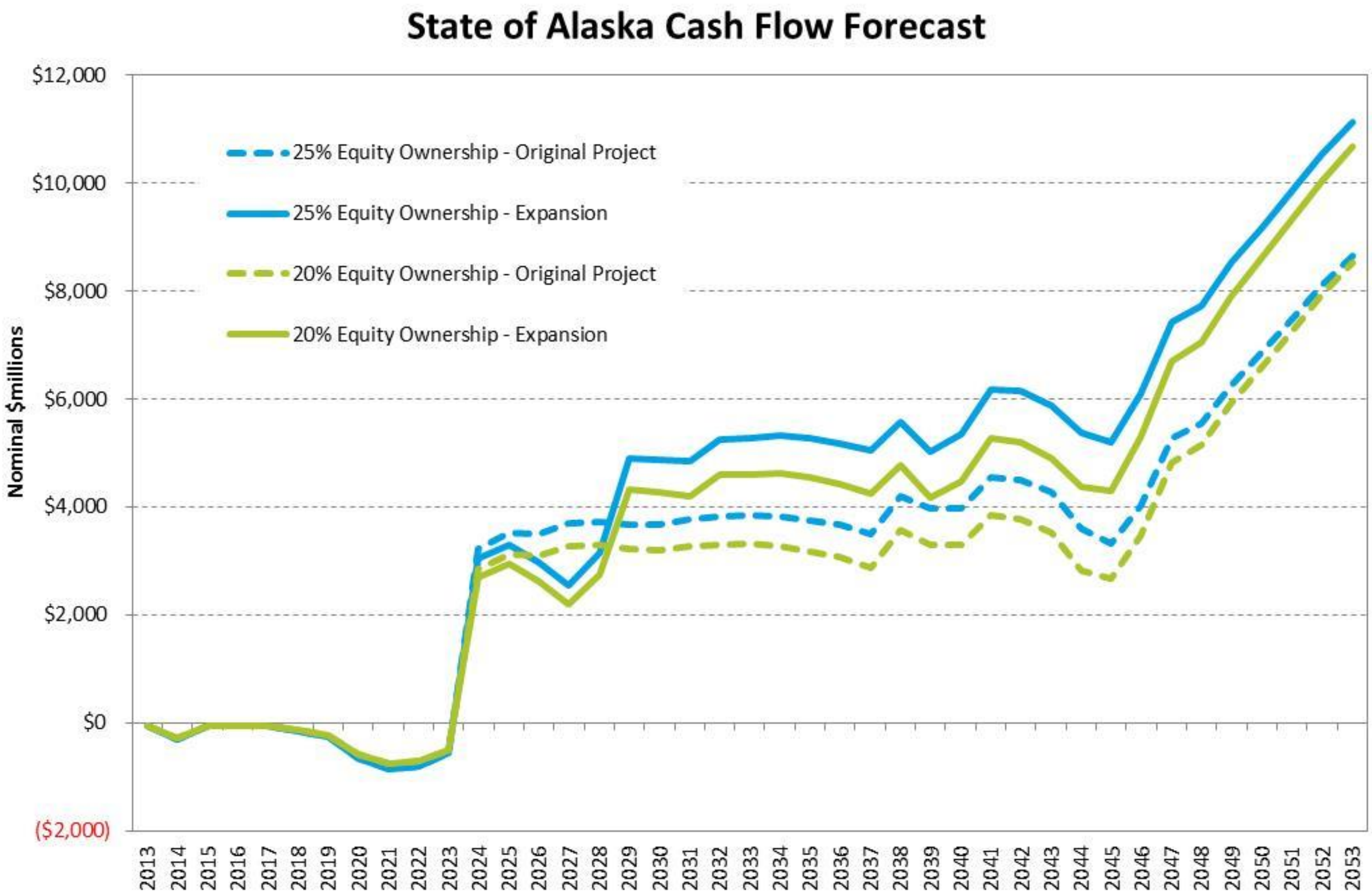


Source: Black & Veatch

*** Includes cash flows over initial 30 years; Cash flows exclude additional revenues to the State from the AKLNG Project such as upstream property and income taxes that are not impacted by TC participation. Values include the estimated impact of opportunity cost to the State which may not be a cash flow element.**

Key Terms of Exhibit C: Expansions

ANNUAL CASH FLOWS TO STATE OF ALASKA INCREASE WITH AN EXPANSION OF THE AKLNG PROJECT*

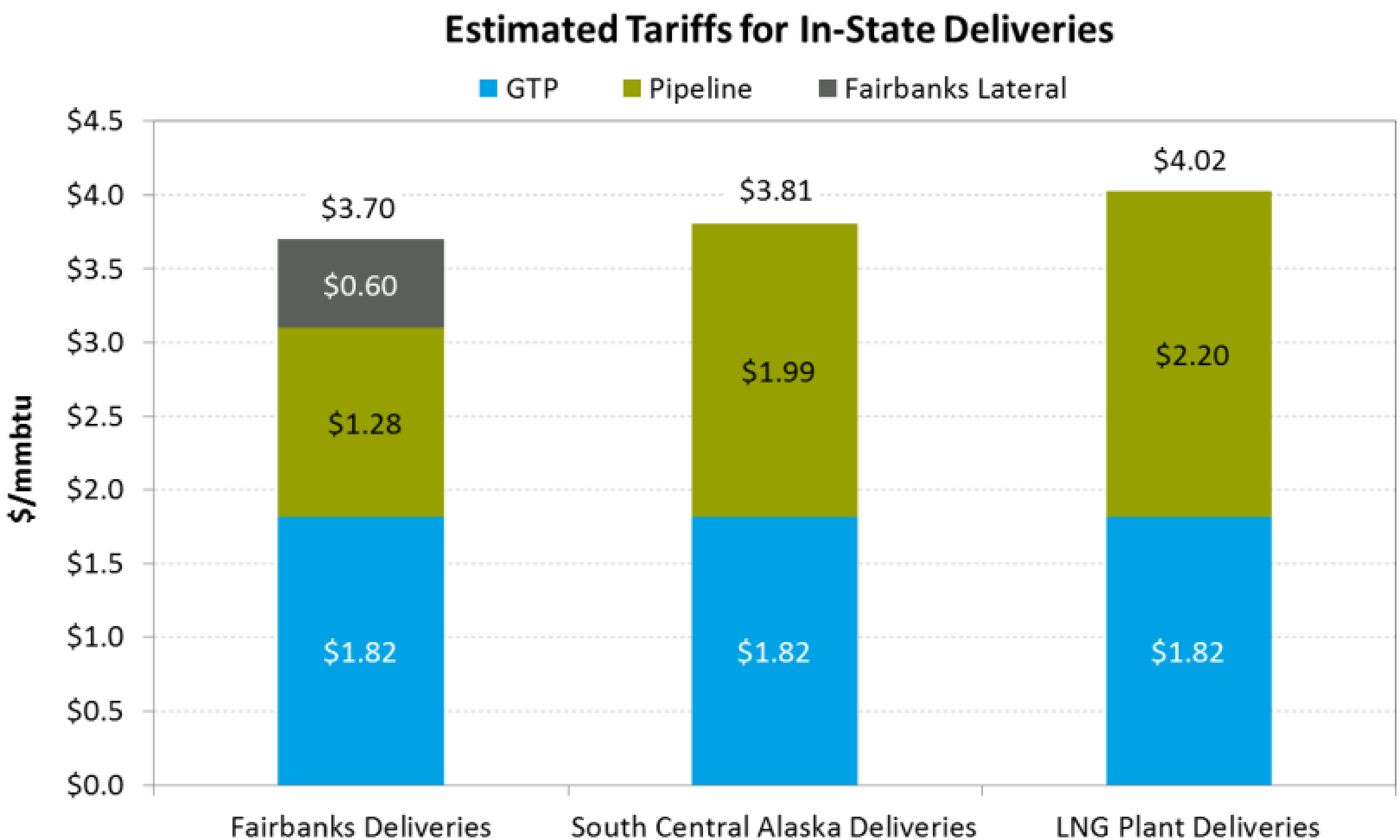


*** Expansion analysis assumes one additional LNG train and equivalent capacity at the GTP Plant and pipeline are added to the project five years into its operation.**

Source: Black & Veatch

Key Terms of Exhibit C: Gas for Alaskans

ESTIMATED TARIFFS FOR IN-STATE GAS DELIVERIES



Source: Black & Veatch

"While North Slope gas commercialization is challenging, working together, we can maintain the momentum toward our shared vision for Alaska."

Source: Letter dated October 1, 2012 to Governor Parnell (Exhibit I-B of HOA)

THANK YOU

Please find our contact information below:

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www.dnr.alaska.gov/AKgas.htm