ALASKA GASLINE INDUCEMENT ACT (AGIA)
FINAL REPORT TO THE LEGISLATURE

January 30, 2015

To: All Members of the Alaska State Legislature

Included with this letter is a report from the Department of Revenue (DOR) and the Department of Natural Resources (DNR), submitted in accordance with reporting requirements under the Alaska Gasline Inducement Act (AGIA). This is the final report, as the AGIA license has been terminated by mutual agreement and all eligible AGIA reimbursements have been made to TransCanada, the AGIA licensees.

AS 43.90.400(d) of AGIA requires the DOR and DNR Commissioners to submit a report to the legislature (Report) within the first 10 days of each regular session on the status of reimbursements from the AGIA reimbursement fund. This Report must include a list of all disbursements made from the AGIA fund during the preceding fiscal year, a written justification for each disbursement, and the projected amount of money that will be required for future disbursements during each of the next 3 fiscal years.

This Report is focused on information specific to AGIA fund disbursements. This report and other AGIA-licensed project resources are available on the AGIA website, at:
http://int.dnr.alaska.gov/commis/gppo/newsroom/Progress%20Reports/progress_reports.html

We hope that you find this Report information useful. If we can be of further assistance, please do not hesitate to contact us directly.

Sincerely,

Randall J. Hoffbeck, Commissioner
Department of Revenue

Mark D. Myers, Commissioner
Department of Natural Resources

Attachment: AGIA Fund Disbursement Report, January 30, 2015
AGIA Fund Disbursement Report
Department of Revenue and Department of Natural Resources
January 30, 2015

Executive Summary

This report (“Report”) was produced by DOR and DNR pursuant to AS 43.90.400(d) of the Alaska Gasline Inducement Act (“AGIA” or “the Act”). The Act requires that the Commissioners of DOR and DNR, within 10 days after the convening of each regular session, “shall submit to the legislature a report that lists all the disbursements from the [AGIA reimbursement] fund during the preceding fiscal year with a written justification for each disbursement and the projected amount of money that will be required for reimbursements in each of the next three fiscal years.”

The AGIA Project was formally abandoned and the AGIA License terminated on June 8, 2014 through execution of the AGIA Project Abandonment and License Termination Agreement (“AGIA Termination Agreement”) by TransCanada Alaska Company LLC, Foothills Pipe Lines and LTD (collectively, “TransCanada”) and the State of Alaska. Please see Attachment A. For background purposes the following section of this Report will provide a brief history of the AGIA Project since the passage of AGIA in May 2007. Within the current reporting period several significant events took place, beginning with the December 12, 2013, signing of the Memorandum of Understanding (MOU) between TransCanada (and TransCanada affiliate TransCanada Alaska Development Inc.) and the State of Alaska. The MOU provided a process for TransCanada’s transition from the Alaska Pipeline Project (APP), licensed under AGIA, leading to the abandonment of the Alaska-Alberta Project, the termination of the AGIA License and the release of the State from any obligations to TransCanada under AS 43.90. On June 9, 2014, TransCanada notified the DNR and DOR Commissioners that the Alaska-Alberta Project had become uneconomic, should be abandoned, and that the AGIA License should be terminated. Following TransCanada’s request on June 9, 2014, the DNR and DOR Commissioners determined the Alaska-Alberta Project to be uneconomic, abandoned the project, and terminated the AGIA License. The AGIA Termination Agreement that provided the terms and conditions for the abandonment of the AGIA Project and termination of the AGIA license is discussed below. The abandonment and termination was a step towards pursuing a larger pipeline joint venture agreement with TransCanada and the North Slope Producers, BP, Conoco Phillips and ExxonMobil. The advancements and gas commercialization efforts concluding the AGIA Project are discussed in greater detail below. The background section concludes with an overview of the reimbursement process through the termination of the AGIA License, and a discussion of the AGIA Reimbursement Information System (AIRS). The final portion of this Report addresses the specific statutory reporting requirements of AS
43.90.400(d) describing the ending status of the AGIA fund disbursements, requested reimbursements and the status of the termination conditions.

During FY 2014, TransCanada, as the AGIA Licensee, performed and concluded additional work approved in December 2013 in Project Plan Amendment 1B (PPA 1B). In 2013, TransCanada and ExxonMobil engaged in essential activities, made significant progress on project milestones, and met the benchmarks set forth by Governor Parnell on January 16, 2013. On June 11, 2013, the Commissioners of the DOR and DNR approved TransCanada’s Project Plan Amendment (PPA 1A), which noted that the Licensee had made significant progress toward meeting the Project Plan Amendment (PPA 1) approval conditions. On December 12, 2013, the Commissioners also approved TransCanada’s second Project Plan Amendment (PPA 1B) which was a limited extension of the previous project plan amendments approved in June 2013 (PPA 1A). TransCanada’s Project Plan Amendment (PPA 1B) allows TransCanada to perform additional work from approximately January 1, 2014, until the end of June 2014. The project plan amendments set forth the mechanism to continue to provide reimbursements to TransCanada based upon the approved project work plans.

The FY 2014 reimbursements to TransCanada are based on the PPA 1A and PPA 1B project work plan. The PPA 1B work plan as approved was to expire on June 30, 2014. However, with the signing of the AGIA Termination Agreement, the effective end date for qualified expenditure reimbursements became June 8, 2014. No new AGIA appropriations were forecast for FY 2015 as the pipeline project advanced under a new commercial agreement. The remaining FY 2014 AGIA funding of approximately $37MM was sufficient to bring the AGIA Project to a stable close and transition to State participation to the Alaska LNG (AKLNG) project. The FY 2014 reimbursements of approximately $34MM are based on the AGIA project activity incurred through the final reimbursement date of June 8, 2014. The remaining AGIA fund balance of approximately $2.7MM is expected to be repurposed, with its intended use yet to be determined.

**Background**

AGIA was passed by the Legislature in May of 2007 to encourage construction of a natural gas pipeline from Alaska’s North Slope. The Act authorized the DOR and DNR Commissioners to solicit applications for a license to receive certain inducements from the State. After review of the submitted applications, the Commissioners recommended that a license be issued to TransCanada (“AGIA License”). The recommendation was approved by the legislature on August 1, 2008 and the AGIA License was issued to TransCanada and signed by the Commissioners on December 5, 2008.

In May 2009, TransCanada joined with ExxonMobil to form the APP. From April 30 to July 30, 2010, the APP conducted the first open season to commercialize Alaska North Slope natural gas.
Two project options were proposed, both originating at Prudhoe Bay. One option was for a pipeline terminating in Valdez, Alaska and the other option was for a pipeline extending to the Alberta border. Significant interest was expressed in the Alberta option, which advanced to the federal permitting phase in mid-2012.

In January 2012, the Project entered into a transition period. In the January 2012 State of the State address, Governor Parnell laid out important benchmarks for a gasline project in Alaska’s interests. The Governor’s benchmarks were: for TransCanada and Alaska North Slope (ANS) Producers to align under AGIA for the project; settle the Point Thomson litigation; conduct consolidation discussions between the Alaska Gasline Development Corporation (AGDC) in-state pipeline project and the APP project; harden numbers on an LNG project and provide an associated work schedule. These benchmarks were met through the third quarter of 2012.

On May 12, 2012, the TransCanada requested approval of Project Plan Amendment PPA 1 in which the Alberta option was ramped down to pursue an alternative that included a gas pipeline and related midstream facilities to deliver ANS natural gas to an LNG terminal located in South Central Alaska. Initially, the alternative was called the “SCLNG” (South Central LNG) project but is now referred to as the “AKLNG” (Alaska LNG) project.

For the first time in this project’s history, the APP and the major Alaska North Slope (ANS) Producers (ExxonMobil, BP, and ConocoPhillips) aligned, explored and developed a concept for an integrated LNG project and associated pipeline through the state to tidewater in South Central Alaska. Project work on the Alberta option remained on hold. TransCanada and ANS Producers selected Kenai, Alaska as the LNG facility site during this phase. The PPA 1 work plan and budget were effective through June 30, 2013. Project expenditures for the transition are reflected in this calendar year 2013 disbursement report. TransCanada noted in the first PPA that it would pursue a staged approach to the project amendments to align with the potential technical and commercial development. Please see the “Approval of AGIA Licensee’s Project Plan Amendment” letter dated May 2, 2012 for PPA 1, attachment A.

On June 11, 2013, the Commissioners of the Departments of Revenue and Natural Resources approved TransCanada’s request for a Project Plan Amendments PPA 1A. The plan amendments were essential because they provided TransCanada the authority to amend its work plan to explore the opportunities for an LNG project alternative with the ANS Producers and established specific requirements for TransCanada pertaining to AGIA reimbursement for project expenditures. This amendment allowed TransCanada and the ANS Producers to complete one of the Governor’s benchmarks, a 2013 summer field season. The PPA 1A approval included two project plan amendments. First was the performance of field work on the midstream section component of the project through December 15, 2013, and second, was the extension of the FERC filing deadline by one year to October 31, 2015. Project expenditures for
PPA 1 were reflected in the calendar year 2013 disbursement report. Please see the “Approval of AGIA Licensee’s Project Plan Amendment” letter, dated June 11, 2013, for PPA 1A, from the Office of the Commissioners for the DOR and DNR in attachment A.

On December 12, 2013, the Commissioners of the Departments of Revenue and Natural Resources approved TransCanada’s request for Project Plan Amendment PPA 1B. TransCanada and ANS Producers had selected an Alaska LNG (AKLNG) concept. They planned on-going work to support a potential AKLNG project including preliminary Pre-FEED focus studies and the 2014 field season planning work for the midstream pipeline components. While the 2014 planning work was being carried out, minimal effort on the existing elements of the Alaska-Alberta project to preserve rights was incurred. Effective date for PPA 1B was from January 1, 2014 through June 30, 2014. Please see the “Approval of AGIA Licensee’s Project Plan Amendment” letter dated December 12, 2013 for PPA 1B, from the Office of the Commissioners for the DOR and DNR in attachment A. Actual project expenditures and final reimbursements for PPA1B are included in this report and have been audited.

The PPA 1A and PPA 1B project plan amendments described the State’s significant near term expectations and timelines for TransCanada and the ANS Producers. Over the last year, the project made significant unified progress and submitted minimal AGIA reimbursement claims for the remnant of Alaska-Alberta option costs, for refining technical and execution (construction) definition of the pipeline, the gas treatment plant located in Prudhoe Bay, refining the Alaska pipeline route, Alaska regulatory work and planning for the summer field season.

In exchange for commitments related to the project schedule, tariffs, and future expansions, TransCanada was entitled under the AGIA License to receive certain inducements from the State, including, subject to appropriation, up to $500MM in reimbursements from the AGIA reimbursement fund for qualified expenditures. During 2014, transition discussions continued for moving the APP knowledge, experience, and information forward into the AK LNG project. The commercialization efforts for ANS natural gas transitioned out of AS 43.90 and into a multi-party coordinated effort during June 2014 coincident to the execution of the AGIA Termination Agreement, abandonment of the Alaska-Alberta Project and termination of the AGIA License.

Upon abandonment of the Alberta-Alaska Project and termination of the AGIA License, AGIA expenditures ceased as outlined in the MOU, the AGIA Termination Agreement, and the PPA 1B between the State and TransCanada. To date, $330MM of the $500MM has been appropriated to the AGIA Fund. The remaining $170MM in authorization was not requested for appropriation in FY 2014. To close out the AGIA fund in FY 2014, of the approximate $37MM available in the AGIA fund, $34MM was expended. The remaining balance in the AGIA fund of approximately

1 “Qualified Expenditures” are defined in AS 43.90.110(c) and 15 AAC 90.030
$2.7MM will be repurposed. The AGIA License monitoring and compliance activities also concluded in June 2014. During 2014, gas commercialization efforts were evaluated and discussed during the Spring 2014 legislative session resulting in the passage of the Governor’s legislation in Senate Bill 138. Senate Bill 138 initiated the signing of a new joint venture agreement to launch the Pre-Front End Engineering phase for the AK LNG Project.

As a condition for the State’s final reimbursement of TransCanada’s qualified expenditures under the AGIA License, the AGIA Termination Agreement required TransCanada to grant the State a right of use of all AGIA Project Work relating to Alaska. TransCanada delivered and made available to the State, through a SharePoint site, the AGIA Project Work. DOR and DNR staff have reviewed and confirmed relevant Project Work. TransCanada also agreed to provide any additional Project Work discovered by TransCanada or identified by the State through December 31, 2015, that was not included in the Project Work delivered to date. Under the AGIA Termination Agreement, the State may assign its Project Work Use rights to any State agency or affiliate, except use by AGDC requires TransCanada’s consent unless (i) AGDC is no longer participating in the AKLNG Project, (ii) if the AKLNG Project is no longer proceeding, or (iii) AGDC will use the Project Work for the limited purpose of progressing the AKLNG Project.

The information included in this Report focuses on reimbursements to TransCanada issued from the AGIA Fund during the period from January 1, 2013, through December 31, 2014, for qualified expenditures incurred through June 8, 2014, the date of the AGIA Termination Agreement. For purposes of confidentiality under AGIA, disbursements are summarized at the cost category level.

**Reimbursement Process**

Subject to appropriation, the AGIA License issued under AS 43.90 entitles TransCanada to receive reimbursements up to $500MM for qualified project expenditures made during the seven year period immediately following the date that the AGIA License was awarded to TransCanada. Qualified expenditures are those which have been paid by TransCanada, and are determined to be directly and reasonably related to advancing the project, with the exception of overhead, lobbying and litigation costs, civil or criminal penalties or fines, or any expenditures for assets or work product acquired or developed by the licensee before the license was issued.² Prior to the close of the first open season, reimbursements to TransCanada were at 50% of its qualified expenditures. TransCanada’s initial open season concluded on July 30, 2010. After that date, reimbursements to TransCanada were at 90% of its qualified expenditures.²

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² AS 43.90.110(a)(1)(A) and (B)
In order to receive reimbursement from the State, TransCanada must submit supporting information for all expenditures in a form prescribed by DOR. This information is submitted on a monthly basis, with “Requests for Reimbursement” being filed each quarter. This regular flow of information allows the DOR to review information on a consistent basis.

The monthly compilation, submission and review process is detailed, time intensive and lengthy for TransCanada and the State. TransCanada must associate and identify “each” expenditure to a qualified activity and each must contain sufficient descriptive supporting documentation explaining how it directly relates to that specific activity. A qualified expenditure is a cost that is incurred after the license is issued, and is directly and reasonably related to the following qualified activities:

1. Pursuing firm transportation commitments in a binding open season,
2. Securing financing for the project,
3. Obtaining a certificate of public convenience and necessity from the Federal Energy Regulatory Commission, or
4. Satisfying a requirement of an agency with jurisdiction over the project.

The due diligence review and financial determination of the qualified expenditures is performed by the DOR on a monthly basis. Regular communications and coordination between the State and TransCanada ensure the reimbursement process continues to move forward.

Information gathered through the monthly monitoring field visits support the high level due diligence review performed by the Technical Pipeline Monitor. The due diligence review and reimbursement review involves evaluating information and documentation relating to TransCanada’s claim for reimbursement. The purpose of the due diligence review is to facilitate a recommendation to the AGIA License Administrator as to whether a particular claim should be paid by the State under the AGIA statutes and regulations. This systematic joint review effort gathers the critical facts and descriptive information which is most relevant to the making of the informed decision as to whether each transaction is an actual and reasonable expenditure directly and reasonably related to a qualified activity that has been paid by TransCanada.

Once the due diligence review is completed, the recommendations are reviewed and the reimbursement determination decisions are made by the AGIA License Administrator, who may approve, deny, or take exception to expenditures which do not meet the statutory or regulatory requirements for qualified expenditures, or for which there is insufficient information to make a determination. If additional information is needed, the AGIA License administrator requires that information be submitted prior to issuing a final reimbursement determination.
On a quarterly basis, the AGIA License Administrator issues a Notice of Reimbursement and generates a reimbursement payment. The AGIA Information Reimbursement System (AIRS) automatically sends the detailed reports of the approved qualified expenditures to be reimbursed as well as the unreimbursed exceptions and pending expenditures requiring additional information to TransCanada upon completion of the monthly review process. TransCanada responds to the exceptions taken by submitting the additional information at any time and the review process continues.

The DOR has triple review of claims for reimbursement expenditures through the due diligence review, the License Administrator review, and the annual audit. The ultimate goals of the due diligence and financial reviews are to provide reasonable assurance that the reimbursement being considered is for qualified expenditures and to ensure professional care is being conducted in these activities.

Once the AGIA License Administrator has issued a final reimbursement determination, TransCanada may appeal the determination to the Commissioner of DOR for expenditures which it contends meet the definitions for qualified expenditures outlined in the statutes and regulations.

In regard to the current reimbursement process, TransCanada submits monthly expenditures through AIRS and supporting documentation for State review. Every quarter, TransCanada submits an invoice as the claim for reimbursement. This invoice is submitted approximately 45 days after the close of a quarter. The State’s reimbursement process takes approximately 45 days to review the third month of expenditures and generate reimbursement.

TransCanada has not appealed the final 2014 AGIA termination reimbursement determination by the Commissioner of DOR and DNR.

**AGIA Reimbursement Information System**

The AGIA Information Reimbursement System (AIRS) is an automated system in which project expenditure data is collected, tracked, reviewed, and reported by the State. The AIRS system went live on January 1, 2012 and completely replaced the manual Excel-based reimbursement system in place since 2009. During FY 2013, the Open Exception Module for use by TransCanada was implemented to streamline and respond to open exception transactions at any time. The module eliminated the quarterly wait time and historical manual processes. Review and reimbursement efficiencies were realized during 2013 and 2014 for the DOR and TransCanada staff. The majority of historical exceptions were resubmitted and reimbursed in a timely manner as a result of the enhancement.
The DOR issued final reimbursement payments in September 2014 followed by the final annual AGIA audit in the fall of 2014. Use of the AIRS system will continue until the audit report is final and financial reporting for this disbursement Report is completed. The AIRS system for AGIA purposes will close out later this year and discussions for future use are anticipated.

**AGIA Fund Disbursements**

To date, the State has reimbursed TransCanada a total of $327,204,604 from the beginning of the AGIA License for activity through June 8, 2014. The project expenditures incurred during FY 2013 and FY 2014 were reimbursable at the 90% rate. FY 2014 AGIA License reimbursements were forecast at $37MM, with reimbursed actuals of $34MM resulting in approximately $3MM under forecast due to the AGIA License termination on June 8, 2014. The last reimbursement payment was made in September 2014 as planned.

From inception to date, TransCanada has submitted approximately $414MM in gross expenditures for State review. Approximately $114MM in gross expenditures has been qualified at the 50% rate and $57MM reimbursed. Approximately $300MM in gross expenditures has been qualified at the 90% rate of which $270MM has been reimbursed. As of August 30, 2014, the State and TransCanada resolved all historical and open exceptions and the $5.9MM unreimbursed and held in reserve was released. Exceptions are part of the normal review process resolved as additional information was provided.

A list of total disbursements by fiscal year (FY) made during FY 2014 through FY 2015 can be found on Table 2 in the Financial Reports beginning on page 14. Table 2 is on fiscal year basis to comply with AS 43.90.400(d) and reconciles with the State’s budgeting and funding processes.

The AGIA Reimbursement Summary Reports in Table 3 through Table 5a are on a calendar year (CY) basis to coincide with the annual audit cycle and for tax reporting purposes.

**Table 2 – AGIA Disbursement and Forecast Summary** is a list of all reimbursements by year and is on a fiscal year basis to align with the State’s budgeting and funding processes.

**Table 3 - AGIA Reimbursement Summary by Year** below provides a summary of all expenditures claimed and reimbursed by year from inception in December 2008 through December 31, 2014.

**Table 3a – AGIA Reimbursement Summary by Month** is the same summary of expenditures claimed and reimbursed shown by month and quarter.

**Table 4 – AGIA Reimbursements by Project Region** provides a summary of reimbursements on work performed in the Alaska region and Canada region.
Table 5 – AGIA Reimbursements by CBS Cost Category provides reimbursements broadly categorized into major cost classifications based on information provided by TransCanada. The cost breakdown structures (CBS) are project accounting codes used to more clearly categorize the types of project costs being incurred.

Table 5a – AGIA Reimbursements by CBS Cost Category by Project Region is the same summary of expenditures reimbursed by CBS cost category and indicates the types of costs in the Alaska region and Canada region.

Final Reimbursement

Actual project expenditures representing the final reimbursements under the AGIA License are noted in this disbursement Report. As of December 31, 2014, State reimbursement payments for project activity through (2Q) 2014 are completed and future claims for reimbursement have ceased with the termination of the AGIA License. Due to the transition of the project, expenditures for FY 2014 included monthly filings with expenditures for the 2013 summer field season and for the planning associated with the 2014 summer field season approved under PPA 1B.

Table 2 contains the AGIA Reimbursement Summary for FY 2014. The actual reimbursements of historical exceptions, held in reserve amounts and qualified claims for all of FY 2014 were $55MM and includes reimbursement for (4Q) 2013, (1Q) 2014, and (2Q) 2014. The AK LNG option related expenditures included in the TransCanada forecast through (2Q) 2014 were reimbursed in FY 2014. TransCanada’s January 2014 Budget Report forecast encompassed the anticipated termination for the AGIA License by June 30, 2014. The (2Q) 2014 AGIA filing was reimbursed during FY 2015 using the existing AGIA funding.

The FY 2014 AGIA appropriation approved was for $25MM, and no FY 2015 appropriation was requested in the Governor’s December 14, 2013 budget. Based on the termination of the AGIA License, the current spending plan thru June 30, 2014 capped total reimbursements at $330MM with actuals coming in at $327MM. The remaining actual AGIA Fund balance is $2,795,400 at the end of FY 2015. The State forecasted reimbursement of TransCanada’s projected costs for (4Q) 2013 and (1Q) 2014 prior to the end of FY 2014. The final AGIA License quarterly filing for (2Q) 2014 and remnant invoices were reimbursed in early FY 2015. Based on the prior year spending plan, the $25MM appropriation for FY 2014 was sufficient to bring the AGIA License to an expeditious close as planned.
For FY 2015, the State had reimbursement claims paid out due to timing differences associated
with receiving of the last of the FY 2014 claims for reimbursements. The State’s FY 2015
reimbursement for (2Q) 2014 concludes with TransCanada’s final budget report contained in
Table 1 below.

Estimated Project Spending

The figures in Table 1³ are based on TransCanada’s January 2015 Budget Report, received by
the DOR on January 29, 2015. It shows the actual amount of money reimbursed during each
fiscal year for project expenditures incurred through June 8, 2014.

Table 1³

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Annual Audit

During 2014, audit fieldwork was completed bringing closure to the Calendar Year CY 2013 and
CY 2014 annual audits. The CY 2013 fieldwork was performed in late spring 2014 and CY 2014
fieldwork was performed in late fall 2014 by Martindale Consultants Inc. The draft audit report
was completed in December 2014 and is currently in review. For the combined audit period,
the auditors reviewed approximately $45MM in gross expenditures to ensure eligibility under
AGIA and applicable regulations. The annual audit covered reimbursements by the State for
gross expenditures claimed for project activity conducted from (1Q) 2013 through (2Q) 2014.

The scope of the annual audit was to assess the adequacy of TransCanada’s internal controls
and accounting process in relation to the identification and submission of qualified

³ Numbers are based on TransCanada Alaska’s January 2015 Budget Report. Comparative spending after 2010
reflects a change in the state’s matching contribution from 50/50 to 90/10, following the close of the Open Season
on July 31, 2010.
expenditures, to determine if the licensee was in compliance with applicable statutes and regulations, and to determine if the costs submitted for reimbursement complied with the AGIA License. The goal of the audit was to identify areas of improvement for the DOR and TransCanada, make recommendations, and facilitate corrections to the reimbursement process.

Adding to the experience gained in last four years of audits, Martindale conducted interviews with personnel from both the State and TransCanada, to build on their understanding of the applicable laws, reimbursement process, and duties of involved individuals. Major vendor contracts and invoices were reviewed and reconciled with those examined during earlier parts of the reimbursement process. For a significant portion of company labor expenditures, the auditors reviewed job duties to ensure they were performing qualified functions, verified hours billed were reasonable and accurate, and audited labor costs qualified for reimbursement using current and historical labor documentation.

For FY 2015, the AGIA audit contract was paid for with FY 2014 funding of $125,000 included in the Natural Gas Commercialization component for the DOR in the Governor’s FY 2014 budget, $25,000 from the DOR Commissioner’s Office budget, and a $30,000 RSA from the DNR Resources. In FY 2014, the DOR had exercised the second of two optional one year contract extensions and added $30,000 for early field work performed and for undergoing an extensive resolution process for previous years.

For FY 2015, the existing contract was extended to complete the final audit work associated with the last reimbursements made in September 2014.

As the AGIA License is now terminated, the total gross expenditures claimed for CY 2013 and partial CY 2014 are approximately $45MM. Non-qualifying gross expenditures spent by TransCanada are not submitted for reimbursement. The reimbursements audited covered project expenditure activity period from (1Q) 2013 through (2Q) 2014, with disbursements at the 90% rate.

The audit required a minimal number of auditors to complete, as the transaction volume and reimbursement amounts for two years were less than in any single previous year. The objective of the DOR to complete the audit work efficiently and expeditiously was met with fieldwork done remotely requiring minimal travel. The DOR anticipates final review and issuance of the final audit report in February 2015.
Financial Reports by Calendar Year

Table 2: AGIA Disbursement and Forecast Summary

Table 3: AGIA Reimbursement Summary by Year

Table 3a: AGIA Reimbursement Summary by Month

Table 4: AGIA Reimbursement Summary by Project Region

Table 5: AGIA Reimbursements by CBS Cost Category

Table 5a: AGIA Reimbursements by CBS Cost Category by Project Region
Table 2
AGIA Disbursement Summary
FY 2014 and FY 2015 Actuals

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### Table 2: AGIA Disbursement and Forecast Chart by Fiscal Year

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<th>Total Claimed Gross Expenditures</th>
<th>Total Gross Exceptions</th>
<th>Total Approved Gross Qualified Expenditures</th>
<th>Total Qualified Expenditures Available for Reimbursement at 50% &amp; 90%</th>
<th>Less Qualified Reimbursement Held in Reserve</th>
<th>Reimbursed Qualified Expenditures</th>
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<td>January</td>
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<td>$1,776,050</td>
<td>$1,598,445</td>
<td>$0</td>
<td>$1,598,445</td>
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<td>$5,525,460</td>
<td>$4,972,915</td>
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<td>$5,978,318</td>
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<tr>
<td>2014 Total</td>
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<td>$21,483,162</td>
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<td>$21,483,162</td>
<td>$19,334,847</td>
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<td>$23,177,768</td>
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<td>$84,762,970</td>
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### Table 3: AGIA Reimbursement Request Summary by Year

As of Quarter Ending June 30, 2014

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<tr>
<th>Year</th>
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<th>Total Claimed Gross Expenditures</th>
<th>Total Gross Exceptions</th>
<th>Total Approved Gross Qualified Expenditures</th>
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<tbody>
<tr>
<td>2014 1Q</td>
<td>January</td>
<td>$1,776,050</td>
<td>$0</td>
<td>$1,776,050</td>
<td>$1,598,445</td>
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<td>February</td>
<td>$2,673,798</td>
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<td>$2,673,798</td>
<td>$2,406,418</td>
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Table 4
AGIA Reimbursement Request Summary by Project Region
As of Quarter Ending June 30, 2014

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<th>Project Region</th>
<th>Total Gross Expenditures</th>
<th>Total Gross Exceptions</th>
<th>Total Approved Gross Expenditures</th>
<th>Total Qualified Expenditures Available for Reimbursement at 50% &amp; 90%</th>
<th>Less Qualified Reimbursement Held in Reserve</th>
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<tr>
<td>2009 Total</td>
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<td>$53,493,480</td>
<td>$0</td>
<td>$53,493,480</td>
<td>$26,746,639</td>
<td>$0</td>
<td>$26,746,639</td>
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<tr>
<td>Total Since Inception Date</td>
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<td>$414,020,262</td>
<td>$327,204,604</td>
<td>$327,204,604</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reimbursed Qualified Expenditures by Region Year to Date $19MM
- Alaska: $2MM (88%)
- Canada: $17MM (12%)

Reimbursed Qualified Expenditures by Region Inception to Date $327MM
- Alaska: $105MM (68%)
- Canada: $222MM (32%)
Table 5

AGIA Reimbursement by CBS Cost Category
As of Quarter Ending June 30, 2015

<table>
<thead>
<tr>
<th>CBS Categories</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>ITD</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Expenses</td>
<td>$9,849</td>
<td>$513,224</td>
<td>$881,176</td>
<td>$1,556,268</td>
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<td>$44,634</td>
<td>$8,877,719</td>
</tr>
<tr>
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<td>$29,154</td>
<td>$122,452</td>
<td>$211,802</td>
<td>$411,646</td>
<td>$23,644</td>
<td>$722</td>
<td>$3,703,214</td>
<td>$2,526,850</td>
</tr>
<tr>
<td>Gas Treatment Plant Related</td>
<td>$3,222</td>
<td>$9,86,995</td>
<td>$11,949,996</td>
<td>$32,710,129</td>
<td>$14,140,318</td>
<td>$2,050,701</td>
<td>$15,127</td>
<td>$69,932,488</td>
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<td>$11,225,841</td>
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<td>$2,601,308</td>
<td>$471,174</td>
<td>$199,143</td>
<td>$11,505,019</td>
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<td>$638,576</td>
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<td>$0</td>
<td>$1,618,190</td>
<td>$2,529,414</td>
<td>$4,147,604</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$42,225</strong></td>
<td><strong>$26,746,640</strong></td>
<td><strong>$49,148,187</strong></td>
<td><strong>$134,808,283</strong></td>
<td><strong>$76,272,959</strong></td>
<td><strong>$20,851,463</strong></td>
<td><strong>$19,334,847</strong></td>
<td><strong>$327,204,604</strong></td>
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</tbody>
</table>

Reimbursed Expenditures by CBS Category

![Reimbursed Expenditures by CBS Category](image)
Table 5a
AGIA Reimbursements by CBS Cost Category by Project Region
As of Quarter Ending June 30, 2015

<table>
<thead>
<tr>
<th>CBS Categories</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>ITD</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Expenses</td>
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<tr>
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<td><strong>$253,582</strong></td>
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<tr>
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<td><strong>$0</strong></td>
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<td>$0</td>
<td>$0</td>
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<td>$2,529,414</td>
<td>$4,147,604</td>
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<tr>
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<td><strong>$0</strong></td>
<td><strong>$0</strong></td>
<td><strong>$0</strong></td>
<td><strong>$0</strong></td>
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<tr>
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<td><strong>$49,148,187</strong></td>
<td><strong>$134,808,283</strong></td>
<td><strong>$76,272,958</strong></td>
<td><strong>$20,851,463</strong></td>
<td><strong>$19,334,847</strong></td>
<td><strong>$327,204,604</strong></td>
</tr>
</tbody>
</table>

AGIA Reimbursements by CBS Category by Project Region 2008 thru 2014

[Graph showing reimbursements by CBS Category and Project Region from 2008 to 2014]
AGIA PROJECT ABANDONMENT AND LICENSE TERMINATION AGREEMENT

This AGIA Project Abandonment and License Termination Agreement, dated June 9, 2014, is made by and among:

THE STATE OF ALASKA

AND:

TRANSCANADA ALASKA COMPANY, LLC, a Delaware limited liability company

AND:

FOOTHILLS PIPE LINES LTD., a Canadian corporation

RECITALS:

A. Pursuant to the Alaska Gasline Inducement Act, AS 43.90 ("AGIA"), on December 5th, 2008, the State of Alaska (the "State") issued the License to TransCanada Alaska Company, LLC ("TC Alaska") and Foothills Pipe Lines Ltd. ("Foothills") (jointly, the "Licensee").

B. TC Alaska delivered to the Alaska Commissioner of the Department of Natural Resources and the Alaska Commissioner of the Department of Revenue (together the "Commissioners") a letter requesting abandonment under AGIA of the Alaska-Alberta Project (a copy of which is attached hereto as Appendix "A", the "Request Letter").

C. The Commissioners have responded to the Request Letter and have agreed that the project authorized by the License, namely the Alaska-Alberta Project, is uneconomic and accordingly shall be abandoned as of the Effective Date in accordance with the provisions of AS 43.90.240(a), as stated in the letter from the Commissioners to the Licensee, dated the Effective Date (a copy of which is attached hereto as Appendix "B", the "Abandonment Letter").

D. The execution of this Agreement is a condition to the Abandonment Letter, which was issued pursuant to the Commissioners’ authority under and pursuant to the requirements under AGIA.

E. The State, and certain Affiliates of the Licensee, pursuant to the MOU (defined below), have executed, or will execute in conjunction with the execution of this Agreement, the Precedent Agreement, and the Equity Option Agreement (all as defined below) (collectively, the "Related Agreements").

NOW THEREFORE, in consideration of the premises and of the mutual promises herein contained, the Parties agree as follows:
1. **Definitions**

Capitalized terms used in this Agreement shall have the meanings set out in the recitals to this Agreement or below, as the case may be:

(a) "**Abandonment Letter**" has the meaning given it in Recital C.

(b) "**Affiliate**" means in relation to a Party any company, corporation, partnership or other legal entity (in this definition, each such entity and each Party are sometimes referred to as a "Company") which is:

(i) directly or indirectly, owned or controlled by such Party;

(ii) directly or indirectly owns or controls such Party; or

(iii) directly or indirectly, owned or controlled by a Company that also, directly or indirectly, controls such Party.

For the purpose of this definition, a Company is directly owned or controlled by another Company that owns or controls shares or other interests carrying in the aggregate more than 50 percent of the voting rights exercisable at a general shareholders or members meeting of the first-mentioned Company, or the right to appoint or dismiss a majority of the directors thereof, or the power to direct or cause the direction of the management or policies through the ownership of securities, by contract or otherwise. A Company is indirectly owned or controlled by a Company or Companies (the "parent Company or Companies") if a series of Companies can be specified, beginning with the parent Company or Companies and ending with the particular Company, so related that each Company of the series, except the parent Company or Companies, is directly controlled by one or more of the Companies in the series. The Affiliates of the State are those State entities that otherwise meet the requirements of the definition above, when acting only in the State's proprietary capacity (and not in a Governmental Authority manner) including the State corporations or authorities established by statute.

(c) "**AGDC**" means Alaska Gasline Development Corporation.

(d) "**AGIA**" has the meaning given to it in Recital A.

(e) "**Agreement**" means this AGIA Project Abandonment and License Termination Agreement.

(f) "**Air Monitoring Station**" means the air monitoring station currently owned by the Licensee.

(g) "**Alaska-Alberta Project**" means the natural gas pipeline project authorized under the AGIA License, as amended by the Project Plan Amendments.
“Alaska LNG Project” means collectively, the PBU Gas Transmission Line, the PTU Gas Transmission Line, the Gas Pipeline, the Gas Treatment Plant, and the LNG Plant. For the purposes of this definition:

i. “PBU Gas Transmission Line” means a natural gas transmission line from the outlet flange of the Prudhoe Bay Unit Central Gas Facility to the inlet flange of the GTP;

ii. “PTU Gas Transmission Line” means a natural gas transmission line from the outlet flange of the Point Thomson Unit production facility to the inlet flange of the GTP;

iii. “Gas Treatment Plant” or “GTP” means those facilities required to receive natural gas from the PBU Gas Transmission Line, the PTU Gas Transmission Line, and/or other facilities, treat the natural gas to pipeline product specifications, dispose of or deliver by-products, deliver liquid products for further transportation, and deliver treated natural gas suitable for liquefaction in the LNG Plant for transportation through the Gas Pipeline;

iv. “Gas Pipeline” means the main natural gas pipeline from the inlet flange of the LNG Plant to the outlet flange of the GTP, which may have off-take points along the pipeline for deliveries of gas within Alaska. Gas Pipeline refers to the main gas pipeline and does not include any gas lines downstream of any off-take point between the LNG Plant and the GTP or any gas lines upstream of any in-take point between the LNG Plant and the GTP;

v. “LNG Plant” means the facility, including the structures, equipment, underlying land rights and all other associated systems required (i) to receive natural gas from the Gas Pipeline for liquefaction to LNG; and (ii) for LNG storage; and (iii) for the loading of LNG onto LNG tankers via a marine terminal (including auxiliary vessels used in support of marine terminal operations but excluding LNG tankers).

APP Agreements means collectively, the Amended and Restated Alaska Gas Pipeline Interim Project Agreement dated October 29, 2010 between certain Affiliates of the Licensee and certain Affiliates of ExxonMobil, and the Amended and Restated Alaska Gas Pipeline Project Funding Agreement (US), dated October 29, 2010 between TC Alaska, TransCanada Alaska Development Inc., and an Affiliate of ExxonMobil.

Commissioners has the meaning given to it in Recital B.

Data means individually or collectively, all reports, test results, studies, analysis, engineering designs, contracts, permits, and all other data, of whatever kind or character, whether complete or incomplete, and in whatever form, that is or has been developed or acquired under the terms of the License or the APP.
Agreements; provided that the foregoing does not include Data with respect to the Air Monitoring Station.

(b) “Effective Date” means the date of this Agreement.

(c) “Equity Option Agreement” means the Equity Option Agreement, among the State, TransCanada Alaska Midstream LP, TransCanada Alaska GP Inc., and certain Affiliates of TransCanada Alaska GP Inc., entered into contemporaneously with this Agreement.

(d) “Foothills” has the meaning given to it in Recital A.


(f) “Knowledge of the Licensee” or similar language means the actual knowledge of the current Director, Pipelines & Facilities, Alaska LNG Project, an employee of TransCanada PipeLines Limited, after reasonable inquiry and investigation.

(g) “License” means the Alaska Gasline Inducement Act License, dated December 5, 2008, as amended by the Project Plan Amendments.

(h) “Licensee” has the meaning given to it in Recital A.

(i) “MOU” means the Memorandum of Understanding dated December 13, 2013, between the Licensee, certain Affiliates of the Licensee, and the State, as clarified by the Letter of Clarification to Memorandum of Understanding, executed April 4, 2014.

(j) “Parties” means the State and the Licensee; and “Party” means any one of the foregoing as the context so requires.

(k) “Precedent Agreement” means the Precedent Agreement between the State and TransCanada Alaska Midstream LP entered into contemporaneously with this Agreement.


(m) “Project Work” means all Data relating to the Alaska portion of the Alaska-Alberta Project, including, but not limited to, items identified on Appendix “C”, that the Licensee has become or becomes the owner of, or has acquired or acquires a right of Use, during the term of the License or thereafter. Data that the Licensee has become or becomes the owner of, or has acquired or acquires a right
of Use, that is not divisible between the Alaska portion and the Canada portion of the Alaska-Alberta Project, shall be included in the Project Work.

(n) "Related Agreements" has the meaning given to it in Recital E.

(o) "Representatives" means, with respect to the State and the Licensee or their respective Affiliates, as the context so requires, its directors, officers, employees, agents, consultants and contractors.

(p) "Request Letter" has the meaning given to it in Recital B.

(q) "Restrictions" means restrictions on disclosure and/or use of Project Work, that result, as a matter of law or by the terms of a contract, in such Project Work (or a portion thereof) being:

i. not useable,

ii. not useable without the approval or consent of the issuer thereof or other person, entity or governmental authority, without first obtaining such approval or consent,

iii. not disclosable, or

iv. not disclosable without the approval or consent of the issuer thereof or other person, entity or governmental authority, without first obtaining such approval or consent.

(r) "State" has the meaning given to it in Recital A.

(s) "TC Alaska" has the meaning given to it in Recital A.

(t) "Use" means the irrevocable, perpetual, worldwide right and license (with right to sublicense) to possess, use, reproduce, adapt, create derivative works of, and incorporate in activities and work without further restriction or accounting to any other party.

2. Abandonment of Project and Termination of License

(a) As set forth in the Request Letter and the Abandonment Letter, the State and the Licensee (i) agree that the Alaska-Alberta Project is "uneconomic" under AS 43.90.240(a), (ii) agree that the Alaska-Alberta Project is abandoned as of the Effective Date, and (iii) agree that the AGIA License is terminated as of the Effective Date.

(b) In the event the State Legislature takes steps to repeal any or all provisions of AGIA, no Party shall contest such repeal, provided repeal does not rescind AGIA retroactively, impose any additional obligation or liability on the Parties and their respective Affiliates and Representatives, or change the terms of this Agreement.
3. Alaska-Alberta Project Work

(a) Attached as Appendix “C” is a list of the current itemized Project Work. To the Knowledge of the Licensee, Appendix “C” is a complete and accurate list of the current itemized Project Work. Neither the Licensee nor any of their Affiliates make any representations as to the extent to which the Licensee owns, either exclusively or jointly, the Project Work, although to the Knowledge of the Licensee, it owns or has rights of use to all, either exclusively or jointly, of the Project Work identified in Appendix “C”, and has, subject to the Restrictions, the right to disclose and provide a right of Use of the Project Work identified in Appendix “C” to the State. Restrictions known to the Licensee as of the Effective Date are described on Appendix “C” next to the itemized Project Work to which such restriction is applicable.

(b) In the event the Licensee learns or is made aware that additional Project Work exists that is not listed in Appendix “C”, the Licensee shall supplement Appendix “C” and shall provide written notice and such additional Project Work to the State. In the event the Licensee is successful in removing or modifying Restrictions pursuant to Section 6(c), it shall supplement Appendix “C” and shall provide written notice and such additional Project Work to the State. Insofar as Data exists that is not Project Work because it is incomplete and therefore ownership thereto has not been conveyed to the Licensee, the Licensee and State agree to work together, using reasonable commercial efforts, to have ownership of such incomplete work conveyed to the Licensee such that it becomes Project Work, and in such instance Licensee shall supplement Appendix “C” accordingly and shall provide written notice to the State.

(c) Without limiting the Licensee’s obligations in Section 3(b) or Section 6(b) or the State’s continuing rights under this Agreement, the State may, (i) at any time prior to December 31, 2015, or (ii) in the event the APP Agreements have not terminated by December 31, 2015, at any time within 6 months after the State receives written notice that the APP Agreements have terminated, identify Project Work that it believes should be listed on Appendix “C”. With respect to Project Work which is contemplated to be transferred under the APP Agreements to the Licensee (on an ongoing basis and in the case of termination thereof), to the extent such Project Work has not been transferred to the Licensee by December 31, 2015, the Licensee shall use reasonable commercial efforts to identify and provide such Project Work and shall update Appendix “C” to identify such Project Work. The Licensee shall provide the State with copies of all transfer letters by which the Project Work was conveyed to the Licensee once the Licensee receives any required consents.

(d) Without limiting the Licensee’s obligations in Section 3(b), 3(c) or Section 6(b) or the State’s continuing rights under this Agreement, at any time prior to December 31, 2015, or within 6 months of the notice of termination of the APP Agreements, the State may ask reasonable questions about specific Project Work and the Licensee agrees to answer such questions and, where appropriate, in
Licensee’s reasonable discretion, provide related correspondence which is not subject to Restrictions.

(e) To the Knowledge of the Licensee there are no encumbrances on, other than the Restrictions, or security interests in, the Project Work.

4. Right of Use

(a) The Licensee hereby grants the State and its Affiliates a right of Use for the Project Work, without additional consideration, subject to the following acknowledgements of the State:

i. The State acknowledges that certain non-exclusive rights of Use have been granted by the Licensee in respect of the Project Work, and

ii. The State acknowledges that Restrictions apply to some of the Project Work, and that any Use by the State, or its Affiliates or third parties, of the Project Work is subject to such Restrictions.

(b) The State covenants only to use Project Work that is subject to Restrictions that would prohibit such use once the applicable Restrictions have been removed, either by the passage of time, or by obtaining necessary consents.

(c) The Licensee makes no representations or warranties, express or implied, as to the accuracy, completeness, fitness for purpose, or standard of any Project Work provided to the State and shall have no liability to the State or its Affiliates with respect to use of, or reliance upon, such Project Work by the State or any other person or entity. The Licensee has no obligation to update or alter any predictions or assumptions in the Project Work.

(d) The State acknowledges that any use by it, or its Affiliates, or third parties, of the Project Work in contravention of any Restrictions may result in liability of the Licensee and its Affiliates to third parties, as well as irreparable reputational damage.

(e) To the extent Use requires software or Data infrastructure to view or analyze the Project Work:

i. and such software or Data infrastructure is owned by TC Alaska or its Affiliates, the Licensee shall provide the State access to the necessary software or Data infrastructure until December 31, 2015;

ii. and such software or Data infrastructure is owned by or licensed by third parties, the Licensee shall provide the State with reasonable particulars of third party software licenses and/or vendors to the extent required for the State to obtain such licenses directly from such vendors; provided that the Licensee shall not be required to maintain or renew any such licenses in the event the Licensee’s rights to such software or Data infrastructure
expire prior to December 31, 2015. The Licensee shall notify the State of such pending termination date as soon as practicable to facilitate access to the State to such software or Data infrastructure prior to the date of such termination.

(f) In the event the State conveys a right of Use of Project Work to an Affiliate or a third party, it undertakes to inform such parties, and obtain their written acknowledgement, as to the disclaimer in Section 4(c).

5. Covenants of the State

(a) The State agrees to reimburse all AGIA qualified expenditures that the Licensee incurred before the earlier of the Effective Date and June 30, 2014. The reimbursements will be consistent with the practice used by the State to reimburse the Licensee for qualified expenditures incurred in calendar years 2012 and 2013. Licensee agrees to provide a written notice to the State once the Licensee believes the foregoing obligation has been satisfied.

(b) The State covenants to rely solely on its own independent analysis in making any decisions or taking any actions related to the Use of the Data.

6. Covenants of the Licensee

(a) The Licensee agrees to continue to permit the State to audit the books and records of the Licensee relating to the Alaska-Alberta Project, consistent with recent past practice, provided such audit must be completed within six (6) months of the payment date of the last reimbursement by the State in respect of the Alaska-Alberta Project.

(b) To secure Licensee’s obligations to the State under this Agreement, the Licensee grants the State a security interest in the Project Work, and upon execution of this Agreement, the Licensee hereby authorizes the State to file the financing statement attached to this Agreement as Appendix “D”, and undertakes to work in good faith with the State to execute any other required documentation to perfect such security interest.

(c) The Licensee shall use, and shall cause its Affiliates to use, reasonable efforts to obtain any approvals or consents required to remove Restrictions that apply to Project Work that the State identifies, from time to time, as being of practical use or interest to it.

(d) The Licensee:

i. will, within three weeks of the Effective Date, set up a SharePoint site that will, by October 1, 2014, contain all of the Project Work that is not provided to the State pursuant to Section 6(d)(ii) hereof. The aforesaid SharePoint site is intended to facilitate the State’s Use of Project Work, and will provide a right of the State to view and copy the Project Work
(other than that provided to the State pursuant to Section 6(d)(ii) hereof) that is not subject to Restrictions, from such site. The Licensee will provide access to such SharePoint site until June 30, 2016.

ii. agrees any Project Work that is not able to be transferred to the State using the SharePoint site pursuant to Section 6(d)(i) due to practical size limitations, all of which is not subject to Restrictions, will be transferred to the State using one or more external hard drives. The external hard drive(s) will be delivered to the State prior to October 1, 2014. A document listing the content of the external hard drive(s) will be included when the hard drive(s) are delivered.

(e) All reasonable costs incurred by the Licensee and its Affiliates in complying with the foregoing covenants, and in the preparation of this Agreement, shall be deemed to be Transporter Development Costs within the meaning of and subject to the terms of the Precedent Agreement, provided that if the Precedent Agreement terminates or expires, the State shall promptly pay the Licensee or an Affiliate for such costs pursuant to customary commercial terms.

(f) Licensee agrees to consult with the State, and work with the State to obtain usage rights for the State for any applicable data generated from the Air Monitoring Station, before taking any further steps with respect to the Air Monitoring Station.

7. Confidentiality

(a) The existence and content of this Agreement is not confidential, excepting that Exhibit "C" hereto is confidential including under AS 38.05.020(b)(12) and other Alaska law.

(b) All Project Work shall, without limiting confidentiality requirements contained in any applicable Restrictions, be confidential under any applicable confidentiality agreement.

8. Assignment

No Party shall assign its rights or obligations under this Agreement without the prior written consent of the other Party, which consent may be withheld at such other Party's sole, absolute and unfettered discretion; provided, however, that the State may assign its right to Use the Project Work, or grant a right to Use Project Work, to its Affiliates, excluding AGDC, without the consent of the Licensee. The State may assign its right to Use the Project Work, or grant a right to Use Project Work, to AGDC, without the consent of the Licensee, in the event (i) AGDC (including any Affiliates of AGDC) is no longer participating in the Alaska LNG Project, (ii) if the Alaska LNG Project is not proceeding, or (iii) AGDC (including any Affiliates) will use the Project Work for the limited purpose of progressing the Alaska LNG Project. Prior to the effectiveness of any assignment referred to in this Section, the State shall obtain from such assignee an acknowledgment in form and substance satisfactory to the Licensee confirming that such
assignee is bound by the terms of this Agreement, including a waiver of liability in favor from such Assignee to the Licensee pursuant to Section 4(f).

9. Releases

(a) The State releases and discharges the Licensee, its Affiliates (as defined herein and under AGIA), and its Representatives from any and all claims that they have violated AGIA and the License, and in addition releases the Licensee, its Affiliates (as defined herein and under AGIA), and its Representatives from any and all claims, liabilities and obligations under AGIA and the License.

(b) The Licensee and its Affiliates release and discharge, to the fullest extent permitted by law, the State, its Affiliates (including AGDC) and their Representatives from any and all claims, liability or obligations under AGIA and the License, including, but not limited to, any and all claims or potential claims under AS 43.90.440.

10. Governing Law

(a) This Agreement, and all disputes thereunder, shall be governed by and construed in accordance with the laws of the State of Alaska, without regard to the conflicts of law principles thereof, and the federal laws applicable therein.

(b) Each of the Parties irrevocably agrees that any legal action, suit or proceeding arising out of or relating to this Agreement brought by any Party or its successors or assigns shall be brought and determined in the state courts of the State of Alaska.

11. Notices

Any notice between the Parties given under or in relation to this Agreement shall be in writing and shall be deemed to have been given if personally delivered, delivered and confirmed by telecopier or like instantaneous transmission device including email, delivered by an international overnight delivery service, or sent by certified mail to the addresses set forth below:
To Licensee:

Dean Patry
President TransCanada Alaska Company, LLC
450 - 1st Street SW
Calgary, AB T2P 5H1
Facsimile: 403.920.3318
dean_patry@transcanada.com

With a copy to:

Corporate Secretary
Address as above
Facsimile: 403.920.2327

To the State of Alaska:

Joe Balash
Commissioner, Department of Natural Resources
550 W. 7th, #1400
Anchorage, AK 99501
Facsimile: 907.269.8918
joe.balash@alaska.gov

Angela Rodell
Commissioner, Department of Revenue
P.O. Box 110400
Juneau, AK 99811-0400
Facsimile: 907.465.2389
angela.ro dell@alaska.gov


(a) Time is of the essence in the performance of the Parties' obligations under this Agreement.

(b) Prior or simultaneous execution and delivery of the Related Agreements by the Parties and their applicable Affiliates is a condition to the Parties' obligations under this Agreement.

(c) If any provision of this Agreement is invalid, illegal, or unenforceable, that provision shall, to the extent possible, be modified in such manner as to be valid, legal, and enforceable while most nearly retaining the Parties' intent as expressed herein, and if such a modification is not possible, that provision shall be severed from this Agreement. In either case, the validity, legality, and enforceability of the remaining provisions of this Agreement are not in any way affected or impaired. The Parties shall endeavor to replace that severed provision with a new provision agreeable to the Parties that is valid and enforceable and places the Parties in substantially the same economic, business, and legal position in which they would have been if the original provision had been valid and enforceable.

(d) No waiver by a Party of any breach by the other Party in the performance of any provision, condition, or requirement of this Agreement is deemed to be a waiver of, or in any manner a release of, such Party from the performance of any other provision, condition, or requirement. Any waiver of any provision, condition, or requirement of this Agreement is valid only if it is in writing and signed by the Party against whom it is sought to be enforced.
(e) The Parties may not modify, amend or supplement this Agreement except by the Parties' written agreement.

(f) This Agreement may be executed in two or more counterparts, all of which will be considered one and the same agreement and will become effective when two or more counterparts have been signed by each of the Parties named on the original signature pages hereof and delivered to the other Party, it being understood that the Parties need not sign the same counterpart.

Remainder of page intentionally left blank.

Execution page follows.
IN WITNESS WHEREOF, the Parties by their duly authorized representatives hereby execute this Agreement as of the Effective Date.

STATE OF ALASKA

By: [Signature]
Name: Joe Balash
Title: Commissioner, Department of Natural Resources

By: [Signature]
Name: Angela Rodell
Title: Commissioner, Department of Revenue

TRANSCANADA ALASKA COMPANY, LLC

By: [Signature]
Name: 
Title: 

By: [Signature]
Name: 
Title: 

FOOTHILLS PIPE LINES LTD.

By: [Signature]
Name: 
Title: 

By: [Signature]
Name: 
Title: 

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IN WITNESS WHEREOF, the Parties by their duly authorized representatives hereby execute this Agreement as of the Effective Date.

STATE OF ALASKA

By:  
Name: Joe Balash  
Title: Commissioner, Department of Natural Resources

By:  
Name: Angela Rodell  
Title: Commissioner, Department of Revenue

TRANSCANADA ALASKA COMPANY, LLC

By:  
Name: TONY PALMER  
Title: President

By:  
Name: RON COOK  
Title: Vice President - Taxation

FOOTHILLS PIPE LINES LTD.

By:  
Name: RON COOK  
Title: Vice President - Taxation

By:  
Name: Joel E. Hunter  
Title: Vice President Finance
June 9, 2014

State of Alaska
Department of Natural Resources
550 West Seventh Avenue, Suite 1400
Anchorage, AK 99501-3561

Attention: Mr. Joe Balash
Commissioner of Natural Resources; and

Attention: Ms. Angela Rodell
Commissioner of Revenue

Dear Commissioners:

Re: Abandonment and Termination of License dated December 5, 2008 granted by the State of Alaska (the “State”) acting through the Alaska Commissioner of Natural Resources and the Alaska Commissioner of Revenue (the “Commissioners”) to TransCanada Alaska Company, LLC and Foothills Pipe Lines Ltd. (collectively the “Licensee”) pursuant to the Alaska Gasline Inducement Act (“AGIA”) (AS 43.90, et.seq.), hereinafter the “License”.

A. Background

The Alaska Legislature enacted AGIA in May 2007 to encourage expedited construction of a natural gas pipeline to facilitate commercialization of the North Slope oil and gas resources in Alaska, to maximize benefits to the people of Alaska stemming from the development of oil and gas resources in Alaska, and to encourage oil and gas lessees and other persons to commit to ship natural gas from the North Slope to a gas pipeline system for transportation to markets in Alaska or elsewhere.

On December 5, 2008 pursuant to AGIA, the Commissioners issued the License to the Licensee. Following the issuance of the License, the Licensee (working with certain of its affiliates) commenced a pipeline project involving a pipeline from Alaska to Canada as set out in detail in the November 30, 2007 application for license submitted by the Licensees under AGIA (the
"Application"), as amended from time to time by the project plan amendments approved by the Commissioners (the project outlined in the Application, as amended by such project plan amendments, the "Alaska-Alberta Project"). In June, 2009 certain affiliates of ExxonMobil joined with the Licensee and certain of its affiliates (collectively, the "APP Team") to continue to progress the Alaska-Alberta Project.

During the three years following the issuance of the License, the APP Team pursued the Alaska-Alberta Project. Among other things, the APP Team conducted a timely initial binding open season and engaged in the pre-filing process at the Federal Energy Regulatory Commission ("FERC"), in preparation to file an application at FERC for a certificate of public convenience and necessity.

In October 2011, in response to changed circumstances in world gas markets, including (i) a substantial increase in U.S. natural gas production from shale gas reserves (resulting in lower gas prices in the U.S.), (ii) significantly higher liquefied natural gas prices in Asia and other world markets, and (iii) the projection that the U.S. will become a net exporter of natural gas, Governor Parnell requested the Licensee to work cooperatively with the Alaska North Slope oil producers (ExxonMobil Alaska Production Inc., BP Exploration (Alaska) Inc., ConocoPhillips Alaska Inc., collectively the "ANS Producers") to evaluate the economic feasibility of a liquefied natural gas ("LNG") export alternative.

In March 2012, the ANS Producers, ExxonMobil Alaska Midstream Gas Investments, LLC, and TransCanada Alaska Development Inc. ("TADI"), entered into a Concept Selection Agreement (the "CSA") to consider this LNG alternative. Pursuant to the CSA, the parties thereto selected a concept for the "Alaska LNG Project" (as defined in the HOA referenced below).

On December 12, 2013, the State, the Licensees, and TADI entered into a Memorandum of Understanding ("MOU"). The MOU also anticipated and referenced the execution of a Heads of Agreement ("HOA") between the State, the ANS Producers, Alaska Gasline Development Corporation ("AGDC"), and TADI. The HOA outlined a framework and key principles for further development of the Alaska LNG Project.

The MOU also reflected a commitment on the part of the Licensee and the State to negotiate an equity option agreement and a precedent agreement (the "Related Agreements") following the effective date of enabling legislation, acceptable to both the State and the Licensee. The MOU also reflected a commitment on the part of the Licensee that once enabling legislation acceptable to it was in effect and the Related Agreements were executed, the Licensee would consider such events as conclusive evidence that the Alaska-Alberta Project is uneconomic within the meaning of AS 43.90.240(a). The MOU further reflected the understanding of the State and the Licensee that execution of the Related Agreements would complete the transition of the arrangement between the State and the Licensee from AGIA to a commercial arrangement.

The relevant provisions of such enabling legislation, Chapter 14 SLA 14 (also known as Senate Bill 138), became effective on May 9, 2014 by signature of Governor Parnell. The Licensee has advised the State by letter dated June 9, 2014 that the enabling legislation is acceptable.
B. Basis for a Determination the Alaska-Alberta Project is Uneconomic

The Licensee submits that the following factors conclusively support a finding on the part of the Commissioners and the Licensee that the Alaska-Alberta Project is "uneconomic" within the meaning of AS 43.90.240(a), and as a result the Alaska-Alberta Project should be abandoned and the License terminated:

1) The low natural gas price outlook for North America, which is materially lower than when the AGIA License was granted by the commissioners in 2008,

2) The pre-FEED joint venture agreement pertaining to the Alaska LNG Project between the ANS Producers, AGDC, and an affiliate of TADI, which is expected to be signed imminently, is evidence that there is no commercial support for the Alaska-Alberta Project; and

3) The fact that it is not economically feasible that two large-scale pipeline projects be developed concurrently for the commercialization of the Alaska North Slope natural gas,

C. Supporting Documentation Relating to North American Gas Markets Forecast

In support of the Licensees' position that natural gas markets have changed since 2008 and make the AGIA project uneconomic for purposes of AS 43.90.240(a), the Licensees attach as Appendix A to this letter a comparison of the 2007 Forecast with the EIA's 2014 Henry Hub natural gas price forecasts (“2014 Forecast”). Appendix A depicts a substantial reduction in forecasted North American Henry Hub natural gas prices as compared to the forecasts available at the time of issuance of the License. The Licensees note that current circumstances and forecasts suggest that anticipated netbacks to the ANS Producers have substantially declined under the Alaska-Alberta Project. While some degree of price forecast fluctuation is to be anticipated in natural gas markets, the degree to which the advent of shale gas production has affected price forecasts is significant and beyond typical industry experience.

The Licensees also observe that the U.S. EIA has dramatically revised its projected U.S. natural gas supply balances, in a way that supports the conclusion that the Alaska-Alberta Project has become uneconomic. Most notably the 2007 Forecast projected that there would be 3.69 Tcf of natural gas to be imported into the U.S. in 2020 in the form of LNG. Instead of importing LNG to supplement North American natural gas production to supply the North American natural gas market, the EIA’s 2014 Forecast is now projecting there will be a significant natural gas surplus on this continent and close to 2 Tcf of U.S. natural gas will be exported as LNG to other countries in 2020. A comparison of the 2007 Forecast and 2014 Forecast of LNG demand is attached as Appendix B to this letter. Clearly, the lower 48 market has no need for Alaska gas.
since that market is looking to export gas to other markets, not acquire additional gas from Alaska.

In addition to the substantial change in the North American gas market, the price forecasts for liquefied natural gas are relatively higher in worldwide markets compared with natural gas price expectations in North American markets. For example, the BP Statistical Review of World Energy June 2013 reports that LNG prices in Japan for 2012 averaged $16.75/mmbtu versus the average Henry Hub Spot Price of only $2.76/mmbtu for the same period. This price differential is attracting interest in LNG projects. With the support of Governor Parnell, the ANS Producers and the affiliate of the Licensee have been examining the Alaska LNG Project as an alternative to the Alaska-Alberta Project since late 2011. The passage of Senate Bill 138 by the Alaska State Legislature recently is a solid indication that all concerned stakeholders, including the ANS Producers, now support the Alaska LNG Project, which in the Licensee’s opinion conclusively demonstrates the Alaska-Alberta Project is no longer economically viable.

D. Conclusion

For the foregoing reasons, the Licensee respectfully requests the commissioners to issue a determination under AS 43.90.240(a), concluding that:

1) The Alaska-Alberta Project is, and has always been, the project for all purposes under AGIA;

2) The Commissioners and the Licensee agree that the factors set forth above conclusively support a finding on the part of the Commissioners that the Alaska-Alberta Project is "uneconomic" within the meaning of AS 43.90.240(a), and as a result the Alaska-Alberta Project should be abandoned and the License terminated; and

3) The State and Licensee undertake to enter into an AGIA Abandonment and License Termination Agreement to formalize the abandonment of the Alaska-Alberta Project and the termination of the License.

Remainder of page intentionally left blank.
Execution page follows.
TRANSCANADA ALASKA COMPANY, LLC

Per:  

TONY PALMER  
President

Per:  

Jon A. Dobson  
Corporate Secretary

FOOTHILLS PIPE LINES LTD.

Per:  

RON COOK  
Vice President - Taxation

Per:  

Joel E. Hunter  
Vice President Finance
### APPENDIX A

<table>
<thead>
<tr>
<th>Year</th>
<th>DOE AEO 2007 (Adjusted to 2013 $'s)</th>
<th>DOE AEO 2014 (Adjusted to 2013 $'s)</th>
<th>% Change AEO 2014 vs AEO 2007</th>
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<tr>
<td>2008</td>
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<tr>
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<tr>
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<tr>
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1. The 2007 Forecast has been brought forward to 2013 dollars by escalating the 2007 Forecast by the cumulative effect of the actual annual inflation rates [1] for the period from 2005 to 2013.
2. 2014 Forecast have been (i) updated with actual natural gas prices at Henry Hub for the period from 2005 to 2013 [2] and (ii) brought forward to 2013 dollars by escalating the 2013 to 2025 forecasted prices in the 2014 Forecast by the escalating the 2012 dollars with actual annual inflation rate for 2013[1].

References:

# APPENDIX B

<table>
<thead>
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<th>Year</th>
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<td></td>
<td>AGIA Application Base</td>
<td>(+ ve = Import; - ve = Export)</td>
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<tr>
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<td>0.42</td>
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</tbody>
</table>

References:
Mr. Tony Palmer  
President  
TransCanada Alaska Company, LLC  
450 1st Street S.W.  
Calgary, Alberta T2P-5H1 Canada  

Re: Abandonment of Alaska Pipeline Project and Termination of  
Licensee under Alaska Gasline Inducement Act  

Dear Mr. Palmer:  

The Commissioner of Natural Resources and the Commissioner of Revenue (jointly “Commissioners”) of the State of Alaska (the “State”) are in receipt of the letter dated June 9th, 2014 from TransCanada Alaska Company, LLC (“TC Alaska”) and Foothills Pipe Lines Ltd. (jointly, the “Licensee” or “TransCanada”), which (i) states that the Alaska-Alberta Project (as defined below) has become “uneconomic” and accordingly should be abandoned under Section 240(a) of the Alaska Gasline Inducement Act, AS 43.90, et seq. (“AGIA”), (ii) states that the AGIA License should be terminated, and (iii) requests the State’s agreement with the foregoing. As discussed more fully below, we agree that the Alaska-Alberta Project has become uneconomic and accordingly should be abandoned, and that the AGIA License should be terminated.

BACKGROUND  

Acting under AGIA, the Commissioners issued a license (the “AGIA License”) to TransCanada on December 5, 2008, authorizing TransCanada to plan, develop, seek authorization for, and construct a pipeline system that would deliver natural gas produced on the Alaska North Slope (“ANS”) to markets in North America through a pipeline connected to the
existing Alberta Hub (the "Alaska-Alberta Project"). Since December 5, 2008, the economic conditions that supported the AGIA License and the Alaska-Alberta Project have changed materially as described more fully below. Based on these facts, the Licensee contends in its letter that the Alaska-Alberta Project has become "uneconomic" within the meaning of AGIA.

Section 240(a) of AGIA provides: "If the commissioners and the licensee agree that the project is uneconomic, the project shall be abandoned, ..." AS 43.90.240(a). Based upon our review of the letter and supporting evidence submitted by Licensees, prior project plan amendments ("PPAs", discussed below), and on our own independent assessment, the Commissioners agree that the Alaska-Alberta Project is now uneconomic for purposes of AS 43.90.240(a). As required by AS 43.90.240(a), and subject to conditions set out below, the Alaska-Alberta Project shall be abandoned, and both the inducement provided for in AS 43.90.110 and the AGIA License itself will be terminated.

DISCUSSION:

As stated above, prior project plan amendments (including the applications filed by the Licensee for such amendments) support our conclusion that the Alaska-Alberta Project has become uneconomic. Specifically, on May 12, 2012, June 11, 2013 and December 12, 2013, we approved three project plan amendments pursuant to AS 43.90.210 ("PPA 1 Approval," "PPA 1A Approval" and "PPA 1B Approval") approving, respectively, PPA requests dated March 15, 2012, June 10, 2013 and December 9, 2013. PPA 1 Approval authorized Licensee’s proposal to include in the project plan a revised work plan, timeline and associated budget to facilitate participation by the Licensee with the Alaska North Slope Producers (ExxonMobil, BP and ConocoPhillips, jointly "ANS Producers") in a Concept Selection Agreement to evaluate a liquefied natural gas ("LNG") export alternative. This alternative entailed the potential
construction of a natural gas pipeline and related midstream facilities to deliver ANS natural gas to a liquefaction facility located in South-Central Alaska (the “Alaska LNG Project”). While this concept selection process was underway, the Licensee proposed to continue work on the Alaska-Alberta Project as necessary to preserve rights and maintain the Alaska-Alberta Project as the AGIA project to commercialize natural gas produced from the ANS. PPA 1 Approval covered activities through the second quarter of 2013. Our PPA 1 Approval also extended by two years to October 31, 2014 the date by which the Licensee was required to file an application for the issuance by the Federal Energy Regulatory Commission (“FERC”) of a certificate of public convenience and necessity for the Alaska-Alberta Project.

Subsequent to the PPA 1 Approval, it became necessary to continue, beyond second quarter 2013, preliminary Pre-FEED studies, planning and field survey work for the pipeline midstream facilities associated with the Alaska-Alberta Project and the LNG alternative. Further, additional work on the Alaska-Alberta Project also continued to be necessary. Accordingly, in the PPA 1A Approval and the PPA 1B Approval, we granted Licensees' requests to perform additional work through December 15, 2013 and June 30, 2014, respectively. Additionally, we allowed an extension of the FERC filing deadline for the Alaska-Alberta Project, first to October 31, 2015 and then to October 31, 2016.

On December 12, 2013, the State and the Licensee entered into a Memorandum of Understanding (“MOU”) pertaining to the execution of a Heads of Agreement (“HOA”) between the State, the ANS Producers, Alaska Gasline Development Corporation (“AGDC”) and TransCanada Alaska Development Inc. (“TADI”) that outlined a framework and key principles for further development of the Alaska LNG Project. The MOU reflected a commitment on the part of the Licensee and the State to negotiate an equity option agreement.
and a precedent agreement (the "Transition Agreements"), to be executed following the effective date of enabling legislation, acceptable to the Licensee and the State, governing their potential participation in the Alaska LNG Project.

Under AS 43.90.210, one of three grounds will support amendment or modification of the project plan. The ground on which we issued the PPA 1, PPA 1A and PPA 1B Approvals was that each "amendment or modification [was] necessary because of changed circumstances outside the licensee's control and not reasonably foreseeable before the license was issued." As discussed below, and relevant to the instant abandonment request, one element of the changed circumstances for all PPA Approvals was the significant increase in U.S. natural gas supplies and the corresponding decrease in U.S. natural gas prices over the past several years since the Commissioners issued the AGIA License.

For example, with respect to the Licensees' March 15, 2012 PPA Request, we found that the following facts supported a finding of changed circumstances:

a. A substantial increase in U.S. shale gas reserve estimates.

b. Significantly higher natural gas prices in Asia and other world markets, reflecting a higher oil to natural gas price ratio.

c. A related projection by the Energy Information Administration ("EIA") of the U.S. Department of Energy ("DOE") that the U.S. will become a net exporter of natural gas in the future.

d. The alignment of the ANS Producers behind an LNG alternative, which was not the case when we issued the AGIA License in 2008 (at which time the demand for natural gas in the Lower 48 market was much stronger).
In support of its continued contention that natural gas markets have changed since the AGIA License was issued, the Licensee has attached to its letter of June 9th, 2014 an appendix (Appendix A) comparing EIA’s 2007 Henry Hub natural gas price forecasts ("2007 Forecast") with the EIA’s 2014 Henry Hub natural gas price forecasts ("2014 Forecast"). Appendix A depicts a substantial reduction in forecasted North American Henry Hub natural gas prices as compared to the forecasts available at the time of the issuance of the AGIA License. The Licensee notes that current circumstances and forecasts suggest that anticipated netbacks to the ANS Producers have substantially declined since the AGIA License for the Alaska-Alberta Project was issued. While some degree of price forecast fluctuation is to be anticipated in natural gas markets, the degree to which the advent of shale gas production has affected price forecasts is significant and beyond typical industry experience. In this regard, the Licensee states that the substantial reduction in forecast prices was not something that either the Licensee or the State reasonably could foresee in 2008.

The Licensee has also attached to its letter an appendix (Appendix B) demonstrating that the EIA has dramatically revised its projections of U.S. natural gas supply balances, and particularly its LNG demand forecasts, between its 2007 Forecast and its 2014 Forecast. Most notably the 2007 Forecast projected that there would be 3.69 Tcf of natural gas imported into the U.S. in 2020 in the form of LNG. Instead of importing LNG (and potentially, in future years, acquiring gas from Alaska) to supplement the North American natural gas production to supply the North American natural gas market, the EIA’s 2014 Forecast is now projecting there will be a natural gas surplus in North America and close to 2 Tcf of natural gas in the form of LNG will be exported to other countries in 2020.
Additionally, the Licensee has provided price forecasts for LNG demonstrating that LNG is expected to command significantly higher prices in worldwide markets than natural gas sold in North America. For example, the Licensees note in their letter that the BP Statistical Review of World Energy June 2013 reports that, during 2012, LNG prices averaged $16.75/mmbtu in Japan as compared to Henry Hub Spot Prices of $2.76/mmbtu in the United States.

Finally, the Licensee has noted that the enactment of Chapter 14 SLA 14 (also known as Senate Bill 138) on May 8, 2014 is a clear indication that all concerned stakeholders, including the ANS Producers, now support the Alaska LNG Project, which in the Licensee’s opinion conclusively demonstrates the Alaska-Alberta Project is no longer economically viable.

Based on the above discussion, the Commissioners agree with the Licensee that the Alaska-Alberta Project, which is the only project licensed under AGIA, is uneconomic. Accordingly, as of the date of this order, the Alaska-Alberta Project shall be abandoned and the AGIA License shall be terminated.

CONDITIONS:

To provide for an orderly transition from the AGIA License to a more traditional commercial arrangement, the State, through the Commissioners, and Licensee and its affiliates, have agreed to enter into the “AGIA Project Abandonment and License Termination Agreement” (“AGIA Abandonment Agreement”). Under the AGIA Abandonment Agreement, and as more fully described therein, the Licensee has agreed to provide the State with an irrevocable right to use (1) the AGIA work product for the Alaska portion of the Alaska-Alberta Project, and (2) other related work product for which the Licensee has acquired use rights. The Commissioners find that the Licensee’s obligations under AGIA Abandonment Agreement,
including the obligation to provide the State with irrevocable use rights to the AGIA work product described above, fulfill the purpose of AS 43.90.240(e). ¹

CONCLUSIONS:

1. The Commissioners agree with the Licensee and hereby find that the Alaska-Alberta Project is uneconomic.

2. The Alaska-Alberta Project is hereby abandoned, as of the date of this determination.

3. The AGIA License is hereby terminated, as of the date of this determination.

4. This determination is conditioned on the Licensee executing the AGIA Abandonment Agreement.

Sincerely,

Joe Balash
Commissioner
Department of Natural Resources

Angela Rodell
Commissioner
Department of Revenue

¹ Section 240(e) of AGIA requires, following a determination that the Project is uneconomic, “the licensee . . . upon the state’s request, [to] transfer to the state or the state’s designee all engineering designs, contracts, permits, and other data related to the project that are acquired by the licensee during the term of the license upon reimbursement by the state of the net amount of expenditures incurred and paid by the licensee that are qualified expenditures for the purposes of AS 43.90.110.”
December 12, 2013

Mr. Tony Palmer
Vice President, Major Projects Development
TransCanada Pipelines Limited
450 1st Street S.W.
Calgary, Alberta, T2P-5H1 Canada

Re: Approval of AGIA Licensees’ December 9, 2013 Request for Project Plan Amendments

Dear Mr. Palmer:

We are in receipt of the December 9, 2013 request by TransCanada Alaska Company, LLC ("TC Alaska") and Foothills Pipe Lines Ltd. (jointly, the "Licensees" or "TransCanada") for approval of project plan amendments ("PPA Request #1B") under section 210 of the Alaska Gasline Inducement Act. As discussed herein, we grant approval of PPA Request #1B to the extent necessary to perform additional work from approximately January 1, 2014, through the end of June, 2014, as further described in the work plan, time line and budget set forth in Appendix A of your application ("2014 Work").

By way of background, in the past two years Governor Parnell has laid out important benchmarks in his State of the State addresses that have sought to maintain and accelerate progress on Alaska gas commercialization and to ensure commensurate commitment by the Licensees and the Alaska North Slope Producers (ExxonMobil, BP and ConocoPhillips, jointly "ANS Producers") in commercializing North Slope gas for the benefit of Alaskans. In his 2012 State of the State address Governor Parnell established an important benchmark by calling on the ANS Producers and the AGIA Licensees to align under an AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska. In March 2012, the ANS Producers and AGIA Licensees met this benchmark.

1 AS 43.90, et seq. ("AGIA"). Under section 210 of AGIA, the Commissioners may approve a proposal by the AGIA Licensees to change their project plan if, among other things:

[T]he amendment or modification is necessary because of changed circumstances outside the licensee’s control and not reasonably foreseeable before the license was issued. An amendment or modification approved under this section must be consistent with the requirements of AS 43.90.130 and, except for an amendment or modification required because of an order or requirement of a regulatory agency with jurisdiction over the project or by the Alaska Oil and Gas Conservation Commission, may not substantially diminish the value of the project to the state or the project’s likelihood of success.

2 In his 2012 State of the State address, the Governor, among other things, also called on the relevant parties to reach a settlement in the state’s interests on the long-standing Point Thomson dispute and litigation, and to harden numbers and an associated work schedule on an Alaskan LNG project. As we stated in PPA #1A, these
Specifically, in a March 30, 2012 letter in response to Governor Parnell, the chief executive officers of the ANS Producers announced that they and TransCanada “have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework.” The ANS Producers and TransCanada also stated that they “are now working together” with a focus on “large-scale liquefied natural gas (LNG) exports from south-central Alaska . . . as an alternative to gas line exports through Alberta.”

On May 2, 2012, in the “PPA 1 Approval”, we approved two project plan amendments in furtherance of the alignment of the ANS Producers and the AGIA Licensees. Our PPA 1 Approval permitted the inclusion in the project plan of a revised work plan, time line and associated budget to facilitate participation by the Licensees and the Alaska Pipeline Project (“APP”) in an alternative that entailed a gas pipeline and related midstream facilities to deliver ANS natural gas to an LNG terminal located in South-Central Alaska. (This alternative was referred to as the “SCLNG” project, but is now referred to as the “AKLNG” project.) In addition, in the PPA 1 Approval we extended by two years to October 31, 2014, the date by which Licensees were to submit to the FERC an application for a certificate of public convenience and necessity. Additionally, we made the PPA 1 Approval subject to a number of conditions. As more fully set forth in the PPA 1 Approval, the Licensees were required (1) to conduct a solicitation of interest in support of the LNG alternative, (2) to consult with the Alaska Gasline Development Corporation (“AGDC”) in the interest of prudently avoiding unnecessary and duplicative expenditure of state funds, and (3) to complete an inventory of work product related to the Alaska-Alberta Project.

Subsequently, on June 11, 2013 we issued the PPA 1A Approval, which noted that the Licensees had made significant progress toward meeting the PPA 1 Approval conditions. Our PPA 1A Approval addressed two project plan amendments. First, we approved the performance of field work on the midstream component of the project through December 15, 2013. Second, we approved an extension of the FERC filing deadline by one year to October 31, 2015.

The Licensees now seek what is in effect a limited extension of the project plan amendments that we approved in the PPA 1A Approval. Specifically, in PPA Request #1B, the Licensees state (at page 2) that the “APP Parties and the ANS Producers have selected a SCLNG concept, and are planning ongoing work to support a potential SCLNG [project], including preliminary Pre-FEED studies and planning and 2014 field survey planning work” for the midstream pipeline facilities (the “2014 Work”). The Licensees anticipate this 2014 Work will span from approximately January 1, 2014 to the end of June, 2014. The Licensees also state that while the 2014 Work is being carried out, it will be necessary for the Licensees to continue limited work on existing elements of the Alaska-Alberta project to preserve rights.

For the reasons explained below, we grant the Licensees’ request to perform the 2014 Work. Further, we approve the work plan, timeline and budget in Appendix A of PPA Request #1B that defines the 2014 Work.

benchmarks were met. Importantly, construction of the multi-billion dollar development at Point Thomson has begun with over 30 Alaska companies and 1,000 Alaskans working on this project.
First, the Licensees’ request to perform the 2014 Work is consistent with important project benchmarks established by Governor Parnell in his January 16, 2013 State of the State address. There, Governor Parnell called on the ANS Producers and the Licensees to select a concept for the SCLNG project by February 15, 2013. This benchmark was met on February 15, 2013, when the ANS Producers and TransCanada sent a letter to Governor Parnell reporting that they had completed the concept selection phase of the SCLNG project.\textsuperscript{3} In his State of the State address, Governor Parnell also called on the ANS Producers and Licensee to “ensure a full summer of field season work will commence this year”. PPA Request 1A met this benchmark by proposing to perform the 2013 Work, which we approved. The Licensees’ PPA Request #1B builds on the 2013 Work by providing for the additional 2014 Work. These are positive developments that help to maintain and accelerate the SCLNG project momentum, and continue the progress made since the Governor’s 2012 State of the State address called on the parties to align under an AGIA framework for timely commercialization of North Slope natural gas resources, for use in-state and for markets beyond Alaska.

Second, and as we noted in the PPA 1A Approval, ANS gas commercialization efforts remain in a transition phase with the ANS Producers, the APP Parties, and the Licensees continuing to work together on a single effort. This PPA-1B Approval supplements the PPA 1 and PPA-1A Approvals to amend further the licensed Alaska-Alberta project to include the 2014 Work and advance this transition, pave the way for more intensive work in the future, and keep the project’s ultimate costs as low as possible by helping to avoid a delay in the development of the project.\textsuperscript{4} Consistent with this PPA-1B Approval, the Licensees may submit costs incurred as qualified expenditures in connection with the 2014 Work for reimbursement under AGIA for the period covered in the revised work plan, timeline and budget in PPA Request 1B.

Third, and as further explained in the PPA 1 Approval and reiterated in the PPA 1A Approval, we find that changed circumstances continue to exist for purposes of AS 43.90.210.\textsuperscript{5} For example, the current efforts to develop the SCLNG project represent the continued alignment of the Licensees and all three ANS Producers on a gas commercialization effort. This is important progress that is furthered by approval here of the requested project plan amendments.

Lastly, our PPA 1A Approval required that all work product related to the 2013 Work generated by or on behalf of APP or the Licensees be transferred to the Licensees by December 31, 2013. Further, our PPA 1A Approval required the Licensees to inventory and preserve all work product related to the 2013 Work, including both complete and incomplete work, and provide the inventory to the Commissioners. These conditions continue to apply with respect to

\textsuperscript{3}A copy of the February 15, 2013 Letter, and its attachments appears as Appendix C to PPA Approval 1A.

\textsuperscript{4}PPA 1B does not modify the Alaska-Alberta destination point under the AGIA License.

\textsuperscript{5}As noted in the May 2, 2012 PPA 1 Approval, such changed circumstances include: (1) a substantial increase in U.S. shale gas reserve estimate compared to when the License was issued; (2) continuing significantly higher natural gas prices in Asia and other world markets relative to U.S. prices, reflecting a higher oil to natural gas price ratio; (3) EIA’s updated projection that the United States will become a net exporter of natural gas in the future; and (4) the continued interest of the ANS Producers in aligning their work efforts behind an LNG alternative, which was not foreseeable at the time of the AGIA Findings and the subsequent issuance of the License in 2008.
the 2013 Work, provided that the Licensees have until June 30, 2014 to satisfy the foregoing two conditions. With respect to the 2014 Work, the same conditions apply, except that the deadline for the transfer of the work product performed under this PPA 1B Approval is June 30, 2014.

CONCLUSIONS

For the reasons discussed above, in the May 2, 2012 approval of PPA Request 1, and in the June 11, 2013 approval of PPA Request 1A, the Commissioners conclude as follows:  

1. PPA Request 1B consists of the request to perform the 2014 Work.

2. PPA Request 1B is necessary because of changed circumstances outside the Licensees’ control and not reasonably foreseeable before the license was issued.

3. PPA Request 1B is consistent with the requirements of AS 43.90.130.

4. PPA Request 1B does not substantially diminish the value of the project to the state or the project’s likelihood of success.

5. PPA Request 1B is approved as provided herein, subject to the conditions discussed herein.  

Sincerely,

Joe Balash  
Commissioner  
Department of Natural Resources

Angela Rodell  
Commissioner  
Department of Revenue

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6 To the extent this determination does not address a specific statement or representation made in the PPA Request 1B, it should not be construed as agreement with any such statements or representations.

7 TransCanada asserts that PPA Request 1B contains proprietary information that is confidential under AGIA and that the Commissioners’ March 15, 2012 determination of confidentiality under AGIA concerning PPA Request 1 supports treating PPA Request 1B on a confidential basis. To the extent that information in PPA Request 1B is proprietary, the Commissioners have determined that it is confidential under AGIA and the Commissioners’ March 15, 2012 confidentiality determination.
June 11, 2013

Mr. Tony Palmer
Vice President, Major Projects Development
TransCanada Pipelines Limited
450 1st Street S.W.
Calgary, Alberta, T2P-5H1 Canada

Re: Approval of AGIA Licensees’ June 10, 2013 Request for Project Plan Amendments

Dear Mr. Palmer:

We are in receipt of your June 10, 2013 request by TransCanada Alaska Company, LLC (“TC Alaska”) and Foothills Pipe Lines Ltd. (jointly, the “Licensees” or “TransCanada”) for approval of project plan amendments (“PPA Request 1A”).¹ As discussed more fully below, and pursuant to the Alaska Gasline Inducement Act (“AGIA”), we grant approval of the amendments proposed in PPA Request 1A to perform summer field work in 2013 and a one-year deferral of a regulatory filing deadline to facilitate such work.

By way of background, in the past two years Governor Parnell has laid out important benchmarks in his State of the State addresses that have sought to maintain and accelerate progress on Alaska gas commercialization and to ensure commensurate commitment by the Licensees and the Alaska North Slope Producers (ExxonMobil, BP and ConocoPhillips, jointly “ANS Producers”) to commercializing North Slope gas for the benefit of Alaskans. In his 2012 State of the State address Governor Parnell established an important benchmark by calling on the ANS Producers and the AGIA Licensees to align under an AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska. In March 2012, the ANS Producers and AGIA Licensees met this benchmark.² Specifically, in a March 30, 2012 letter in response to Governor Parnell, the chief executive officers of the ANS Producers announced that they and TransCanada “have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework.” The ANS Producers and TransCanada also

¹ The Commissioners will refer to the Licensees’ June 10, 2013 request for project plan amendments as “PPA Request 1A”, and to this determination as the “PPA-1A Approval”.

² In his 2012 State of the State, the Governor, among other things, also called on the relevant parties to reach a settlement in the state’s interests on the long standing Point Thompson dispute and litigation, and harden numbers and an associated work schedule on an Alaskan LNG project. These benchmarks were met in the past year. Importantly, construction of the multi-billion development at Point Thompson has begun with over 30 Alaska companies and 1,000 Alaskans working on this project.
stated that they “are now working together” with a focus on “large-scale liquefied natural gas (LNG) exports from south-central Alaska ... as an alternative to gas line exports through Alberta.”

Subsequently, on May 2, 2012, we approved two project plan amendments in furtherance of the alignment between the ANS Producers and the Licensees. In that approval (the “PPA 1 Approval”), we approved the Licensees’ proposal to include in the project plan a revised work plan, timeline and associated budget that would facilitate participation by the Alaska Pipeline Project (“APP”) with the ANS Producers in a concept selection assessment of an LNG project alternative. This alternative includes a gas pipeline and related midstream facilities to deliver natural gas from the Alaska North Slope to an LNG terminal to be located in South-Central Alaska, and is referred to as the “SCLNG” project. The work plan associated with this concept selection assessment was part of formal agreements executed between APP and the ANS Producers. In requesting the PPA 1 Approval, the Licensees agreed that during the concept selection process they would continue work on the pipeline project from the North Slope to Alberta (“Alaska-Alberta Project”) to the extent required to preserve rights under AGIA. Particularly relevant here is the fact that the PPA 1 Approval authorized the Licensees to perform additional work through June 30, 2013, and required the submission of another project plan amendment for any work beyond the work plan and budget set forth in PPA Request 1.

In the PPA 1 Approval, we also extended by two years, to October 31, 2014, the date by which the Licensees are required to file an application with the Federal Energy Regulatory Commission (“FERC”) for a certificate of public convenience and necessity for the Alaska-Alberta Project. In addition, in approving PPA Request 1, we imposed several conditions. As more fully set forth in the PPA 1 Approval, the Licensees were required (1) to conduct a solicitation of interest in support of the LNG alternative, (2) to consult with the Alaska Gasline Development Corporation (“AGDC”) in the interest of prudently avoiding unnecessary and duplicative expenditure of state funds, and (3) to complete an inventory of work product related to the Alaska-Alberta Project.

The Licensees have made significant progress toward meeting these conditions. Specifically, in an October 1, 2012 letter to the Governor (a copy of which is attached as Appendix B), the ANS Producers and TransCanada reported that the solicitation of interest we required in the PPA 1 Approval generated “publicly reported interest from potential shippers and major players from a broad range of industry sectors and geographic locations.” The October 1, 2012 letter also reported that “a cooperative framework has also been established with AGDC for information exchange” between TransCanada and AGDC. TransCanada also has provided the Commissioners with an initial draft inventory of work product related to the project.

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3 The May 2, 2012 PPA 1 Approval is attached as Appendix A.

4 The APP is being developed under an agreement entered into in 2009 between affiliates of TransCanada and ExxonMobil (“APP Parties”) to jointly develop the Licensees’ AGIA project.

5 The conditions stated in the PPA 1 Approval continue to apply to the extent they have not yet been fully satisfied. In addition, under this PPA 1A Approval, all work product related to the 2013 Work generated by or on behalf of APP or the Licensees must be transferred to the Licensees by December 31, 2013. The Licensees also must inventory and preserve all work product related to the 2013 Work, including both complete and incomplete work, and provide the inventory to the Commissioners.

6 The proposed draft inventory has not yet been approved by the Commissioners.
TransCanada is now seeking a limited extension of the two project plan amendments that we approved on May 2, 2012 in the PPA 1 Approval in order to perform field work in Alaska in 2013. Specifically, in PPA Request 1A, the Licensees seek approval to explore the LNG alternative further by performing field work on the midstream component of the project in 2013 (the “2013 Work”), and to defer the FERC filing date an additional two years to October 31, 2016. For the reasons explained below, we grant the request to perform the 2013 Work (as described in the work plan and budget set forth in PPA Request 1A), and approve a limited deferral of the FERC filing deadline by one year to October 31, 2015.\(^7\)

First, the Licensees’ request to perform the 2013 Work is consistent with important project benchmarks established by Governor Parnell in his January 16, 2013 State of the State address. There, Governor Parnell called on the ANS Producers and the Licensees to select a concept for the SCLNG project by February 15, 2013. This benchmark was met on February 15, 2013, when the ANS Producers and TransCanada sent a letter to Governor Parnell reporting that they had completed the concept selection phase of the SCLNG project.\(^8\) In his State of the State address, Governor Parnell also called on the ANS Producers and Licensee to “ensure a full summer of field season work will commence this year”. PPA Request 1A meets this benchmark by proposing to perform the 2013 Work, which we approve. These are positive developments that help to maintain and accelerate project momentum, and continue the progress made since the Governor’s 2012 State of the State address called on the parties to align under an AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska.\(^9\)

Second, and as we noted in the PPA 1 Approval, ANS gas commercialization efforts are in a transition phase with the ANS Producers, the APP Parties, and the Licensees working together for the first time on a single effort. This PPA-1A Approval supplements the PPA 1 Approval to further amend the licensed Alaska-Alberta project to include the 2013 Work and advance this transition, pave the way for more intensive work in the future, and keep the project’s ultimate

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\(^7\) Under Section 210 of AGIA, the Commissioners may approve a proposal by the AGIA Licensees to change their project plan if, among other things:

[The amendment or modification is necessary because of changed circumstances outside the licensee’s control and not reasonably foreseeable before the license was issued. An amendment or modification approved under this section must be consistent with the requirements of AS 43.90.130 and, except for an amendment or modification required because of an order or requirement of a regulatory agency with jurisdiction over the project or by the Alaska Oil and Gas Conservation Commission, may not substantially diminish the value of the project to the state or the project’s likelihood of success.

\(^8\) A copy of the February 15, 2013 letter, and its attachments, is set forth as Appendix C to this determination. The letter provides a summary of the major SCLNG project components, including a 42-inch diameter gas pipeline, a gas treatment plant located on the North Slope, a liquefaction plant with an initial, three-train capacity of 15-18 million tons per annum, storage and terminal facilities, and five in-state off-take points. The estimated capital cost of the SCLNG project is approximately $45-65 billion.

\(^9\) Governor Parnell also called on the parties to “finalize an agreement to advance into the pre-FEED stage” (pre front end engineering design) of the project. In PPA Request 1A, the Licensees state that the ANS Producers “are actively engaged with the APP Parties in pre-FEED planning.”
costs as low as possible by helping to avoid a delay in the development of the project.\textsuperscript{10} Consistent with this PPA-1A Approval, the Licensees may submit qualified expenditures incurred in connection with the 2013 Work for reimbursement under AGIA for the period covered in the revised work plan, timeline and budget in PPA Request 1A.

Third, and as further explained in the PPA 1 Approval, we find that changed circumstances continue to exist for purposes of AS 43.90.210.\textsuperscript{11} For example, the current efforts to develop the SCLNG project represent the first time that the Licensees and all three ANS Producers have been aligned on a gas commercialization effort. This is important progress that is furthered by approval here of the requested project plan amendments.

Finally, we note that we are only approving an extension of the FERC filing deadline by one year, to October 31, 2015, instead of the two-year extension requested by the Licensees. Given the transition as discussed above, we agree with the objective of avoiding unnecessary expenditures on the Alaska-Alberta project, and emphasize that any such expenditures going forward should be \textit{de minimis}.\textsuperscript{12}

**CONCLUSIONS**

For the reasons discussed above and in the May 2, 2012 approval of PPA Request 1, the Commissioners conclude as follows:

1. PPA Request 1A is necessary because of changed circumstances outside the Licensees’ control and not reasonably foreseeable before the license was issued,

2. PPA Request 1A is consistent with the requirements of AS 43.90.130,

3. PPA Request 1A does not substantially diminish the value of the project to the state or the project’s likelihood of success, and

4. PPA Request 1A is approved as provided herein.\textsuperscript{13}

\textsuperscript{10} Our understanding, based on discussions with the ANS Producers and the Licensees, is that performing the 2013 Work this year instead of deferring the work until the 2014 summer field season will enable the project to avoid up to a one-year delay in project completion. On a project with an estimated cost of $45–65 billion, avoiding a one-year delay would save up to several billion dollars in inflation-related costs.

\textsuperscript{11} As noted in the May 2, 2012 PPA 1 Approval, such changed circumstances include: (1) a substantial increase in U.S. shale gas reserve estimates compared to when the License was issued; (2) continuing significantly higher natural gas prices in Asia and other world markets relative to U.S. prices, reflecting a higher oil to natural gas price ratio; (3) EIA’s updated projection that the United States will become a net exporter of natural gas in the future; and (4) the continued interest of the ANS Producers in aligning their work efforts behind an LNG alternative, which was not foreseeable at the time of the AGIA Findings and the subsequent issuance of the License in 2008.

\textsuperscript{12} To the extent this determination does not address a specific statement or representation made in the PPA Request 1A, it should not be construed as agreement with, or rejection of, any such statements or representations.

\textsuperscript{13} TransCanada asserts that PPA Request 1A contains confidential proprietary information that is confidential under AGIA and that the Commissioners’ March 15, 2012 determination of confidentiality under AGIA concerning PPA Request 1 supports treating PPA Request 1A on a confidential basis. To the extent that information in PPA Request 1A is proprietary, the Commissioners have determined that it is confidential under AGIA and the Commissioners’ March 15, 2012 confidentiality determination.
Sincerely,

Daniel S. Sullivan
Commissioner
Department of Natural Resources

Bryan D. Butcher
Commissioner
Department of Revenue

Attachments:  Appendix A - May 2, 2012 Approval of AGIA Licensees’ PPA-1
              Appendix B - October 1, 2012 Letter to Governor Parnell
              Appendix C - February 15, 2013 Letter to Governor Parnell
APPENDIX A
May 2, 2012

Mr. Tony Palmer  
Vice President, Major Projects Development  
TransCanada Pipelines Limited  
450 - 1st Street S.W.  
Calgary, Alberta, T2P-5H1 Canada

Re: Approval of AGIA Licensees’ Project Plan Amendments

Dear Mr. Palmer,

We are in receipt of your “AS 43.90.210 – Request for approval of project plan amendments under the [AGIA] License in respect of a potential LNG alternative – Phase 1” (the “PPA”), dated March 15, 2012. The PPA requests approval of two modifications to the project plan, described and identified by TransCanada Alaska Company, LLC (“TC Alaska”), Foothills Pipe Lines (North B.C.) Ltd. and Foothills Pipe Lines (South Yukon) Ltd. (jointly, the “Licensees” or “TransCanada”) as the “Requested Amendments”. Pursuant to AS 43.90.210, the Commissioner of Revenue and the Commissioner of Natural Resources for the State of Alaska (“Commissioners”) approve the Requested Amendments to the project plan, as provided below.

BACKGROUND

On December 5, 2008, the Licensees were issued a license under the Alaska Gasline Inducement Act ("AGIA"), AS 43.90, et seq. The AGIA License incorporates the project plan set forth in the Licensees’ November 30, 2007 AGIA application ("AGIA project plan" or "project plan"), as amended by the project plan modifications approved by the Commissioners by letter dated January 29, 2010.

Under Section 210 of AGIA, the Commissioners may approve a proposal by the AGIA licensee to change its project plan if, among other things:

the amendment or modification is necessary because of changed circumstances outside the licensee’s control and not reasonably foreseeable before the license was issued. An amendment or modification approved under this section must be consistent with the requirements of AS 43.90.130 and, except for an amendment or modification required because of an order or requirement of a regulatory agency with jurisdiction over the project or by the Alaska Oil and Gas Conservation Commission, may not substantially

“To responsibly develop Alaska’s resources by making them available for maximum use and benefit consistent with the public interest.”
diminish the value of the project to the state or the project's likelihood of success.

The Licensees propose two amendments to the project plan. First, the Licensees propose to include in the project plan the limited work plan, timeline and associated budget set forth in the PPA and identified as the “Initial Work Plan Amendment”. The Licensees state in the PPA that this amendment would facilitate participation by the Alaska Pipeline Project (“APP”) with the Alaska North Slope Producers (ExxonMobil, BP and ConocoPhillips, jointly “ANS Producers”) in a concept selection assessment of a liquefied natural gas (“LNG”) alternative specifically relating to a gas pipeline and related midstream facilities to deliver natural gas from the Alaska North Slope to the tidewater of south-central Alaska. These work plans are part of formal agreements executed between APP and the ANS Producers. More generally, these LNG work plans were set forth in a joint letter on March 30, 2012 by the chief executive officers of the ANS Producers to Governor Parnell. The Licensees state that while this concept selection process is occurring, they would continue work on the current project plan that contemplates a pipeline from the North Slope to Alberta (“Alaska-Alberta Project”) to the extent required to preserve rights and the Alaska-Alberta Project as an alternative to commercialize ANS gas.

Second, the Licensees propose to amend the date by which the Licensees are required to file an application for a certificate of public convenience and necessity (“CPCN”) for the Alaska-Alberta Project from the Federal Energy Regulatory Commission (“FERC”) from October 2012 to October 31, 2014, set forth in the PPA and identified as the “Regulatory Amendment”. The deferral of the FERC filing deadline would coincide with the process of assessing the in-state LNG project alternative discussed above.

As discussed below, the Licensees contend that the PPA meets the requirements of AGIA Section 210 because of changed circumstances outside their control and not reasonably foreseeable before the license was issued. The Licensees also contend that the PPA does not substantially diminish the value of the project to the state or the project’s likelihood of success, and is consistent with the requirements of AS 43.90.130.

DISCUSSION

The Requested Amendments would facilitate the ability of the APP Parties, on behalf of the Licensees, to continue work on the efforts to commercialize ANS gas with a focus on an in-state LNG project. These amendments are an outgrowth of Governor Parnell’s request to the ANS Producers and the AGIA Licensees that they align under the AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska. In response, the chief executive officers of the ANS Producers recently announced that they and the APP Parties “have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework.” In their

1 TransCanada requested confidentiality of the PPA, due to a claim of certain proprietary information contained within the PPA. The Commissioners granted this requested as provided under AS 43.90.210. However, much of the information contained in the PPA was not considered confidential by the Commissioners and is discussed in full in this determination.

2 The Alaska Pipeline Project (APP) is being developed under an agreement entered into in 2009 between affiliates of TransCanada and ExxonMobil (“APP Parties”) to jointly develop the project set forth in the Licensees’ AGIA project plan.

3 To the extent this determination does not address a specific statement or representation made in the PPA, it should not be construed as agreement with, or rejection of, any such statements or representations.

4 ANS Producers’ CEO March 30, 2012 letter to Governor Parnell (hereinafter “ANS Producers’ CEO Letter”).
letter to the Governor, the ANS Producers state that they “are now working together” with a focus on “large-scale liquefied natural gas (LNG) exports from south-central Alaska . . . as an alternative to gas line exports through Alberta.”

Related to this alignment, the State and the ANS Producers also recently reached agreement on a settlement regarding development of the oil and gas resources at Point Thomson. Under the settlement, the ANS Producers “are moving forward . . . with the initial development phase at Point Thomson with confidence that North Slope gas development will ultimately bring the Point Thomson resource to market.”

With these developments, particularly the alignment by the ANS Producers and the APP Parties in focusing on LNG commercialization, the proposed Initial Work Plan Amendment would enable the Licensees, through the APP Parties, to participate with the ANS Producers and focus commercial efforts on the LNG alternative, while reducing the level of expenditures on the Alaska-Alberta Project during the period the LNG alternative is being evaluated. The Requested Amendments lay out a transition phase between an LNG gas commercialization project that is focused on Lower 48 markets to one that is focused on LNG export markets abroad.

The proposed Regulatory Amendment, which would postpone the 2012 FERC filing date by two years, is expected to result in a reduction of Fiscal Year 2013 State-reimbursable expenditures on the Alaska-Alberta project under the AGIA License. This reduction would be achieved by deferring until October 2014 the Licensees’ obligation under AS 43.90.130(3) and the AGIA License to file a complete application at FERC for a CPUC for the Alaska-Alberta project while the Licensees, APP and the ANS Producers focus on the LNG alternative.

In support of its PPA, TransCanada contends that changed circumstances justify both of its proposed amendments. Specifically, TransCanada points to (a) the decline in natural gas prices experienced in the U.S. largely as a result of increased shale gas production, (b) the projection by the U.S. Energy Information Administration (“EIA”) that the U.S. will become a net exporter of natural gas in the future, and (c) the interest the ANS Producers have expressed in focusing their efforts on an LNG alternative to the Alaska-Alberta Project. TransCanada also notes that, according to a January 2012 report by the EIA, “natural gas prices span a range from ... $4 per MMBtu in the United States and $16 per MMBtu in Asian markets that rely on LNG imports.”

Based on the relevant facts that exist at this time, including the specific and limited nature of the requested PPA, the Commissioners find that changed circumstances exist for purposes of AS 43.90.210. The relevant facts include: (1) a substantial increase in U.S. shale gas reserve

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5 ANS Producers’ CEO Letter.

6 Id.

7 Among other things, TransCanada also committed to use the FERC’s pre-filing procedures prior to filing its certificate application. TransCanada has an obligation to pursue that commitment and its other license commitments in a diligent manner, which the Commissioners expect will result in a determination by FERC that TransCanada’s certificate application is complete once that application is filed. See the Request for Applications issued by the State of Alaska on July 2, 2007, at p. 49 (Section 5.1(40), stating that the licensee will pursue regulatory approvals and other actions “Promptly and Diligently”, which is defined as “a manner that is commercially reasonable in the interstate gas pipeline industry in the U.S. with respect to timing and execution of relevant actions.”).

8 Under AS 43.90.210, each project plan amendment must be separately and independently justified and subject to the Commissioners’ approval. The Commissioners, therefore, do not address the Licensees’ request for acknowledgment or approval at this time that any future project plan amendments relating to the “LNG Pipeline Midstream Facilities” be considered to have arisen from the same set of changed circumstances as detailed in the PPA. This does not preclude the Licensees from raising the same or other changed circumstances in future requests for project plan amendments as
estimates; (2) significantly higher natural gas prices in Asia and other world markets, reflecting a higher oil to natural gas price ratio; (3) EIA’s related projection that the U.S. will become a net exporter of natural gas in the future; and (4) the interest of the ANS Producers in aligning their work efforts behind an LNG alternative, which was not foreseeable at the time of the AGIA Findings and when the License was issued in 2008 because, at that time, the Lower-48 market looked much more robust. This is the first time since AGIA was enacted that the Licensees and all three ANS Producers have been aligned on a gas commercialization effort.

The Commissioners also find that the PPA does not substantially diminish the value of the project to the State or the project’s likelihood of success. As noted by the Licensees, the U.S. EIA has recently found that natural gas prices in Asia are much higher than in the U.S. Focusing efforts among the Licensees, APP, and ANS Producers on the feasibility of an LNG project to serve higher-priced Asian and other markets may improve the value of the project to the State and the project’s likelihood of success. Given the high natural gas prices that currently exist in Asia and in other world markets, an LNG project may be even more economic than it was at the time of the AGIA Findings. In addition, this shift in focus will not diminish the ability to meet in-state gas needs.

Thus, the Commissioners expect the ANS Producers to make substantial and timely progress with the APP Parties in developing an LNG project, consistent with the ANS Producers’ obligations under their leases with the State. In particular, the Commissioners expect that these parties will continue to pursue an aggressive work schedule to meet Governor Parnell’s State of the State timeline to conclude the concept selection process referenced in the March 30, 2012 letter by the end of September 2012.

As noted above, ANS gas commercialization efforts are in a transition phase with ANS Producers, the APP Parties, and the Licensees working together for the first time on a single effort. After this initial concept selection work is completed, we expect the Licensees to file a more definitive PPA that will reflect the details of the project selection, the public solicitation (see below) and an associated timeline relating to an LNG project.

The Commissioners also find that the PPA is consistent with the requirements of AS 43.90.130, which obligate the AGIA Licensees to certain commitments. Under the PPA, the Licensees continue to be bound by the requirements of AGIA, including all of their AGIA commitments under AS 43.90.130. The Licensees continue to be required to file a complete application for a CPCN at FERC for the Alaska-Alberta project by a date certain; the obligation to file a complete application is merely deferred until October 31, 2014. Subject to this deferral, the

appropriate to the request, which the Commissioners will then address based on the facts and circumstances that exist at that time.

9 The mere fact that natural gas prices have changed since the AGIA License was issued in 2008, standing alone, does not meet the changed circumstances standard set forth under section 210. However, such price changes are a relevant factor when combined with the other relevant factors discussed above, under the circumstances that exist at this time and given the limited nature of the requested PPA.

10 While it is not determinative to this decision, the Commissioners do not comment on, or find it necessary to rule on the merits of, the Licensees’ limited interpretation of the term “value to the State”.

11 In addition to a focus on an in-state LNG project, the ANS Producers’ CEO Letter also highlights the importance of addressing in-state Alaska gas needs and demands.

12 The ANS Producers’ CEO letter references an “associated timeline” as part of the gas commercialization project selection.

13 See supra note 6.
Licensees will minimize the expenditure of State funds on the Alaska-Alberta alternative while the commercial focus shifts to the LNG alternative.

The Commissioners’ approval of the Initial Work Plan Amendment and the Regulatory Amendment is subject to the following:

First, the Licensees will conduct and complete a comprehensive and meaningful public solicitation of interest in an LNG project by December 31, 2012, including interest in making firm pipeline capacity commitments on a pipeline from the North Slope to a new or existing LNG liquefaction terminal at tidewater as well as to Alberta. This solicitation must satisfy the requirements of AGIA and the AGIA license, and include all potential market participants, including but not limited to North Slope producers, explorers, LNG terminal developers, and entities seeking to import Alaska gas into Asian and other markets.

Second, the State will continue to reimburse the Licensees for reimbursable costs in accordance with AGIA for expenditures within the parameters of the project plan as amended by this determination. No reimbursements will be provided or paid for any costs relating to the LNG Pipeline Midstream facilities which occur after the period covered in the revised work plan, timeline and budget unless the Licensees have obtained approval of a subsequent project plan amendment covering work in the subsequent period. Consistent with Governor Parnell’s State of the State address, the Licensees will consult with the Alaska Gasline Development Corporation (“AGDC”) to determine whether useful work product is available from AGDC and, if so, then the Licensees will take reasonable steps to obtain or utilize the AGDC work product from AGDC. This is in the interest of prudently avoiding unnecessary and duplicative expenditure of state funds on projects that share the important objectives of addressing in-state demands for natural gas and commercialization of ANS gas.

Third, all work product related to the Alaska-Alberta Project generated by or on behalf of APP, including both complete and incomplete work, will be inventoried as soon as practicable and preserved. This inventory, which must be provided to the Commissioners, will include, without limitation, a description of the currently incomplete work that is expected to become complete and be transferred to the Licensees over the period of the Initial Work Plan Amendment. In addition, all work product related to the LNG Pipeline Midstream Facilities pursuant to the Initial Work Plan Amendment generated by or on behalf of APP or the Licensees during the concept selection process for the LNG alternative will be transferred to the Licensees at the end of the concept selection stage, as described in the PPA.

**FINDINGS AND CONCLUSIONS**

For the reasons discussed above, the Commissioners conclude as follows:

1. The PPA is necessary because of changed circumstances outside the Licensees’ control and not reasonably foreseeable before the license was issued,

2. The PPA is consistent with the requirements of AS 43.90.130,

3. The PPA does not substantially diminish the value of the project to the state or the project’s likelihood of success, and

4. The PPA is approved as provided herein.
May 2, 2012
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The Commissioners emphasize that the foregoing discussion, findings and conclusions are limited to the two Requested Amendments proposed in the PPA. The Commissioners do not approve or acknowledge any additional or future project plan amendments that may be stated or implied in the PPA.

Daniel S. Sullivan  
Commissioner  
Dept. of Natural Resources

Bryan Butcher  
Commissioner  
Dept. of Revenue