Putting the Guidance Documents (HOA + MOU) in Context
*A Presentation to the Fairbanks Chamber of Commerce*

March 5, 2014

Joe Balash
Commissioner

Department of Natural Resources

Michael Pawlowski
Deputy Commissioner

Department of Revenue
Where We Are Today?

AGIA:
State: ~$330 million
APP (TransCanada & EM): ~$130 million
Denali (BP & CP) ~$200 million

Pre-FEED

GO
All AGIA and Denali work is contributed to AKLNG with passage of enabling legislation (SB 138).
State & TransCanada mutually abandon AGIA license.
No more reimbursement.

Stop: does State buy $130 million of APP data?

AGDC ASAP Advancing to 2015 Open Season (sharing w AKLNG)
Guidance Documents & SB 138

Heads of Agreement (HOA)
- Describes roadmap to advance project through phased process.
- Describes understanding and consensus on key terms.

Memorandum of Understanding (MOU)
- Describes agreement to transition from AGIA License to a more traditional commercial relationship.
- Describes key commercial terms for that relationship.

HOA and MOU describe how SB 138 would be used.

Senate Bill 138
- Participation in the AKLNG Project.
- Percentage of State Gas Share and Participation in the AKLNG Project.
- Process for development of Project Enabling Contracts and Legislative oversight and approval of future contracts.

Legislature decides whether to advance or not.
GROSS TAX RATE SETS THE TOTAL STATE GAS SHARE & EQUITY PARTICIPATION

- Royalty Gas 13%
- Tax Gas 8%
- Total State Gas Share 20%
- State Equity Participation 20%
- State Investment $9B

- Royalty Gas 13%
- Tax Gas 10.5%
- Total State Gas Share 22%
- State Equity Participation 22%
- State Investment $10B

- Royalty Gas 13%
- Tax Gas 14%
- Total State Gas Share 25%
- State Equity Participation 25%
- State Investment $11.3B
# Options Identified by State for Equity Participation

<table>
<thead>
<tr>
<th></th>
<th>GTP</th>
<th>Pipeline</th>
<th>LNG Plant</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOA Alone</td>
<td>SOA: 25%</td>
<td>SOA: 25%</td>
<td>SOA: 25%</td>
</tr>
<tr>
<td>SOA + TC No Buyback</td>
<td>TC: 25%</td>
<td>TC: 25%</td>
<td>SOA: 25%</td>
</tr>
<tr>
<td>SOA + TC with Buyback</td>
<td>TC: 15%</td>
<td>TC: 15%</td>
<td>SOA: 25%</td>
</tr>
</tbody>
</table>

* Assumes 25% State equity participation
**IMPLICATIONS OF OPTIONS AND POTENTIAL OFF RAMPS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PROJECT STAGE:</td>
<td>PRE-FEED</td>
<td>FEED</td>
<td>CONSTRUCTION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STATE INVESTMENT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOA GO IT ALONE:</td>
<td>$108M</td>
<td>$450M</td>
<td>$13.2B</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TC NO BUYBACK:</td>
<td>$43M</td>
<td>$180M</td>
<td>$6.7B</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TC WITH 40% BUYBACK:</td>
<td>$43M</td>
<td>$360M</td>
<td>$9.3B</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Pay TC Dev. Costs of ~$70M (Incl. AFUDC of $5M)
Pay TC Dev. Costs of ~$390M (Incl. AFUDC of $50M)
Pay TC Dev. Costs of ~$70M (Incl. AFUDC of $5M)
Pay TC Dev. Costs of ~$230M (Incl. AFUDC of $30M)

* Assumes 25% State equity participation
SOA UPFRONT CAPITAL COST EXPOSURE IS REDUCED THROUGH TC PARTICIPATION

TransCanada participation can reduce the State’s investment during peak construction by $1.6B-$2B/YR

* Assumes 25% State equity participation
RETAINING MOMENTUM ON PROJECT COULD BE MORE VALUABLE THAN SECURING BETTER COMMERCIAL TERMS

State of Alaska NPV_{10}

- Each 5% decrease in equity ratio is equivalent to $200MM in additional NPV to State
- Each 1% decrease in ROE is equivalent to $100MM in additional NPV to State
- Each year’s delay in project operation is equivalent to loss of $800MM in NPV to State
SUMMARY ON 4 KEY QUESTIONS

- **ECONOMIC IMPACT TO THE STATE FROM TC?**
  - Total cash flows reduced by $4B; NPV impact is marginal

- **CAN THE STATE GO IT ALONE?**
  - TC can reduce SOA investment by $4-$7B
  - SOA may hit debt limits going alone

- **DOES TC BEAR ANY FINANCIAL RISK?**
  - Change in financing could materially lower TC’s ROE & NPV

- **IS TC A GOOD PARTNER?**
  - Experience
  - Momentum
  - Expansion

CAN THE STATE GO IT ALONE?

- **IS TC A GOOD PARTNER?**
  - Experience
  - Momentum
  - Expansion

**DOES TC BEAR ANY FINANCIAL RISK?**

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

**ECONOMIC IMPACT TO THE STATE FROM TC?**

- Total cash flows reduced by $4B; NPV impact is marginal
PRESENCE VALUE TO STATE FROM ROYALTY & TAXES

Total Cash Flow (Through 2041) = $72 Billion
Summary

- The Heads of Agreement (HOA) and Memorandum of Understanding (MOU) provide guidance on how the powers provided in SB 138 will be used.

- At each stage in the project there are “off-ramps” and decision points for Legislative and public review.

- Commitments by the State will be made commensurate with progress by the project.
THANK YOU

Please find our contact information below:

Michael Pawlowski
Deputy Commissioner
Department of Revenue
Michael.Pawlowski@alaska.gov

Joe Balash
Commissioner
Department of Natural Resources
Joe.Balash@alaska.gov

Resources

http://dor.alaska.gov/AKGasDocs.aspx

www.dnr.alaska.gov/AKgas.htm