



# THE ALASKA GASLINE PROJECT UPDATE: HOW FAR WE'VE COME AND WHERE WE'RE HEADED

# Presentation Overview

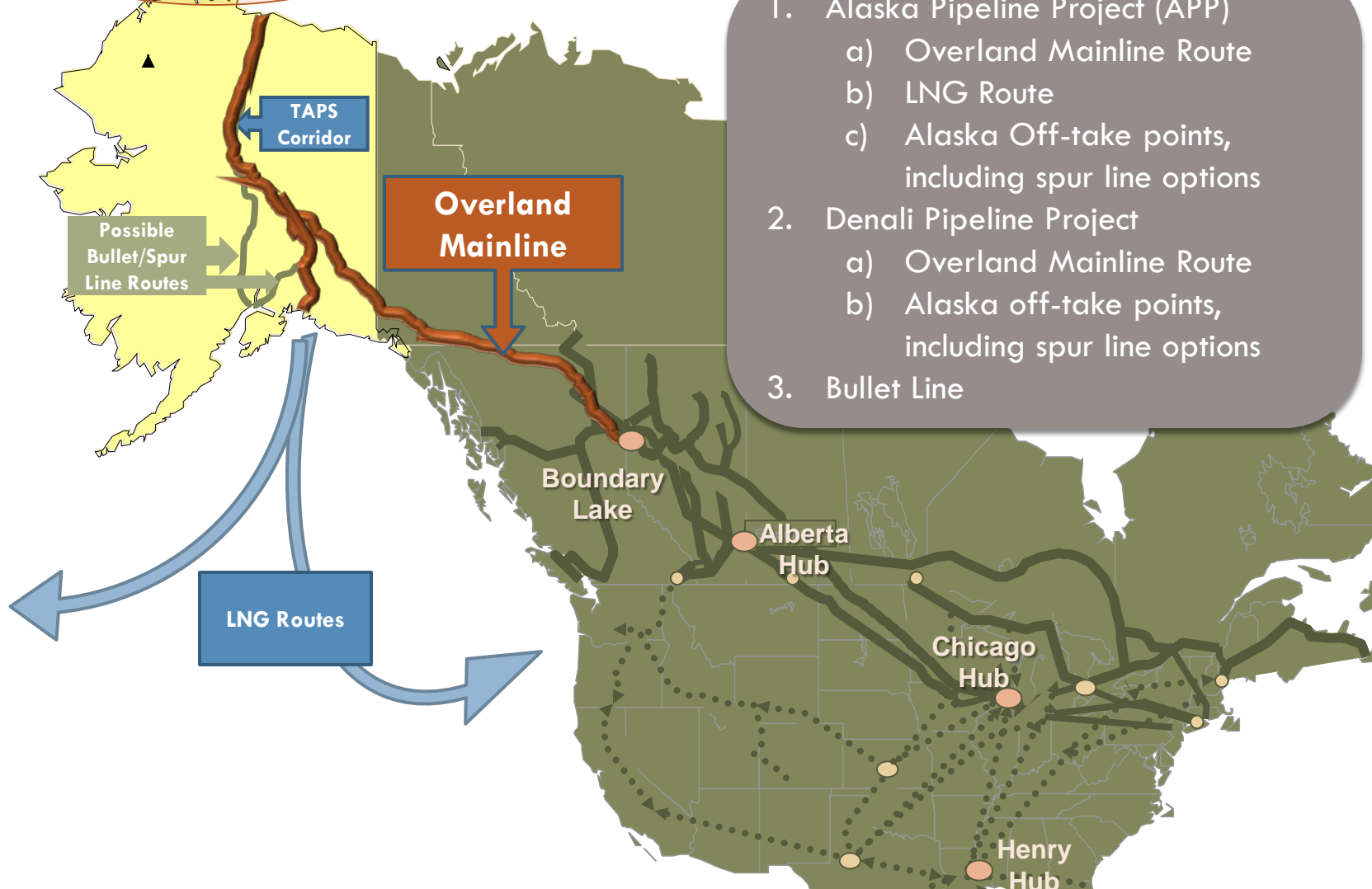
2

- Gasline Progress
- Open Season
- Next Steps and Challenges

# Getting North Slope Gas to Market

3

**North Slope**  
(35 Tcf of Nat. Gas)



1. Alaska Pipeline Project (APP)
  - a) Overland Mainline Route
  - b) LNG Route
  - c) Alaska Off-take points, including spur line options
2. Denali Pipeline Project
  - a) Overland Mainline Route
  - b) Alaska off-take points, including spur line options
3. Bullet Line

Asian Markets

# With Gas Pipelines - Bigger is better

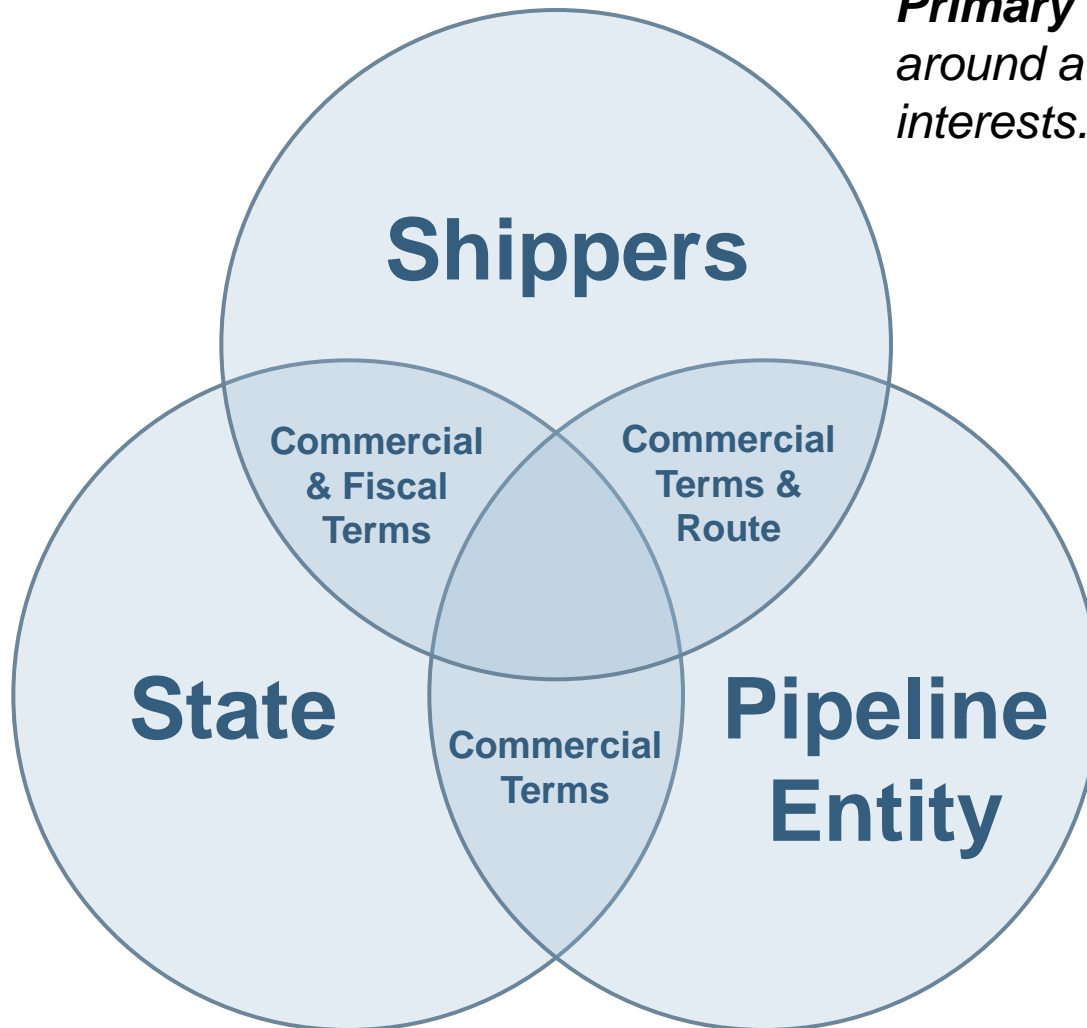
4

- More Gas Throughput = Lower Tariff, Lower Cost
- Economic Gas for Alaskans and Alaska Communities
- Economic Gas to grow Alaska's economy
- Gas Exploration
  - ▣ New, Diversified Gas Industry for Alaska Businesses and Entrepreneurs
  - ▣ More Oil Production



# Aligning Stakeholders

5

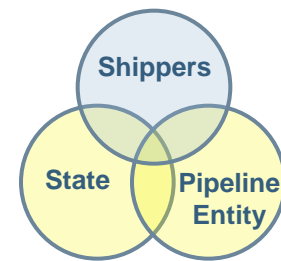


**Primary Objective:** *Align stakeholders around a single project; protect State's interests.*

**When** and **how** alignment is best achieved may vary between different stakeholder groups.

Alignment efforts are interrelated, complex and have significant implications with regard to the State's interests.

**Primary Challenge:** *Continued forward progress on project development while these alignments take place.*



# The Alaska Gasline Inducement Act

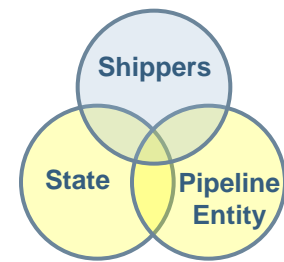
6

## Licensee Commitments

- ▣ Advance the project through major milestones
  - ▣ Open Season
  - ▣ FERC Certificate
- ▣ Provisions to ensure low tariffs and open access
- ▣ Gas off-take for Alaskans

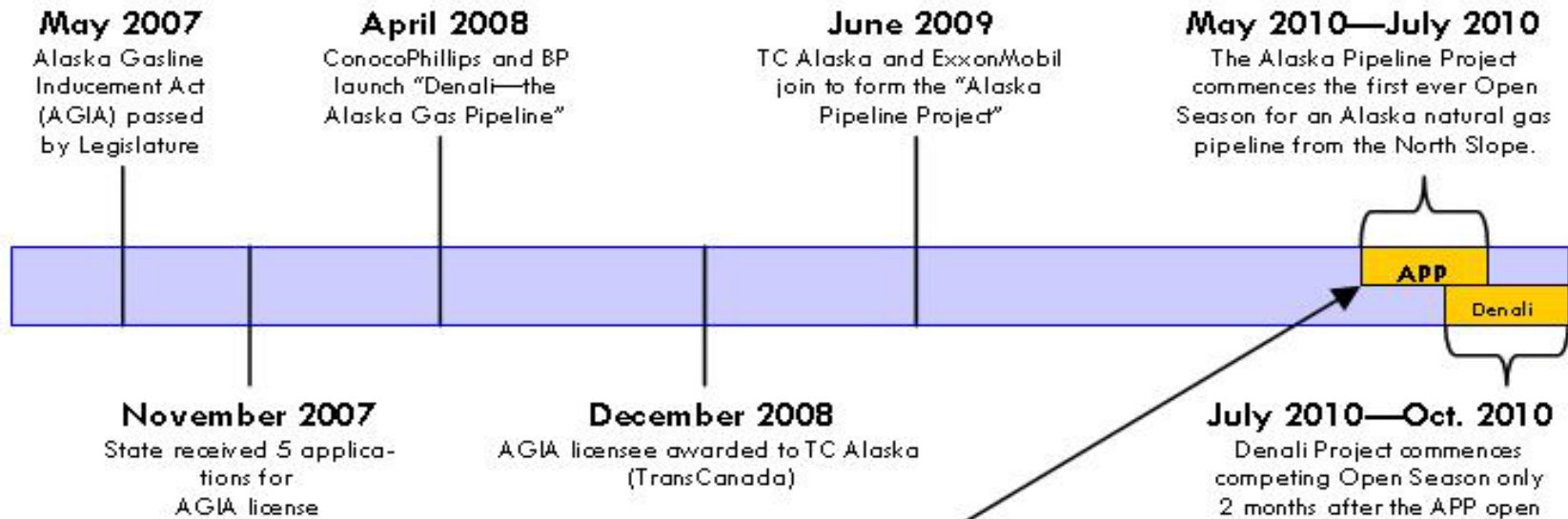
## State Commitments:

- ▣ \$500 million match against qualified expenditures
- ▣ Tax & Royalty certainty provisions for shippers
- ▣ Expedited and Coordinated permitting
- ▣ Continued Alignment with State

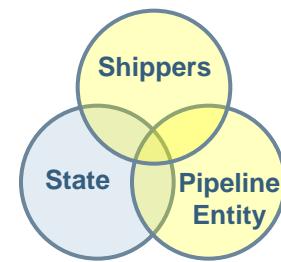


# Progress over the Last 3 Years

7



**Unprecedented progress to date!**  
 AGIA ensures the pipeline project moves forward while other alignments are formed

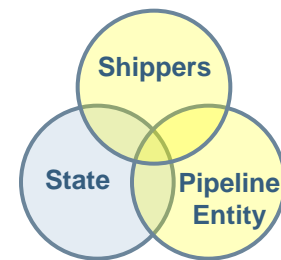


# What is an Open Season?

8

**Open Season:** *Gas Pipeline Entity publicly proposes key terms and design parameters to prospective customers and solicits bids for capacity on the gas pipeline*

- ▣ Requirement of the Federal Energy Regulatory Commission (FERC)
- ▣ Ensures that all interested parties have an equal opportunity to bid on that capacity
- ▣ Awards capacity to qualified bidders
- ▣ Objective is to execute a Precedent Agreement (PA) between the Pipeline Entity and the Shipper



# Two Projects; Similar Terms

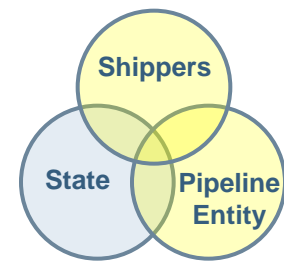
9

## APP (TC and ExxonMobil)

- ★ 75/25 Debt/Equity
- ★ 12% ROE
- ★ 20 year initial term
- ★ Similar timelines
- ★ LNG option
- ★ Provisions included to protect state interests

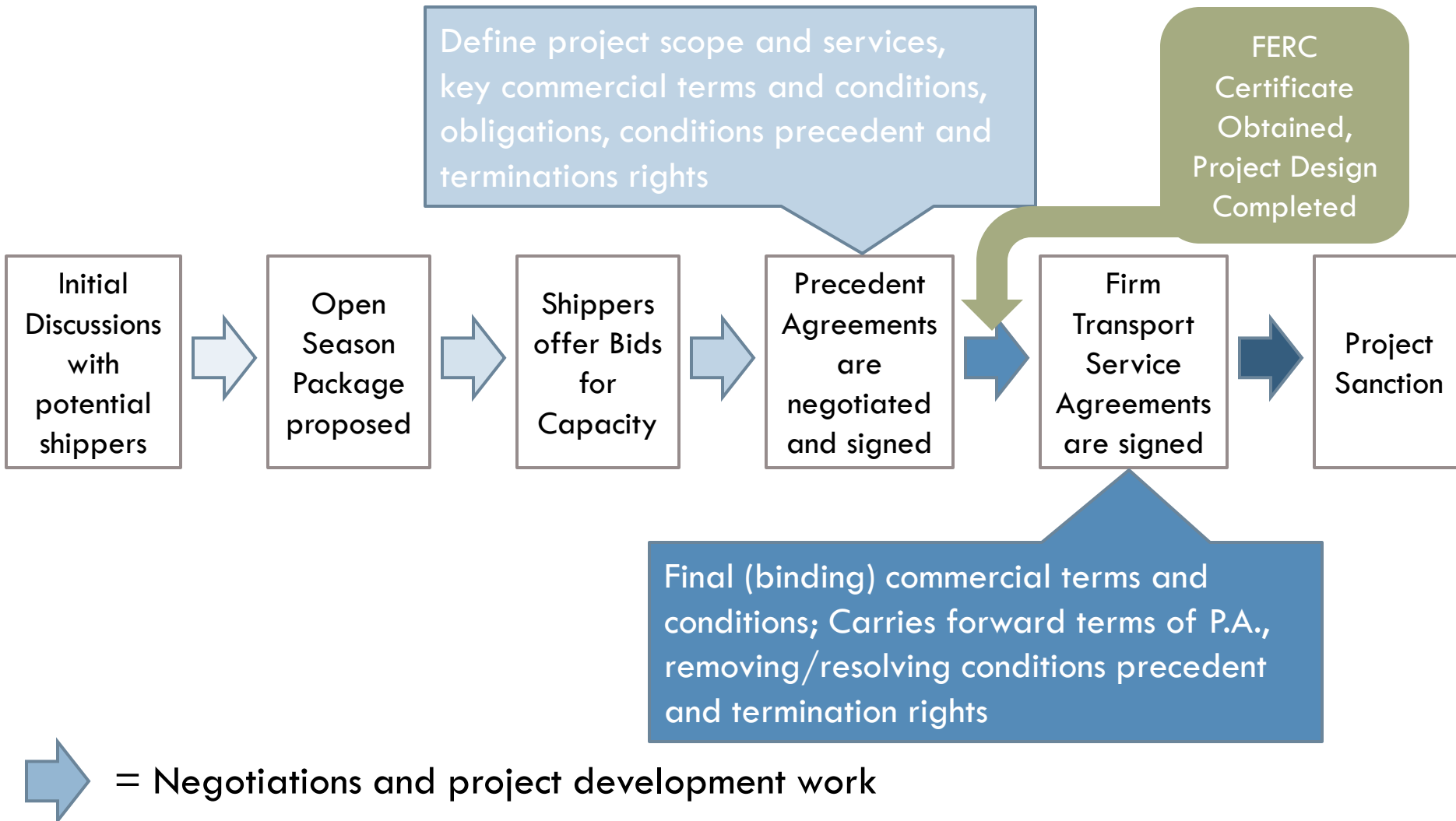
## Denali (Conoco Philips and BP)

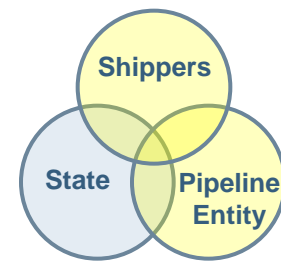
- ★ 75/25 Debt/Equity
- ★ 12% ROE
- ★ 20 year initial term
- ★ Similar timelines
- No LNG option



# Project Development Process

10



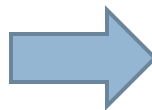


# Possible Open Season Outcomes

11

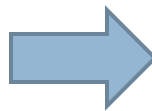
*Numerous possible outcomes. Each helps to identify distinct project needs and inform subsequent state action*

Sufficient commitments with minimal conditions



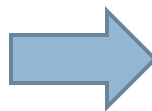
Rapidly execute PA's and move project forward with alignment between shippers and pipeline

Sufficient commitments tied to specific conditions



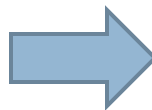
Negotiate PA's with mutually acceptable conditions; move project forward with alignment between shippers and pipeline

Shipper interest, but insufficient commitments

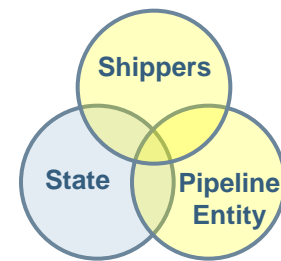


Negotiations and additional open seasons as project is advanced by the pipeline entity

Minimal interest, i.e. no meaningful bids



Evaluate reason for lack of participation; AGIA requires licensee to move toward FERC certification

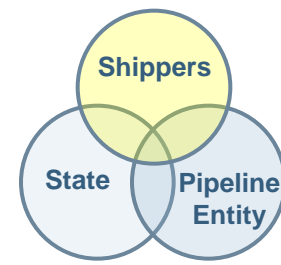


# What might we hear at the end of the APP Open Season, July 30?

12

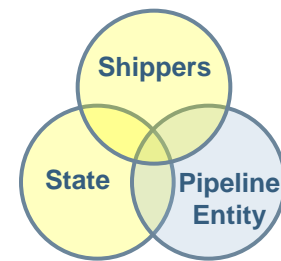
- If no bids are received
  - ▣ APP will announce this result
- If bids are received
  - ▣ APP will make a general announcement that will likely contain very little information about the bids themselves
- Why will so little information be made public?
  - ▣ APP will be negotiating with the bidders on the terms and conditions contained in the bids, attempting to reach PA's; these negotiations could be jeopardized if the bidders knew what was in each bid;
  - ▣ APP is required by FERC rules to consider late bids;
  - ▣ APP is in competition with Denali.

# Factors Driving Project Value for Gas Shippers



13

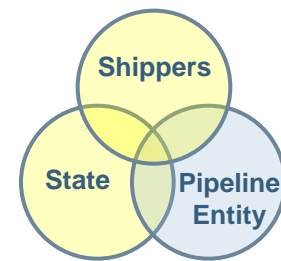
- **Natural Gas Sales Price - Commodity prices have the greatest impact on Shipper value**
- **Tariff Costs**
- **Steel Prices**
- **Labor Costs**
- **Regulatory and Permitting Issues**
- **State and Federal Share (i.e. “The Fiscals”)**



# What About the Fiscals?

14

With pipeline costs estimates and tariff terms further refined in the open season, the state and shippers are in a better position to evaluate the adequacy of the state's fiscal system, and whether changes are needed.



# Fiscal System Changes?

15

If Shippers demonstrate that changes to the state's fiscal system are necessary, then changes can and should be made.

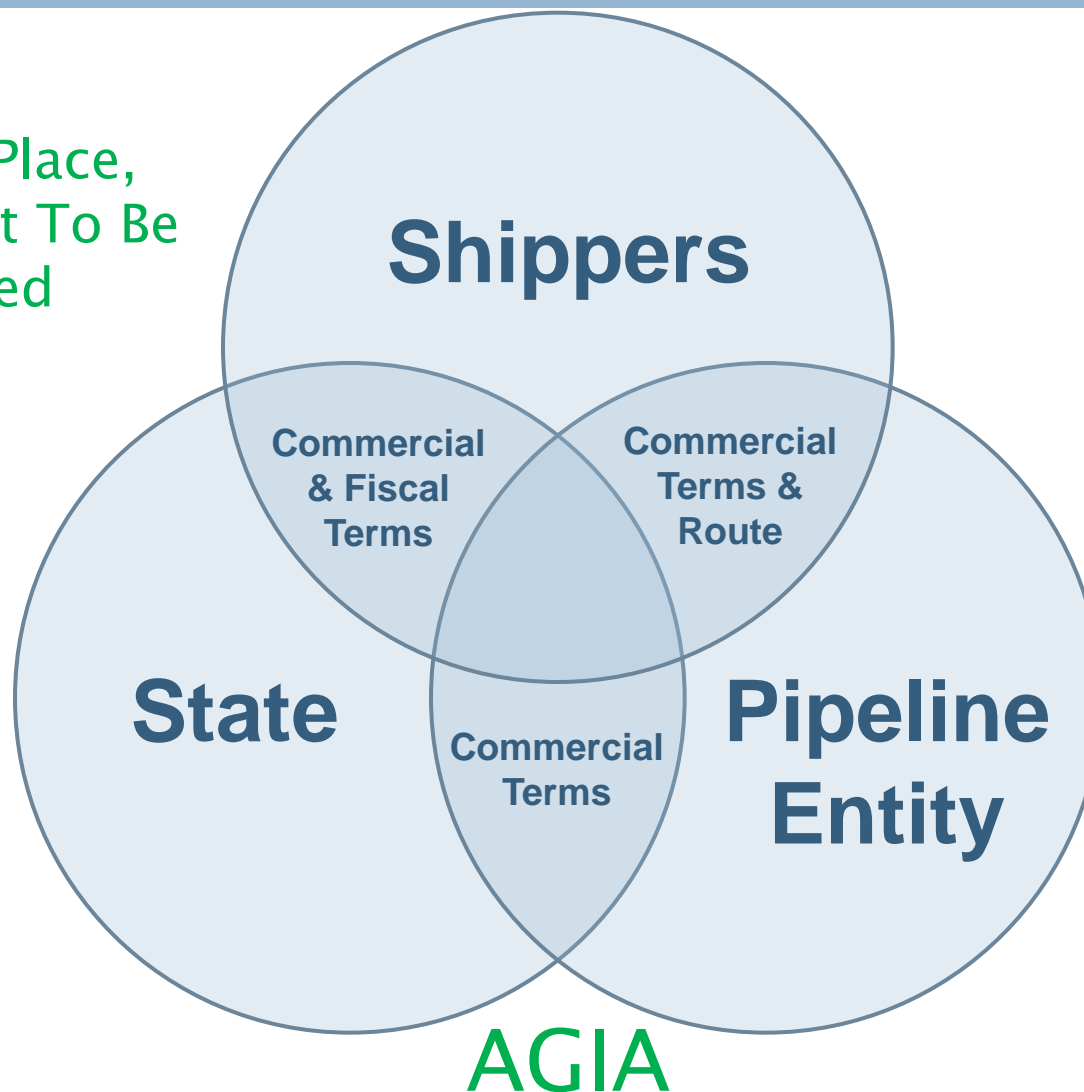
However, it is important that the project development continue to advance while the fiscal system evaluation and alignment progresses.

# Aligning Stakeholders

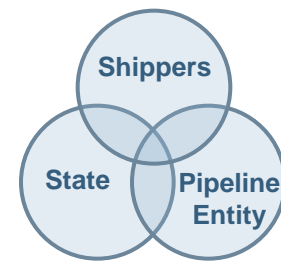
16

Currently In Place,  
Changes? – Yet To Be  
Determined

Open  
Season



# Aligning Stakeholders – What The State Has Already Done



17

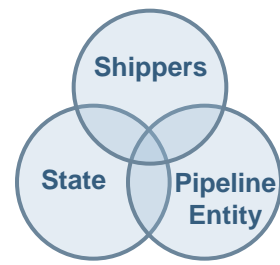
## □ Regarding the Pipeline

- ▣ Invested \$500 million in matching reimbursements to drive project forward & ensure Alaska “must haves” are included in gasline project
- ▣ Created AGIA coordinator to expedite permitting process

## □ Regarding Shippers

- ▣ Established clear rules around switching between taking royalty **in-kind** or **in-value**
- ▣ Adopted royalty valuation regulations for purposes of the AGIA Open Season
- ▣ Established gas tax obligation for purposes of AGIA Open Season
- ▣ Obtained waiver for gas shippers from FERC capacity release rules

# Summary



18

- Alaska Gasline Project has made ***unprecedented progress***
  - ▣ The first Open Season(s)
- Future challenges
  - ▣ Successful execution of Precedent Agreements - an important step in the development of the project
  - ▣ Numerous issues will need to be resolved among the stakeholders (included the state) before project sanction
    - The project sanction decisions are expected in 2014
    - The North American and Global natural gas markets are volatile, and much will change before 2014
  - ▣ To protect the state's interests, the pipeline project development must continue to advance while alignments are resolved

For more information go to:

19

<http://www.gasline.alaska.gov/>