



THE ALASKA GAS PIPELINE PROJECT UPDATE

State of Alaska

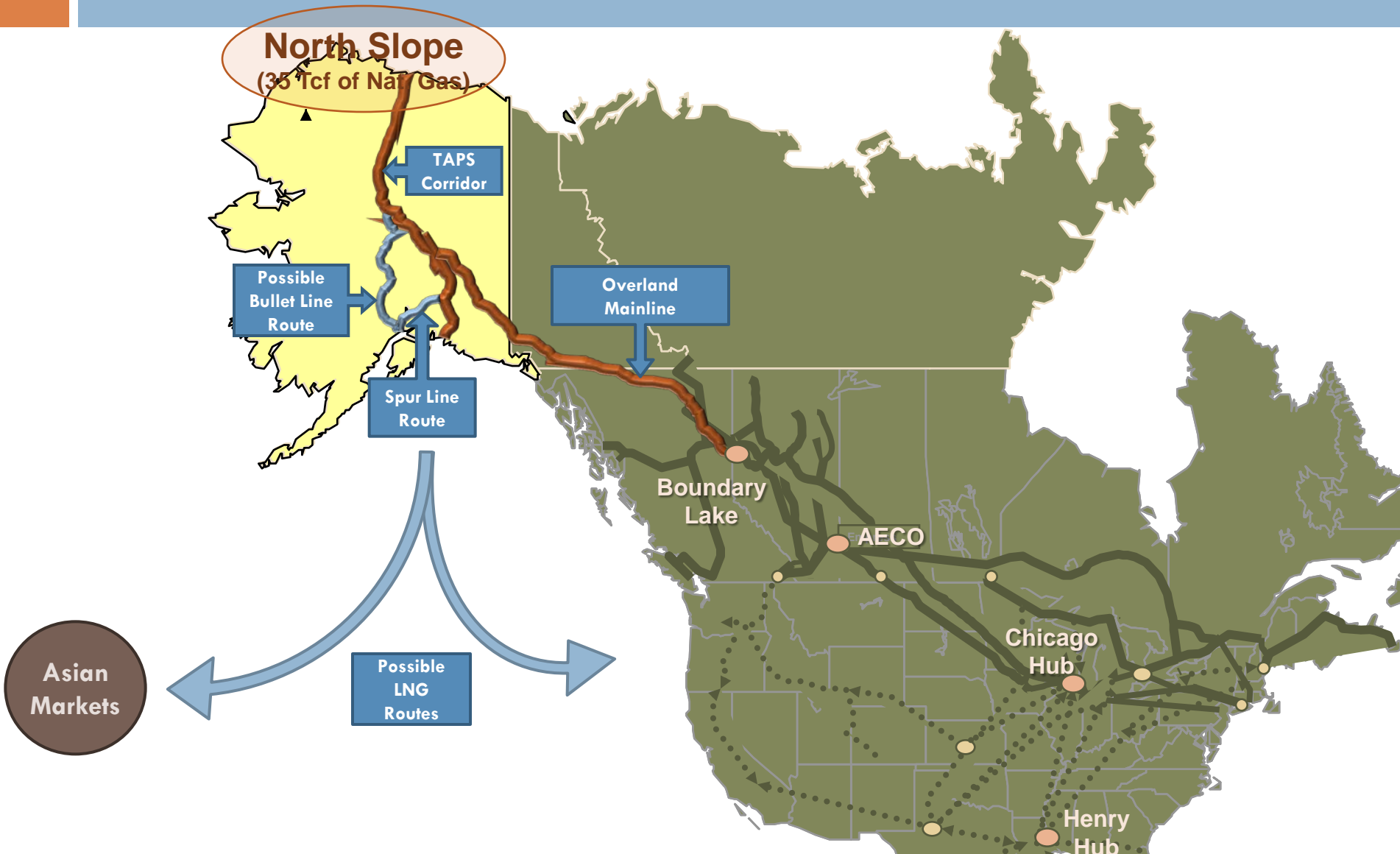
How Far We've Come and Where We're Headed

Presentation Overview

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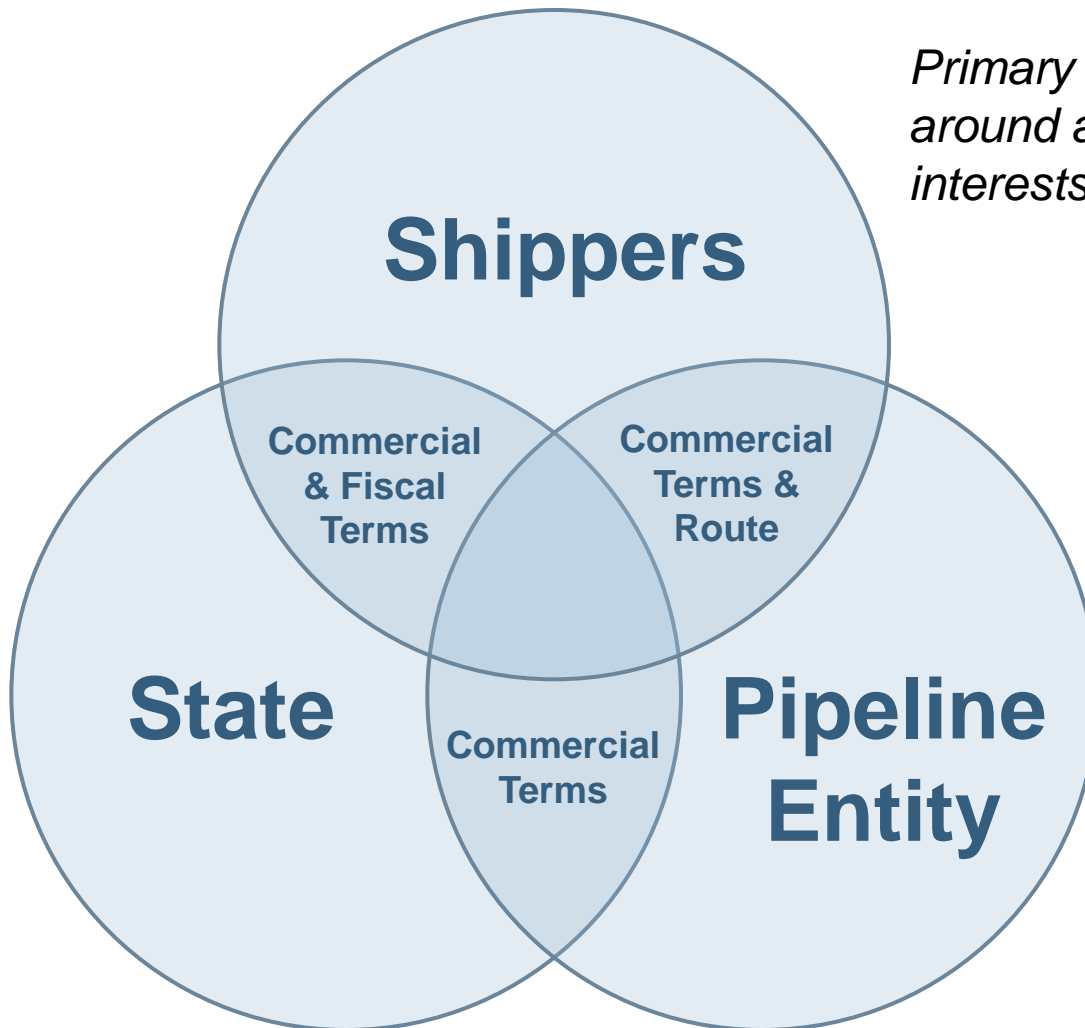
- **Gasline Challenges and Progress**
- Open Season
- Next Steps

Getting North Slope Gas to Market



Aligning Stakeholders

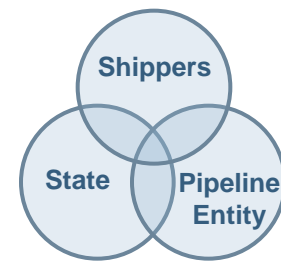
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Primary challenges: Align stakeholders around a single project; protect State's interests.

When and **how** this 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



The Alaska Gasline Inducement Act

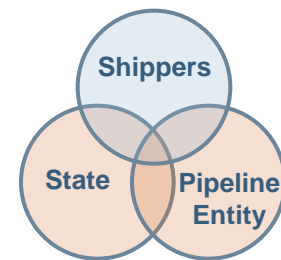
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State Commitments:

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

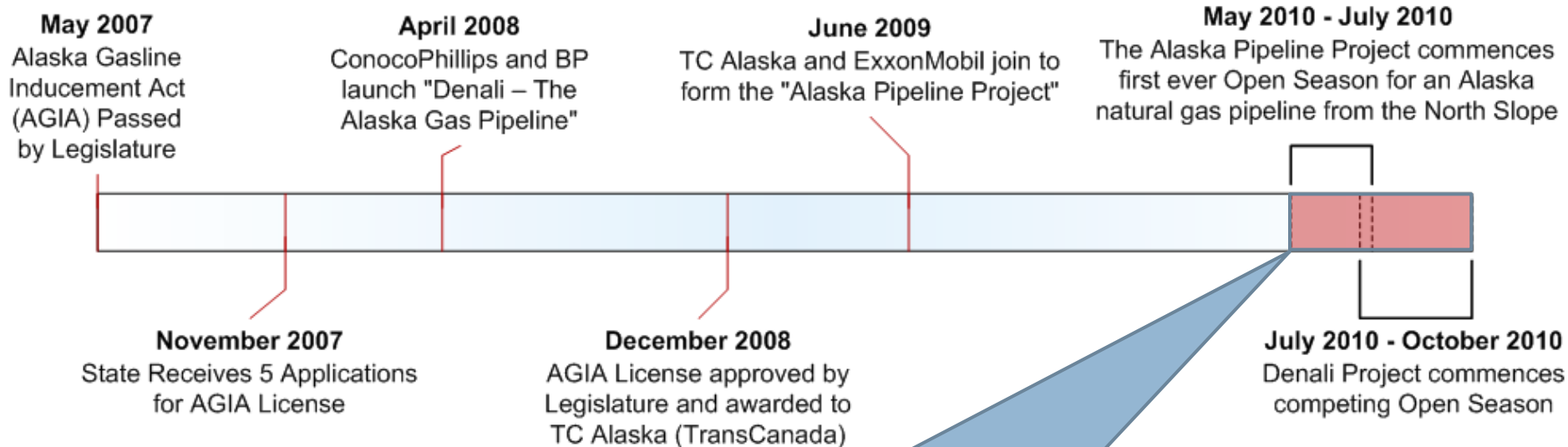
Licensee Commitments

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

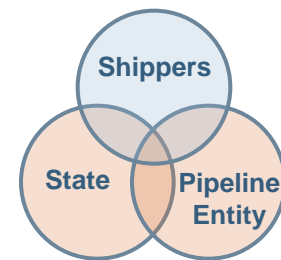


Progress over the Last 3 Years

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Unprecedented progress to date!
However...
We still have a long way to go.



Two Projects; Similar Terms

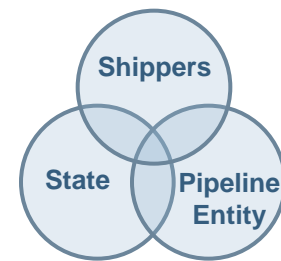
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APP (TC and ExxonMobil)

- ★ 75/25 Debt/Equity
- ★ 12% ROE
- ★ 20 year initial term
- ★ Similar timelines
- ★ LNG option

Denali (Conoco Philips and BP)

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

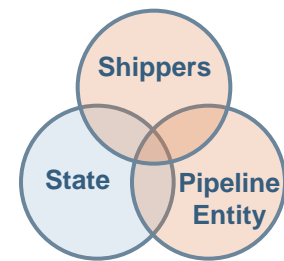


What is an Open Season?

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Open Season: *Gas Pipeline Entity publically 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)
- ▣ Ensure that all interested parties can bid on that capacity
- ▣ Awards capacity to qualified bidders



Typical Open Season Process

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Define project scope and services, key commercial terms and conditions, obligations, conditions precedent and terminations rights

Initial Discussions with potential shippers

Open Season Package proposed

Shippers offer Bids for Capacity

Precedent Agreements are signed

Firm Transport Service Agreements are signed

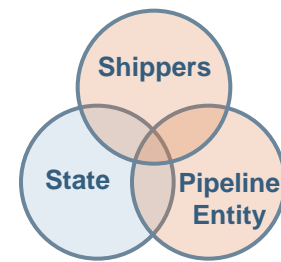
Project Sanction

Final (binding) commercial terms and conditions; Carries forward terms of P.A., removing/resolving conditions precedent and termination rights



= Negotiations and project development work

State of Alaska

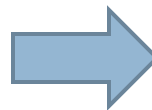


Possible Open Season Outcomes

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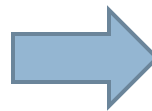
Numerous possible outcomes. Each helps to identify distinct project needs and inform subsequent state action

Sufficient **commitments with minimal or no significant conditions**



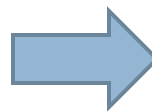
Refine and execute PA's and rapidly move forward with project

Sufficient **commitments tied to specific conditions**



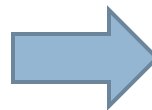
Continued negotiations to establish mutually acceptable conditions

Shipper interest but **insufficient commitments**



Project scope and commercial terms revised; additional negotiations & open seasons

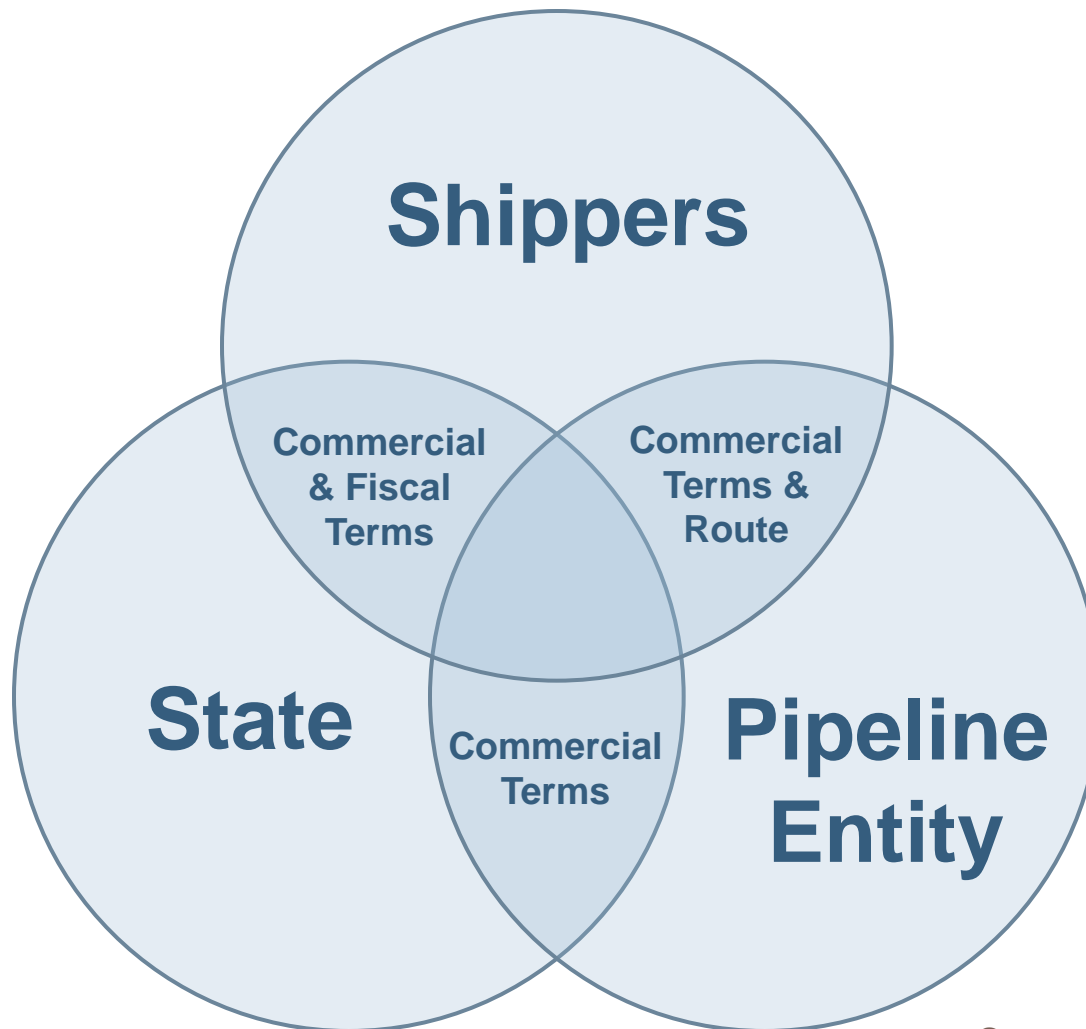
Minimal interest and **no meaningful commitments**



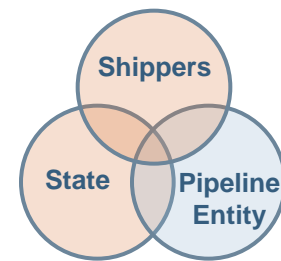
Back to the drawing board; defer; or abandon

What About the Fiscals?

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Factors Driving Project Value for Gas Shippers



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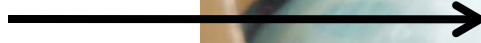
Labor costs



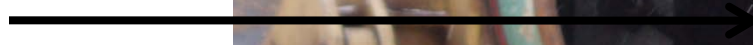
Regulatory & permitting issues



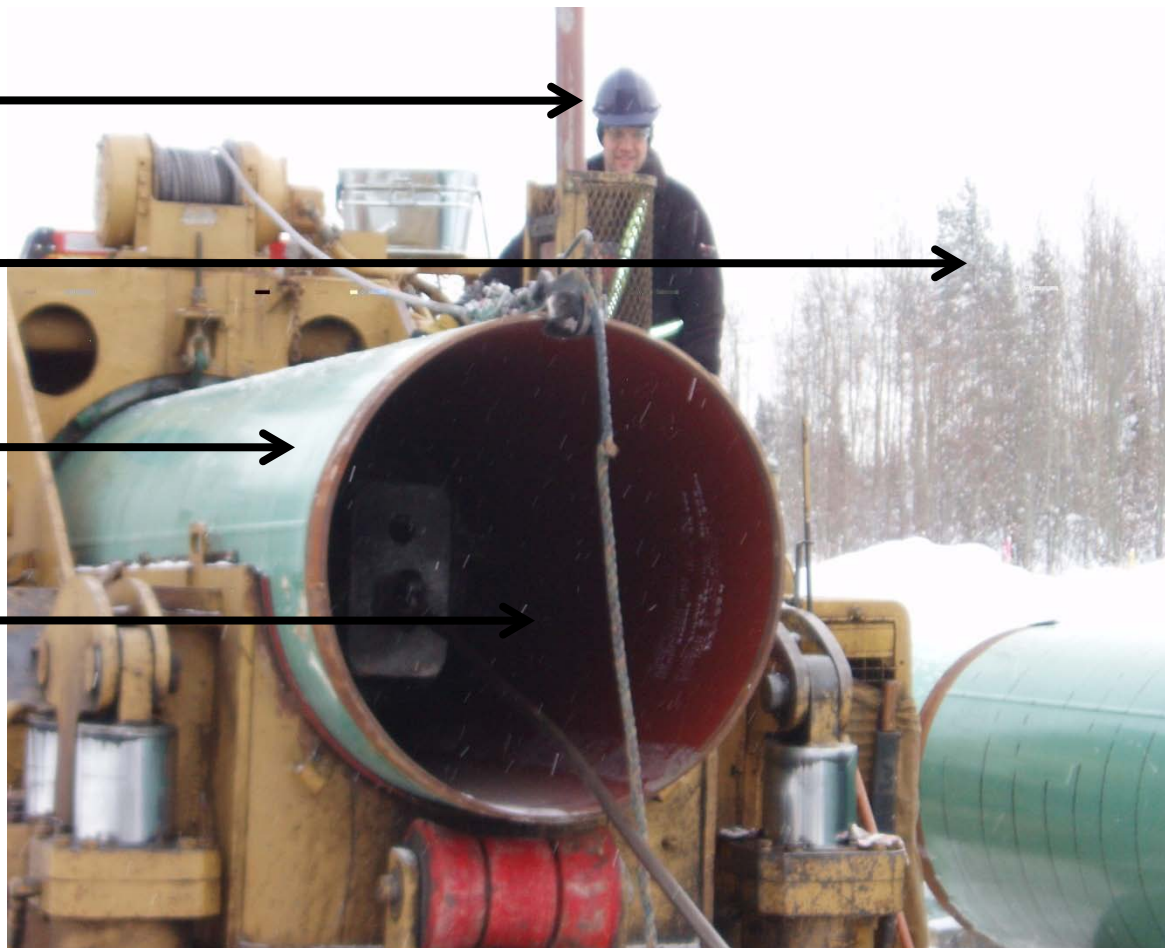
Steel price

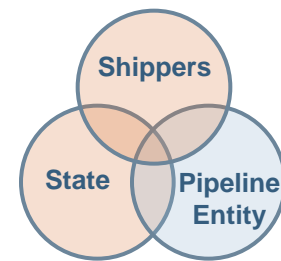


Gas price



Commodity prices have the greatest impact on Shipper value





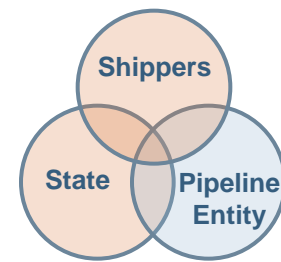
Fiscal System Changes

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Changes to the fiscal system may be made, if companies can demonstrate that changes are necessary

However...

The State cannot allow continued progress on the project to be used as leverage over Shippers' desire for upstream concessions



What has the State Already Done?

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- ❑ 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 for purposes of AGIA Open Season
- ❑ Obtained waiver for gas shippers from FERC capacity release rules

Summary

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- Project has made ***unprecedented progress***

- Future challenges and uncertainties
 - ▣ Numerous issues will need to be negotiated between stakeholders through project sanction

 - ▣ The successful completion of Precedent Agreements will not ensure that the project will be constructed

 - ▣ The project sanction decision expected in late 2014 will ultimately determine if the project will be constructed