

BUILDING A WORLD OF DIFFERENCE

**TRANSCANADA PARTICIPATION IN AKLNG PROJECT
PRESENTATION TO HOUSE FINANCE COMMITTEE
PREPARED FOR THE STATE OF ALASKA**

MARCH 25, 2014



BLACK & VEATCH
Building a world of difference.®

BLACK & VEATCH PRESENTERS



Peter Abt is a Managing Director in Black & Veatch's Management Consulting Division. He leads the firm's Oil & Gas Strategy practice and holds primary responsibility for delivering advisory services to meet client needs. Mr. Abt has over 32 years of experience in the energy industry focused primarily on natural gas and LNG commercial development. Mr. Abt holds an M.B.A., from the University of Houston and a B.S., Petroleum Engineering from the University of Oklahoma



Deepa Poduval is a Principal in Black & Veatch's Management Consulting Division and is responsible for business strategy and project management. Ms. Poduval focuses on strategic analytical services supporting energy asset valuation and optimization, marketing and business strategy development. She has been involved in providing analysis and commercial support related to Alaska North Slope gas monetization for eight years. Ms. Poduval holds an M.E.M. from Dartmouth College and a M.Sc. Economics and B.E., Mechanical Engineering from BITS, Pilani, India.



Jason De Stigter is a Senior Consultant with Black & Veatch's Management Consulting Division and is responsible for business analysis and project management. Mr. De Stigter's client engagements center on economic, financial, market, and risk analysis of large capital projects. He has extensive experience in developing complex and innovative economic and risk analysis models. Mr. De Stigter holds a B.E., Mechanical Engineering and a B.A. Business Administration from Dordt College and is a Professional Engineer.

MEMORANDUM OF UNDERSTANDING – HIGHLIGHTS OF THE DEAL ON THE TABLE



TC Holds the State's Equity Share in GTP+Pipe

SOA Option to Buy Back 40% of TC's Share at ~FEED



State Commits to 25 Year Transportation Agreement with TC



Agreement Commits TC to a WACC of 6.75%

Various Milestones & Off Ramps for SOA and TC

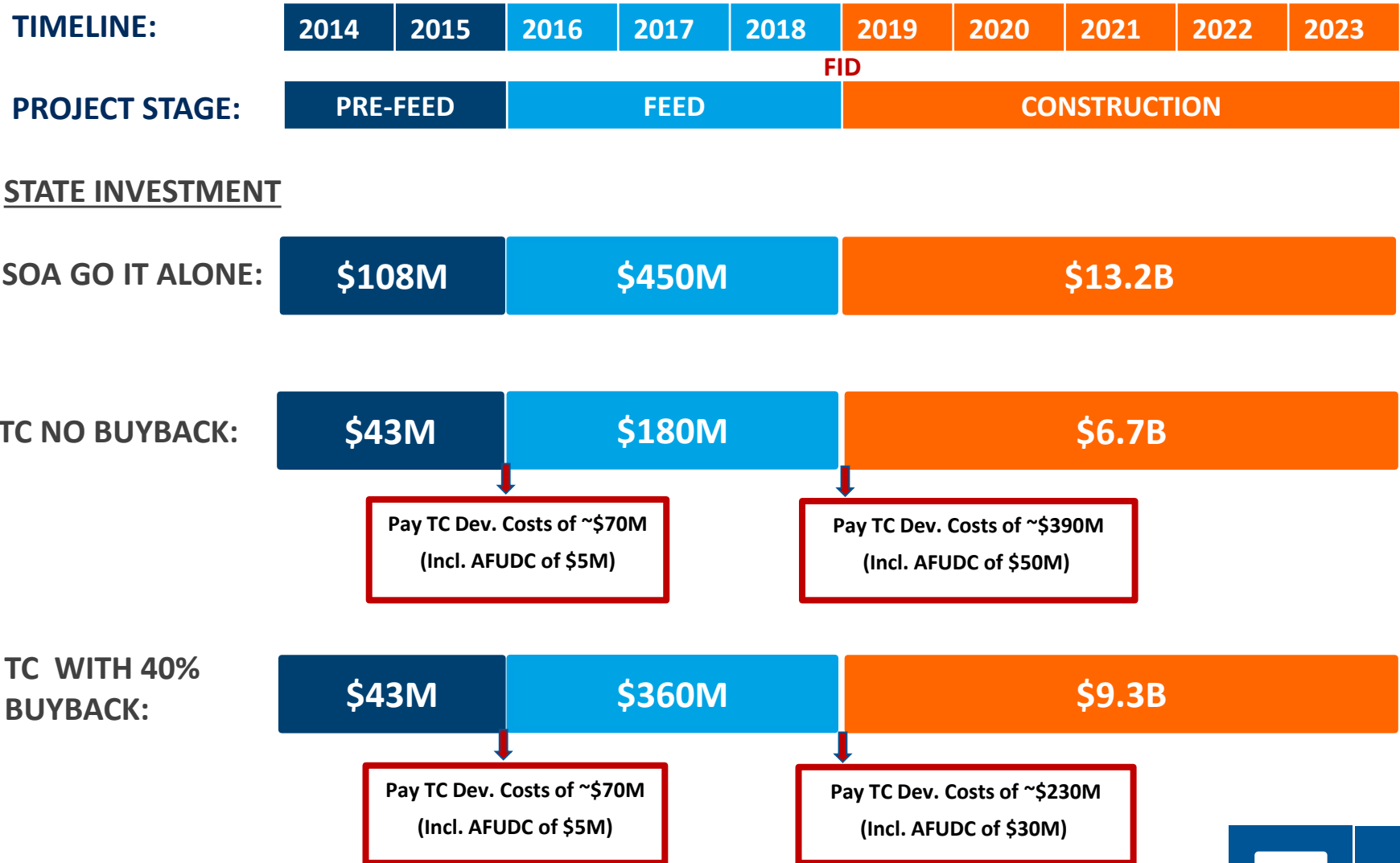


OPTIONS IDENTIFIED BY STATE FOR EQUITY PARTICIPATION

	GTP	Pipeline	LNG Plant
SOA Alone	SOA : 25%	SOA: 25%	SOA: 25%
SOA + TC No Buyback	TC: 25%	TC: 25%	SOA: 25%
SOA + TC with Buyback	TC: 15%	TC: 15%	SOA: 25%
	SOA: 10%	SOA: 10%	

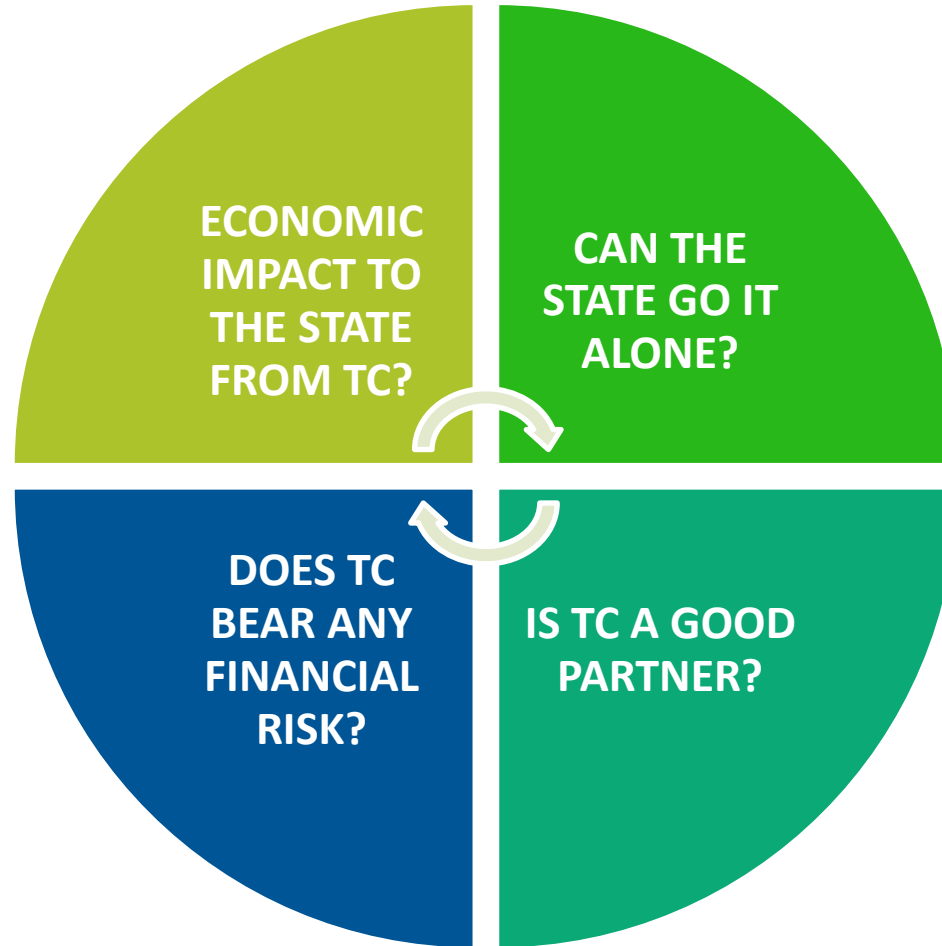
* Assumes 25% State equity participation

IMPLICATIONS OF OPTIONS AND POTENTIAL OFF RAMP



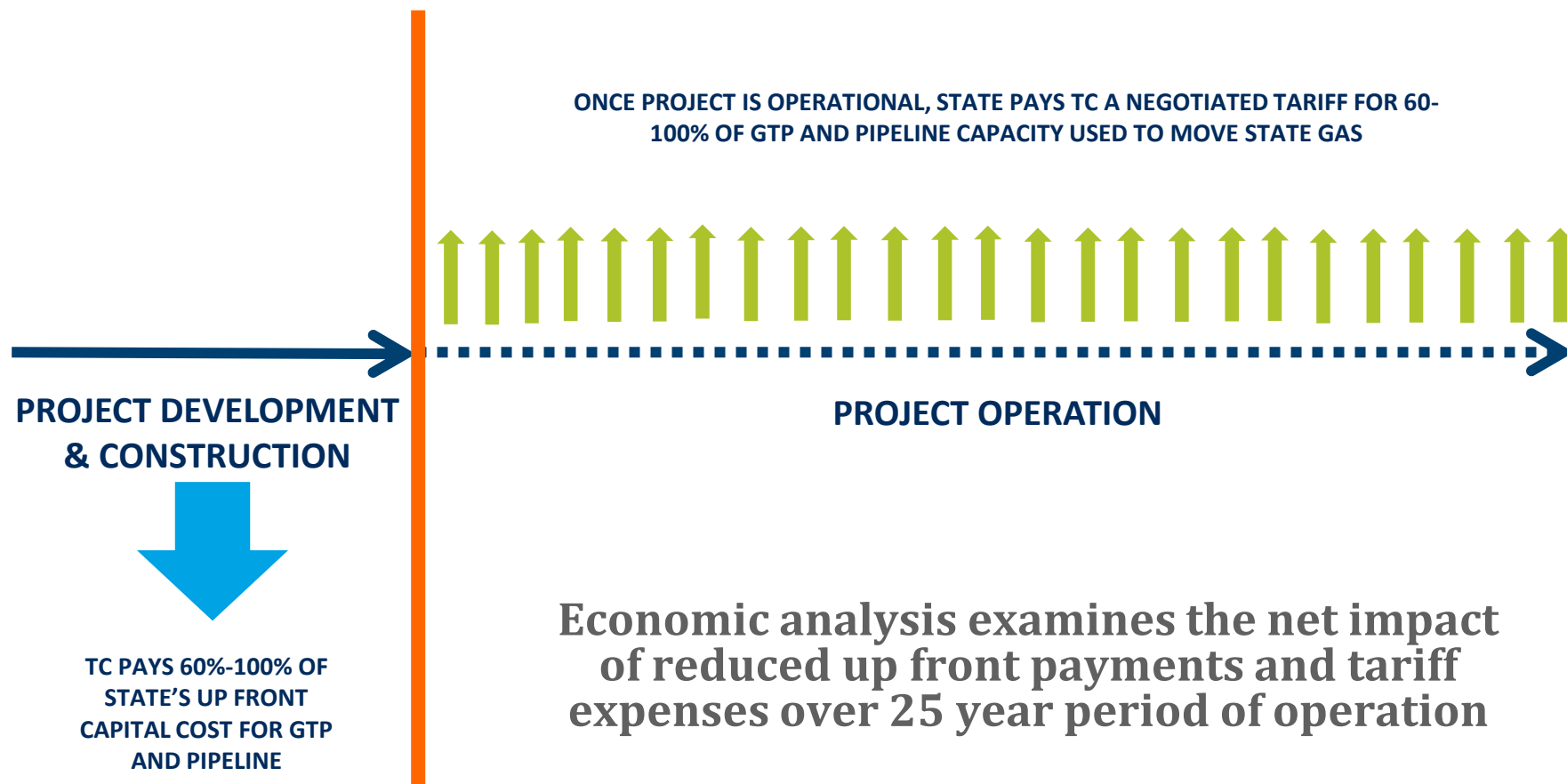
* Assumes 25% State equity participation

KEY QUESTIONS IN LOOKING AT VALUE OF TRANSCANADA'S PARTICIPATION



WHAT IS THE ECONOMIC IMPACT TO STATE FROM TRANSCANADA'S PARTICIPATION?

SOA IMPACT

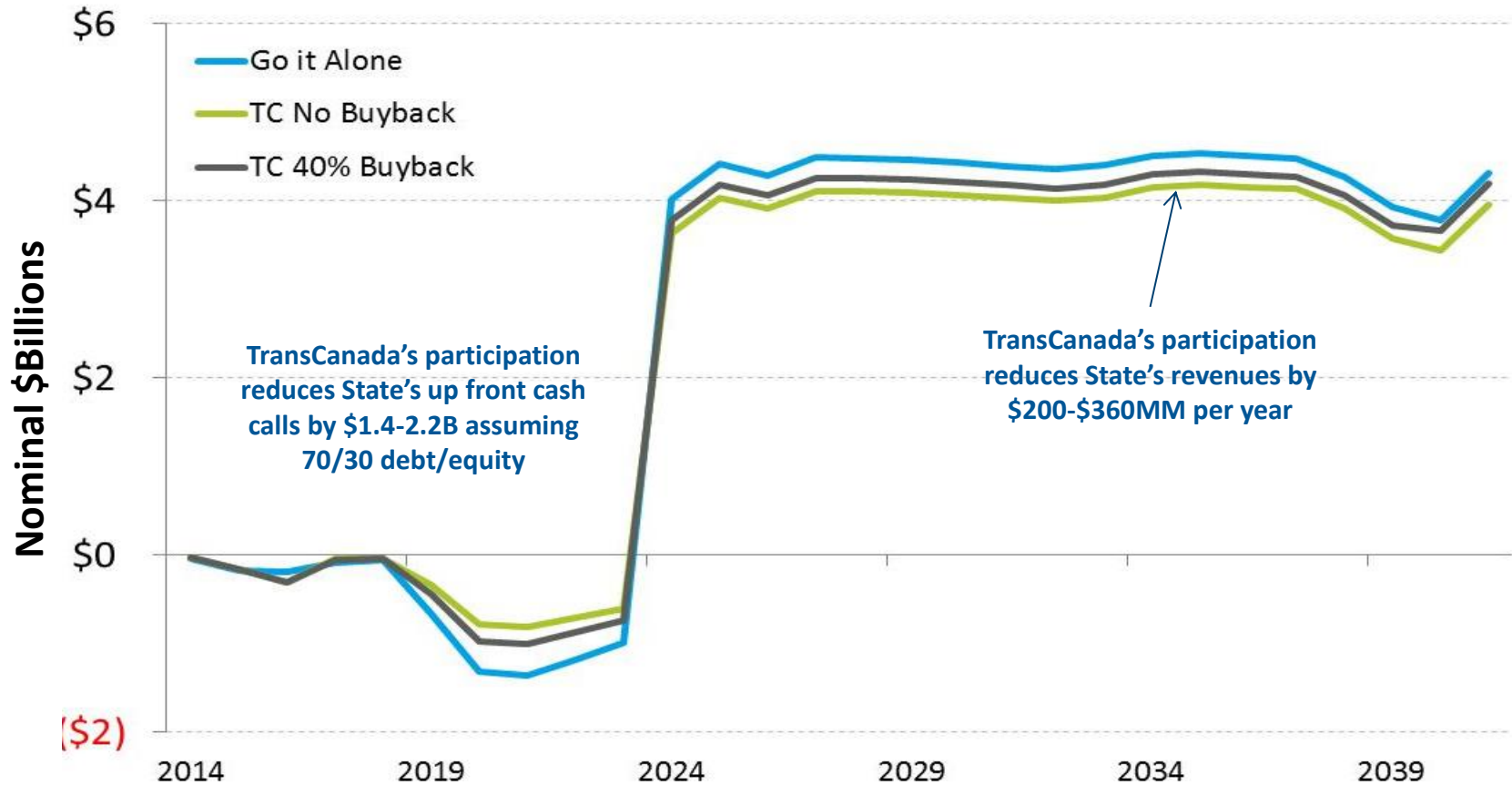


TRANSCANADA'S PARTICIPATION IMPACTS SOA UP FRONT CASH CALLS AND REVENUES FROM PROJECT

SOA IMPACT

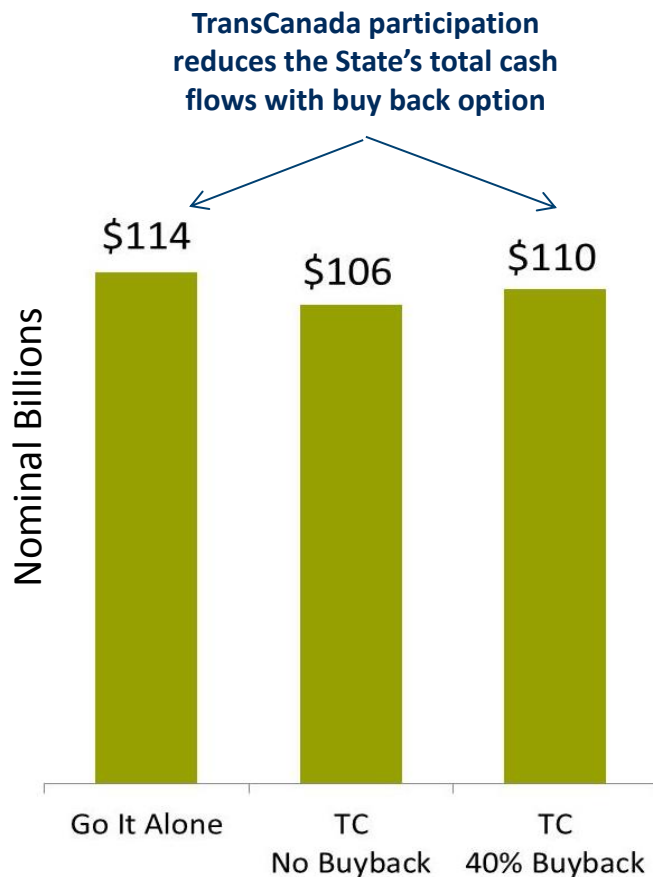


25% Equity Alternative SOA Cash Flow Forecast

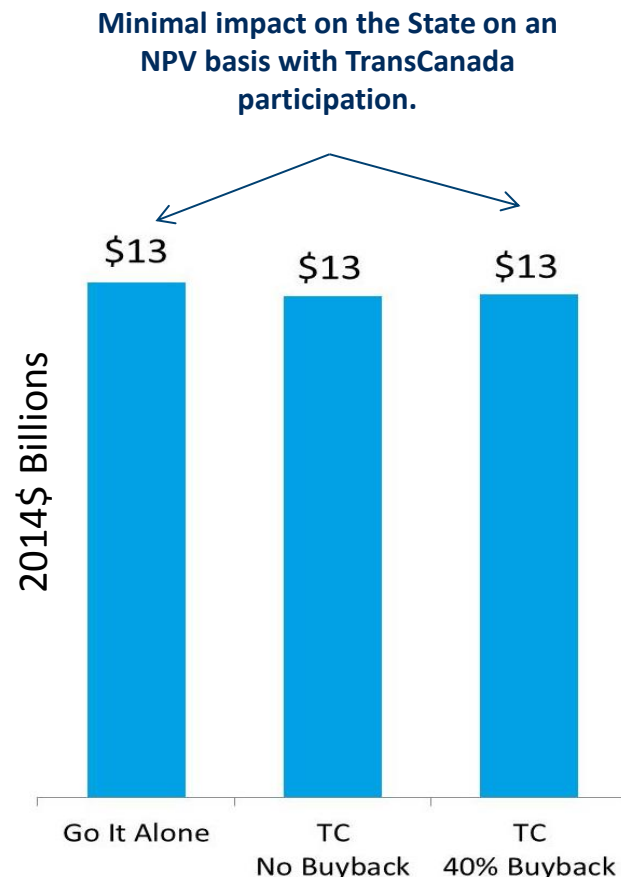


WHAT IS THE ECONOMIC IMPACT TO STATE FROM TRANSCANADA'S PARTICIPATION?

SOA IMPACT



STATE OF ALASKA CASH FLOWS



STATE OF ALASKA NPV₁₀

TransCanada's NPV is expected to be \$150-\$200MM over the initial 25 year period

* Assumes 25% State equity participation

CAN THE STATE GO IT ALONE?



- What are the capital cost and investment implications of going it alone
- What are the debt implications of going it alone?

SOA UPFRONT CAPITAL COST EXPOSURE IS REDUCED THROUGH TC PARTICIPATION

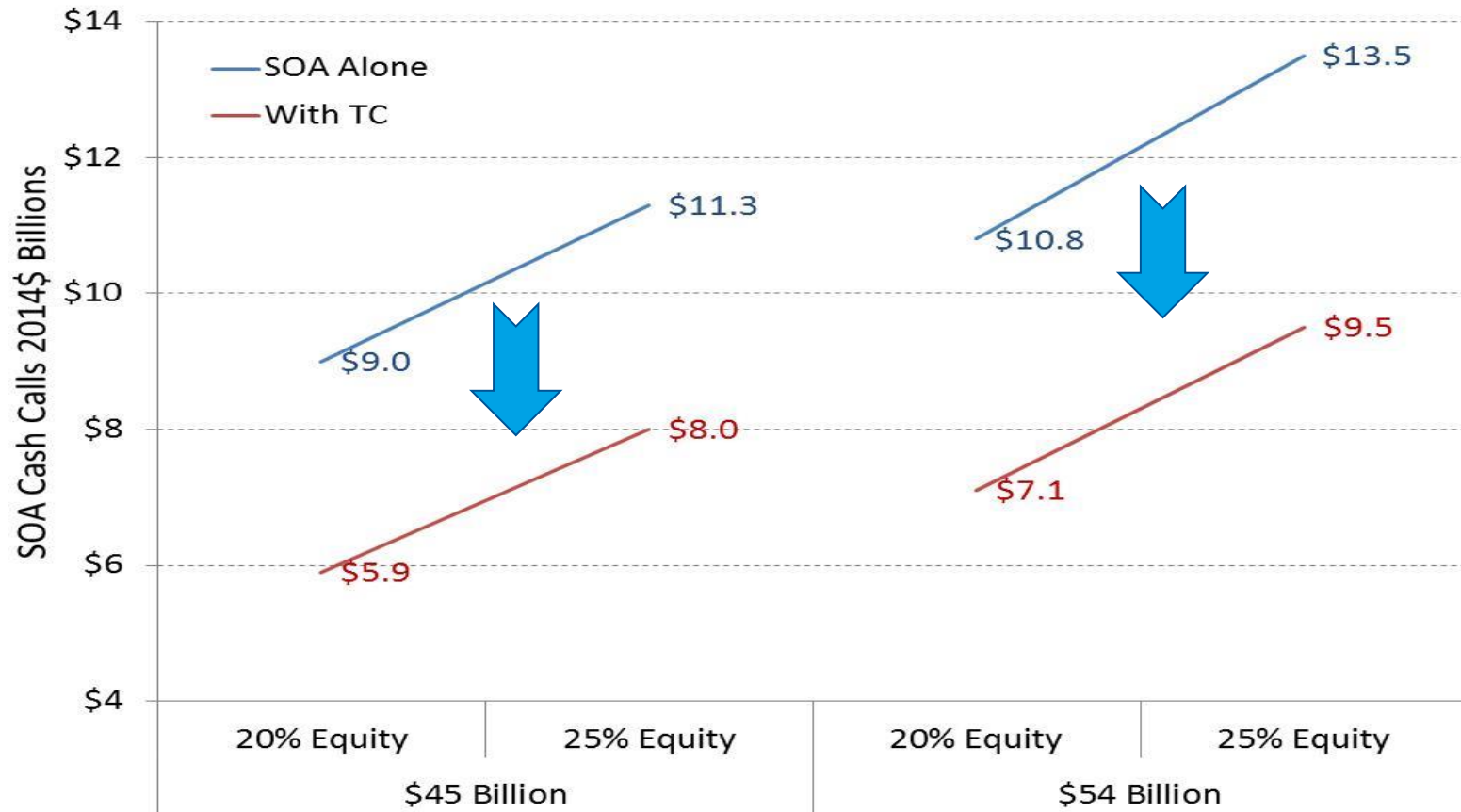


- Highest risk exposure is prior to project start when cash calls are not supported by project revenues
- TransCanada (“TC”) participation allows State to retain 20%-25% of gas share while being responsible for only 13%-18% of the upfront costs
- This is especially important if cost overruns occur on project

SOA UPFRONT CAPITAL COST EXPOSURE IS REDUCED THROUGH TC PARTICIPATION



TC Participation Reduces Total Upfront Investment by SOA by ~40%

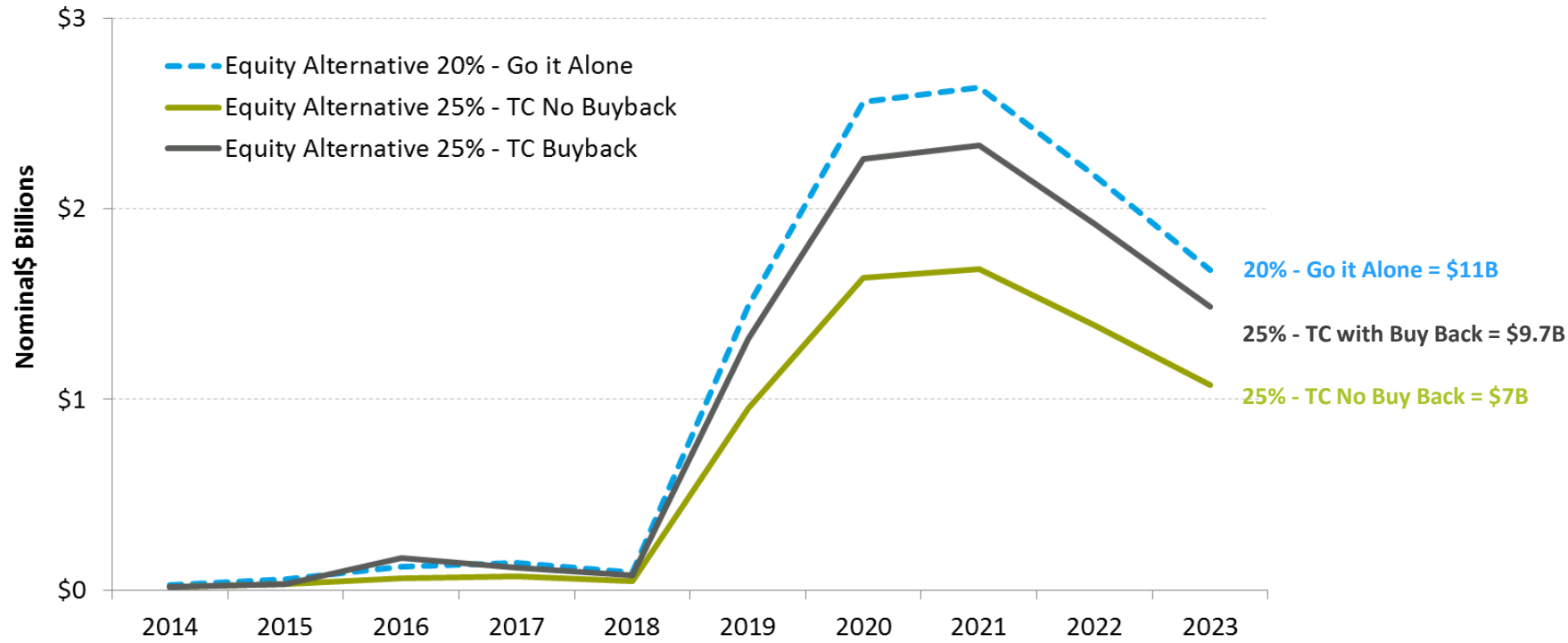


* Assumes State exercises 30%-40% equity buy back with TransCanada

SOA INVESTMENT FOR A 25% OWNERSHIP WITH TC IS EXPECTED TO BE \$1.3-\$4B LOWER THAN FOR A 20% OWNERSHIP GOING ALONE



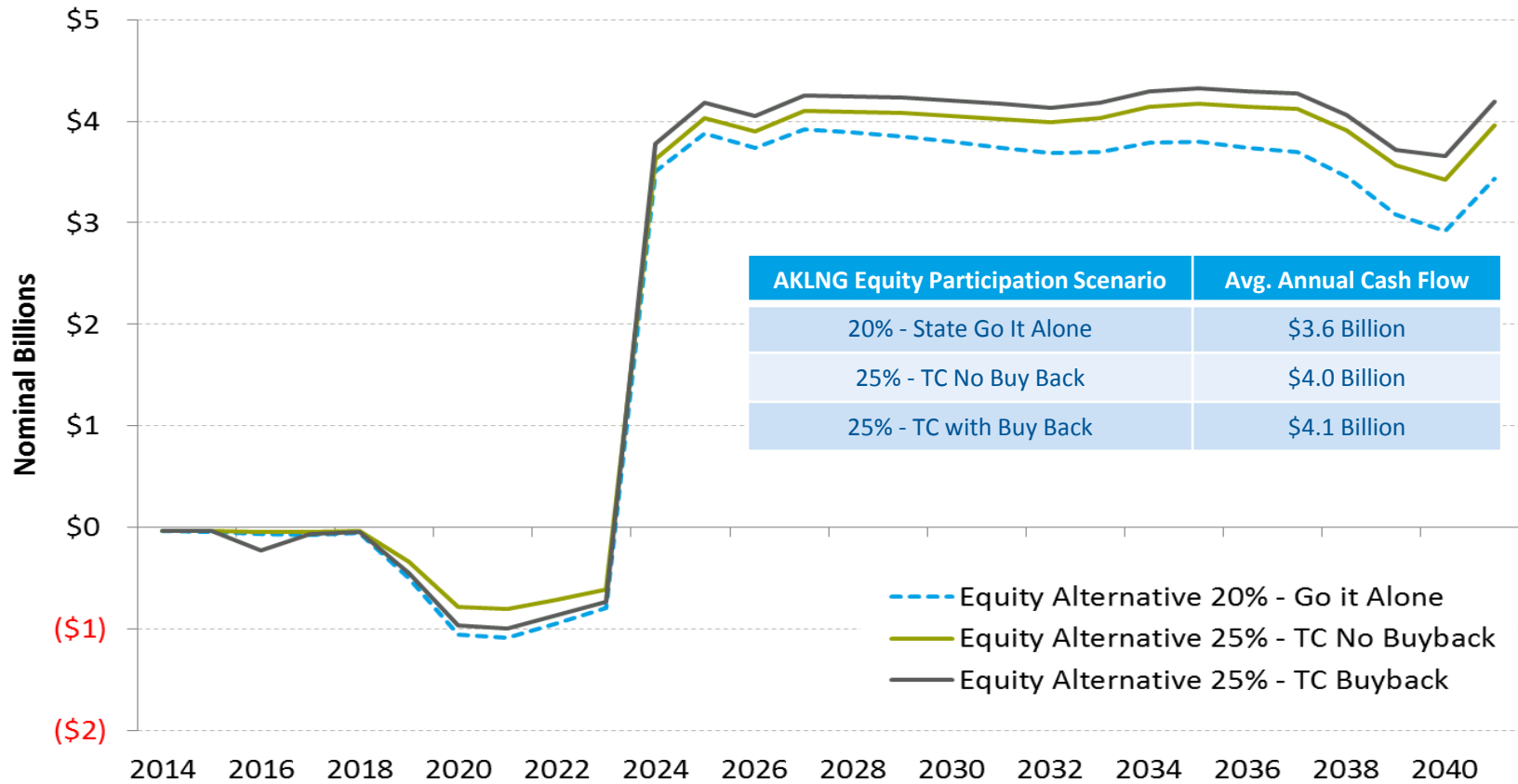
State of Alaska Investment Requirement (Unlevered)



SOA REVENUES FOR A 25% OWNERSHIP WITH TC ARE EXPECTED TO BE \$0.4-\$0.5B PER YEAR HIGHER THAN FOR A 20% OWNERSHIP GOING ALONE



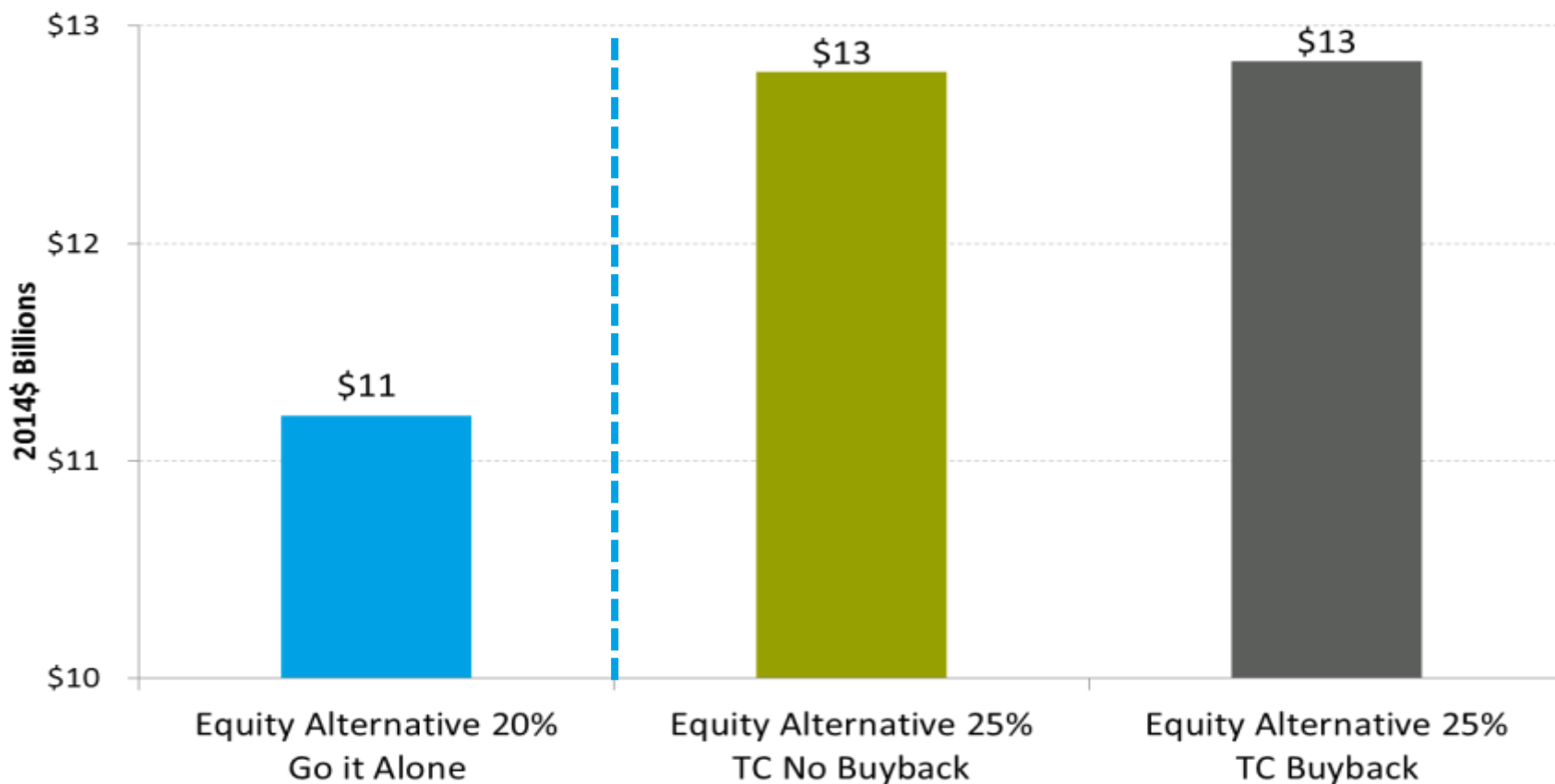
State of Alaska Gasline Impact Cash Calls & Revenues Forecast



25% OWNERSHIP WITH TC INCREASES STATE OF ALASKA NPV₁₀ BY \$2B COMPARED TO A 20% OWNERSHIP GOING ALONE



State of Alaska NPV₁₀ Forecast



* NPV calculated over initial 25-year anticipated term of service agreement with TransCanada

CAN THE STATE GO IT ALONE?

- STATE'S DEBT CAPACITY



- **Financing the State's share of the AKLNG Project on the State's balance sheet – key issues:**
 - At what cost of debt?
 - Debt servicing as what % of general fund unrestricted revenue?

Scenario 1 (lower interest)

- SOA Debt at 4.6%
- Debt Service limited to 3% of GFUR

Scenario 2

- SOA Debt at 4.9%
- Debt Service limited to 5% of GFUR

Scenario 3 (higher interest)

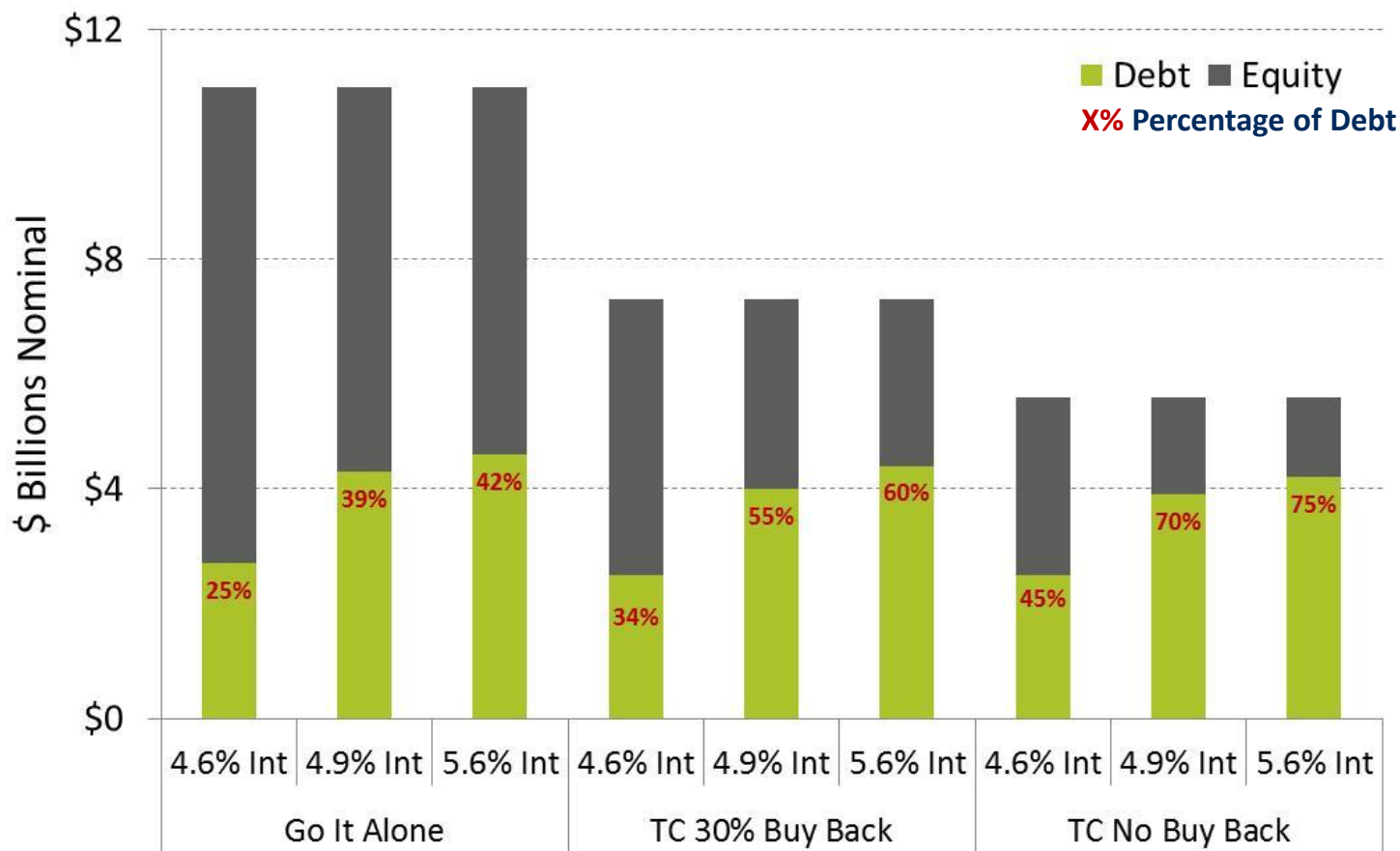
- SOA Debt at 5.6%
- Debt Service limited to 6% of GFUR

* High-level, indicative assumptions based on input from Department of Revenue

THE AMOUNT OF CHEAP DEBT AVAILABLE TO THE STATE COULD BE LIMITED



Indicative Levels of Debt for State to Finance 20% Equity Stake in AKLNG Project



* Analysis based on high-level, indicative assumptions based on input from Department of Revenue. Financing arrangements for the AKLNG project will become clearer further into the development process.

IS TRANSCANADA A GOOD PARTNER FOR THE STATE OF ALASKA IN THE AKLNG PROJECT?



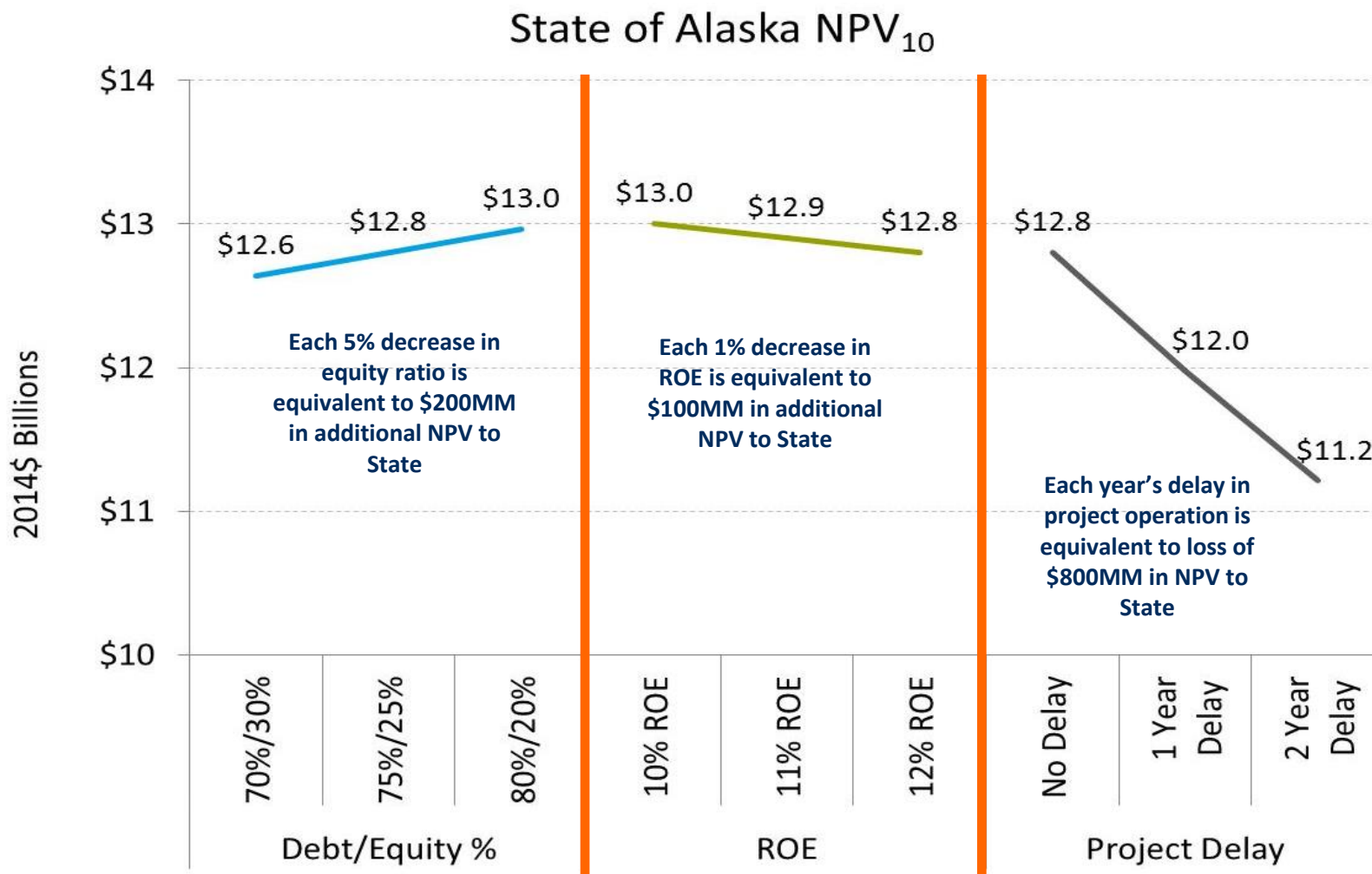
Extensive experience in building, owning and operating northern pipelines

Long history of interest in Alaska Pipeline

Retains momentum in the project

Facilitates expansion

RETAINING MOMENTUM ON PROJECT COULD BE MORE VALUABLE THAN SECURING BETTER COMMERCIAL TERMS

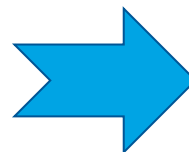


DOES TRANSCANADA BEAR ANY FINANCIAL RISK?



TransCanada has committed to the following terms for providing treating and transportation services to the State

- D/E split of 75%/25%
- Return on equity of 12%; Cost of debt of 5%



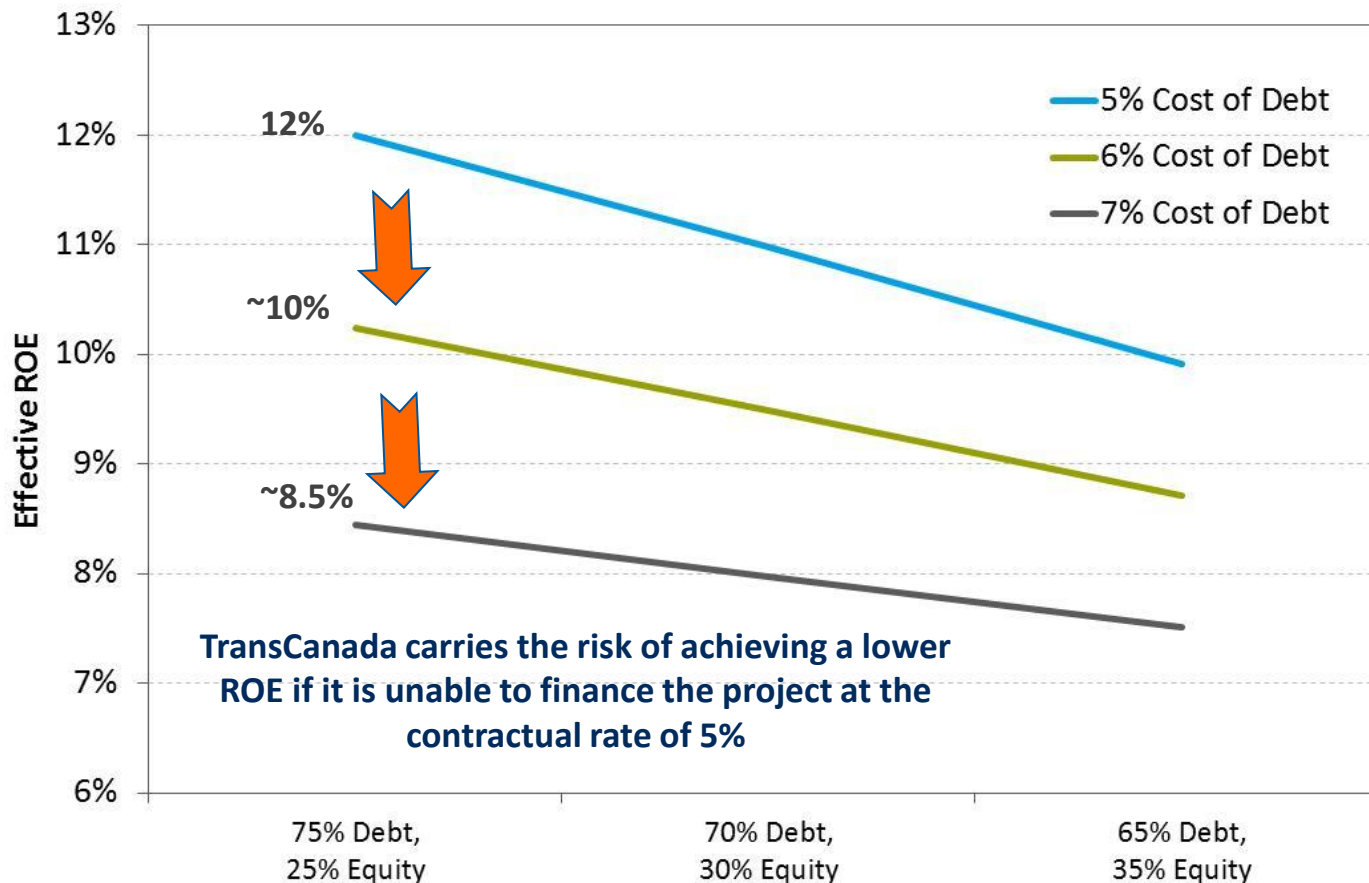
Locking in this capital structure before actual financing arrangements have been made for the project places a risk on TransCanada of under-earning its expected return on equity and eroding its expected NPV from the project

Given the scale of this project and the uncertainties associated with it, financing remains a significant risk

DOES TRANSCANADA BEAR ANY FINANCIAL RISK?



TRANSCANADA EFFECTIVE ROE UNDER DIFFERENT FINANCING ARRANGEMENTS



TransCanada carries the risk of achieving a lower ROE if it is unable to finance the project at the contractual rate of 5%

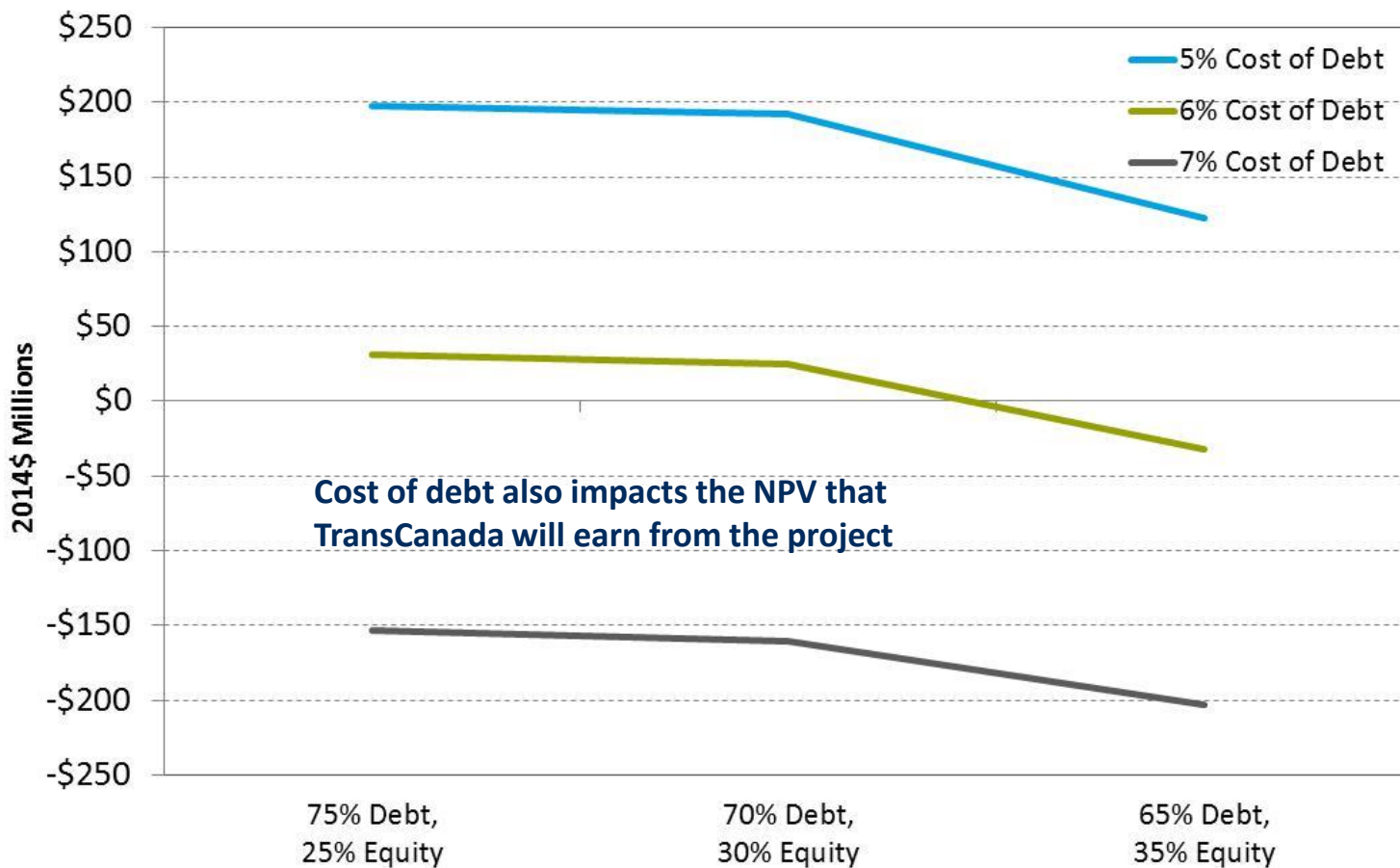
* Assumes 25% State equity participation without State exercising buy back option

DOES TC BEAR ANY FINANCIAL RISK?



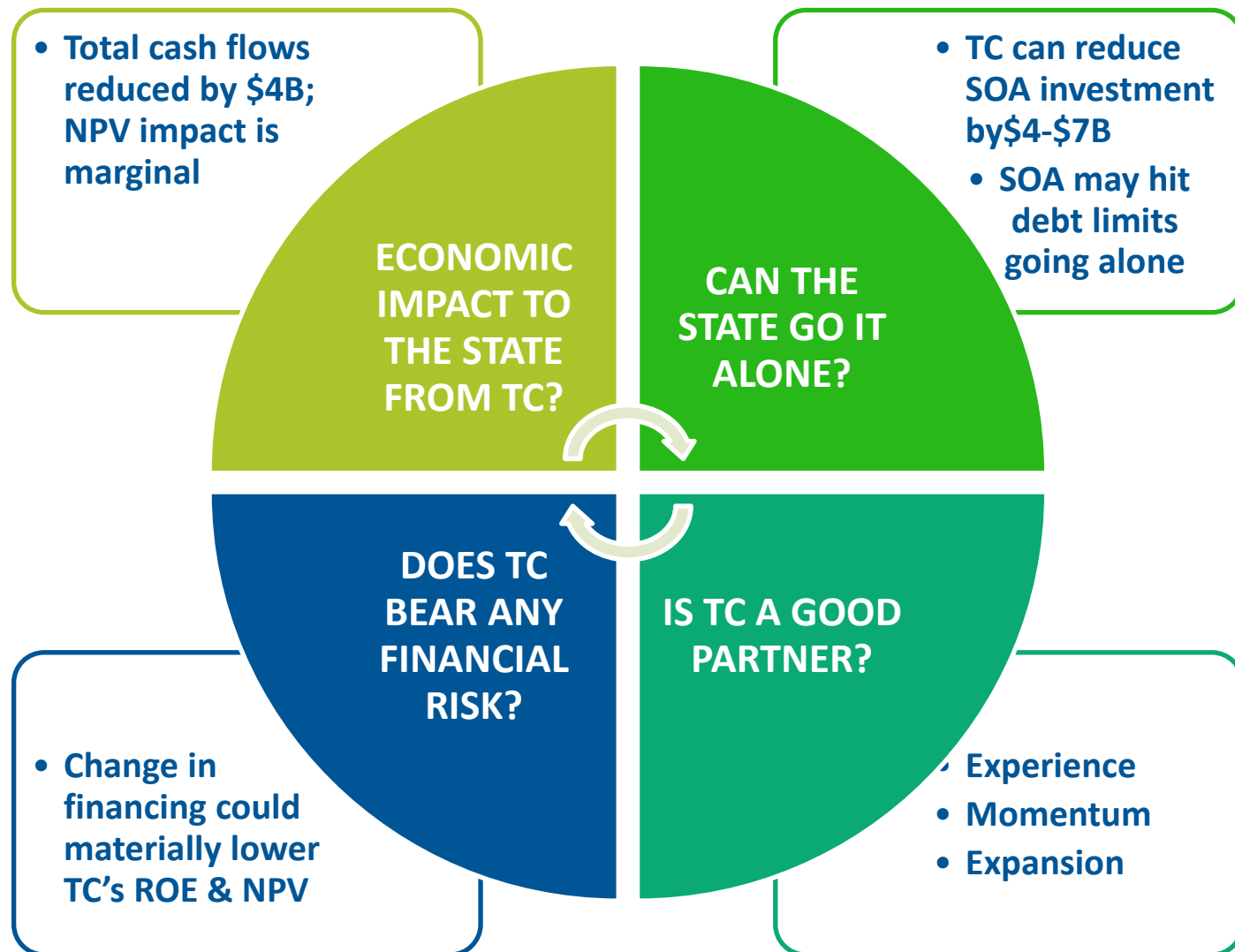
TC RISKS

NPV₁₀ TO TRANSCANADA FROM AKLNG PROJECT



* Assumes 25% State equity participation without State exercising buy back option

SUMMARY ON 4 KEY QUESTIONS



THANK YOU

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