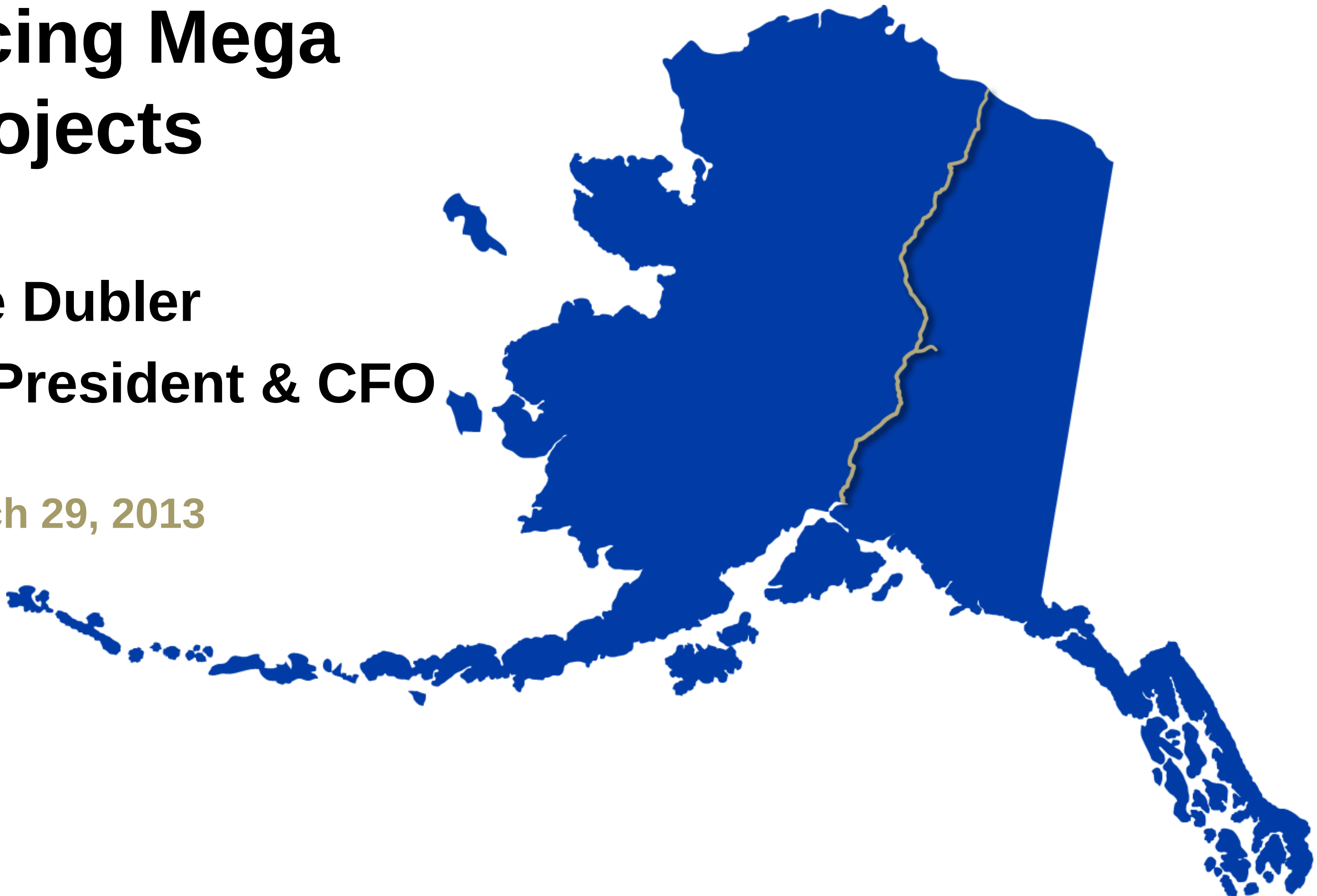
Alaska Stand Alone Gas Pipeline

Financing Mega Projects



Joe Dubler

AGDC Vice President & CFO

March 29, 2013

Financing Overview

- Objective is to achieve the lowest cost of financing possible for a given project
- Look at financing from the other side--that of the investor
- Structure financing package to attract as many investors as possible
- Typically two sources of funding a project - equity and debt, each of which has its own advantages and disadvantages
- Rates of return for both debt and equity are determined based upon several factors that basically reward investors for taking on risk
- Investment yield = inflation rate + risk factor + liquidity factor

Financing Overview

Estimated Inflation Rate

- The benchmark for a risk-free investment with high liquidity is a Treasury Bill, the yield on which represents the estimated inflation rate
- The inflation component represents the time value of money: that is the concept that a dollar today is worth more than a dollar tomorrow
- This is due to a predominately inflationary economy in the United States and worldwide causing lenders to lose buying power by lending money today to be paid back in the future
- A good example is the 1970s in the United States when very high interest rates were driven by very high inflation and not credit or liquidity issues

Financing Overview

Risk Factor

- The risk component represents the risk that the borrower will default or not repay the debt as promised
- A good example of this is the emphasis put on personal credit scores and the mortgage industry employing risk based pricing for mortgage loans
- Another example is the recent flight to quality which was largely responsible for negative treasury yields

ASAP

Financing Overview

Liquidity Factor

- The liquidity component represents the risk that investor will not be able to readily exchange their investment for cash if needed.
- The recent meltdown in the auction rate securities market is a very good example of this. AAA-rated securities were trading at very large spreads to the general debt market due to a lack of liquidity in the auction rate market.

Equity Financing

Equity is riskier (and higher cost) due to:

- Equity investors usually put the first dollars into a project often with no guarantee the project will even make it to a sanction decision
- Equity shares are not very liquid. It is much more difficult to sell equity in a project than a bond issued for the same project

For these reasons it is advantageous to a project's cost of funds to keep the equity portion as small as possible and the debt portion as large as possible

Equity Financing

- Equity financing options include 100% state-owned, 100% private owned, or some combination of the two
- One of the advantages to a State-owned pipeline is that the State would have more control over the components of the pipeline
- Some might say this is also a disadvantage to a State-owned pipeline as the private sector is better equipped to own large projects
- The main advantage to a privately owned pipeline is that the private sector may be best equipped to complete such a project.
- There are many companies whose only business is to build, own and operate pipelines, and they are very good at doing so
- The disadvantage is that the State loses the control it would otherwise have in with the State ownership option

Debt Financing

- While there are many different vehicles available to finance a project, we will focus on three today: general obligation bonds; project finance bonds; and state moral obligation bonds

- General Obligation Bonds
    - ✓ would get the State's rating, which would lower the cost and make for a more straightforward credit analysis
    - ✓ However general obligation bonds require voter approval and a general fund appropriation in the future, which will be offset by project revenues

Debt Financing

- Project Financing
  - ✓Would have no impact on the State of Alaska as the project would be rated as a stand-alone credit; therefore no general fund appropriation would be required

- State Moral Obligation Bonds
  - ✓Would have similar benefits of general obligation bonds in that they would result in lower interest rates and a simpler credit analysis based upon the State's credit rating
  - ✓Likewise, the negative effects of moral obligation bonds would be similar to the general obligation bonds in that there would be a potential State downgrade resulting in a real cost to the state of Alaska and its political subdivisions

ASAP

Project Finance Optimization

- The goal for project financing is to strike an appropriate balance between debt and equity components such that the lowest overall yield (cost) can be achieved.
- A balance is needed between the two because each has advantages and disadvantages. The most important of which is that they have different yields required by the respective investors due to the following factors:
  - ✓ Debt is less risky (and, therefore, lower costs than equity)
  - ✓ These are the last dollars going into a project
  - ✓ Debt holders typically have a fixed payment due semiannually or annually
  - ✓ Bonds are typically easier to sell than equity shares making them more liquid

Ownership Model

- A typical ownership model could include a pro rata equity for shippers in the share of the gas in that they are shipping in the line
- This allow shippers a percentage control in line with the risk their taking in committing their gas to the project
- A target capital structure of 75%-25% is consistent with the APP and Denali Pipelines' assumptions used in their Open Seasons.

Thank You

Alaska Gasline Development Corporation

ASAP Project Office

3301 C Street, Suite 100 Anchorage, AK 99503

Phone: (907) 330-6300

Website: www.agdc.us

Joe Dubler

Vice President & Chief Financial Officer

Phone: (907) 330-6300

ASAP