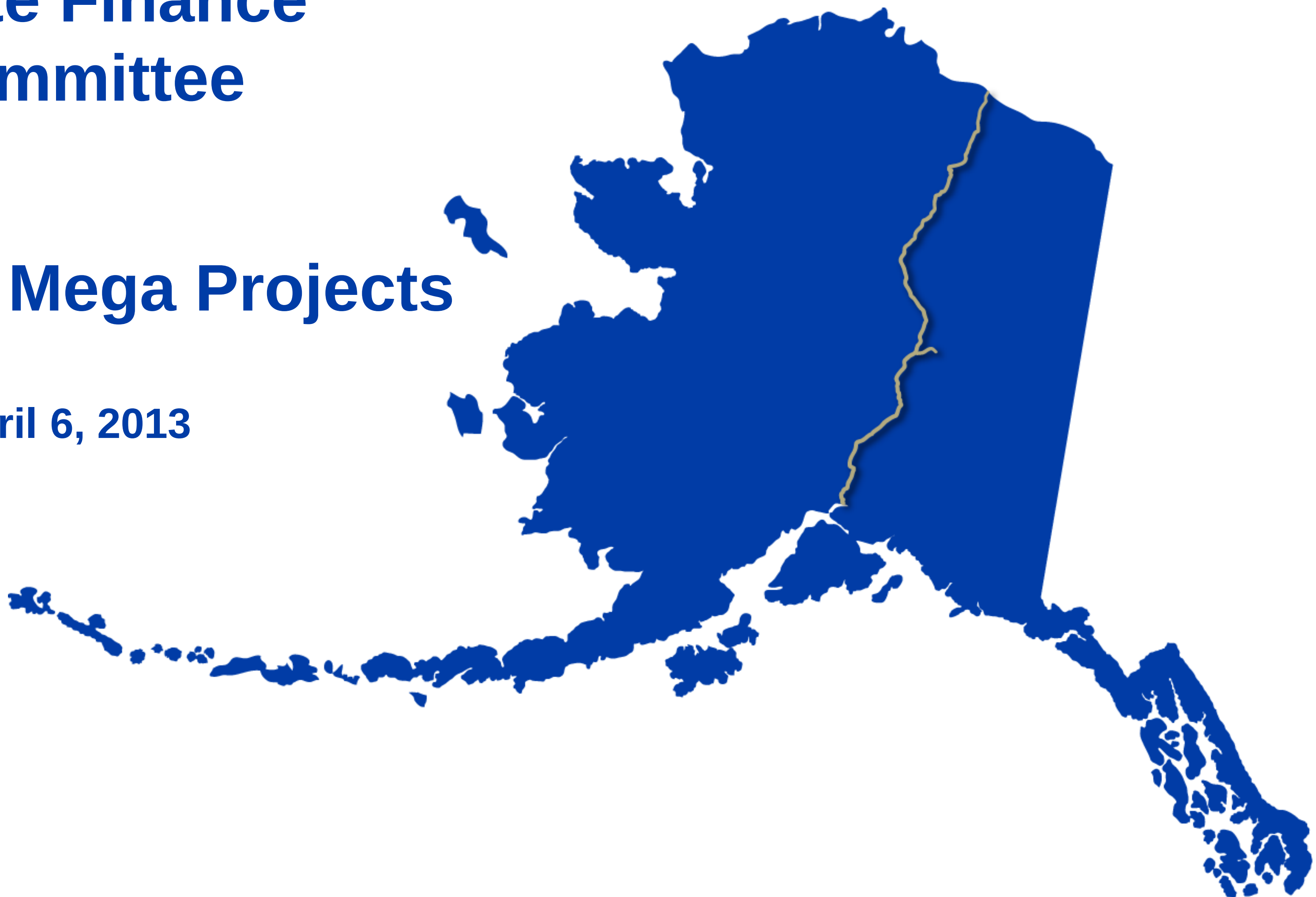
ASAP

Alaska Stand Alone Gas Pipeline

Senate Finance Committee

Financing Mega Projects

April 6, 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

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 overall 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 of 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 of a State-owned pipeline as the private sector is better equipped to own and operate 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 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)

[redacted]ebt Financing

- Project Financ[redacted]
  - ✓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

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Ownership Model

- 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 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

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