

ALASKA Pipeline Project



Presentation to Alaska State Legislature House Finance Committee

April 4, 2011

Discussion Items

Alaska Gasline Inducement Act

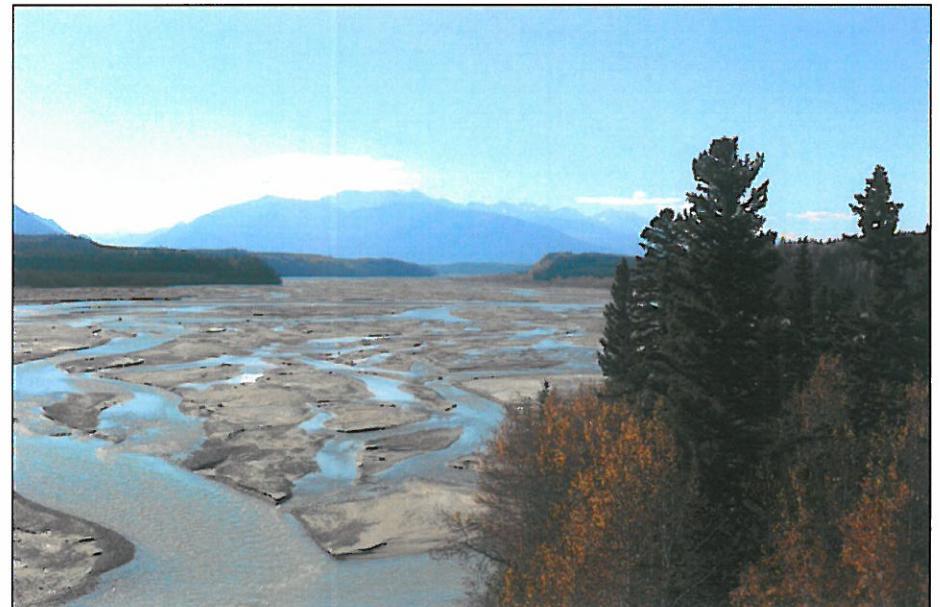
AGIA Commitments

H.B. 142

Path to Success

Progress to Date

Next Steps



Alaska Gasline Inducement Act

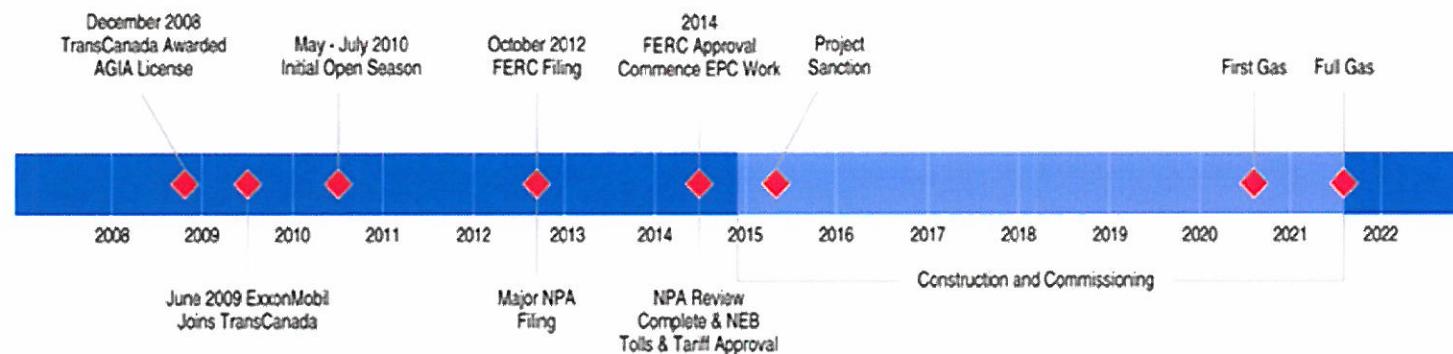
Alaska Statute 43.90.010: The purpose of this chapter is to encourage expedited construction of a natural gas pipeline that:

- Facilitates commercialization of North Slope gas resources in the state
- Promotes exploration and development of oil and gas resources on the North Slope in the state
- Maximizes benefits to the people of the state from the development of oil and gas resources in the state
- Encourages oil and gas lessees and other persons to commit to ship natural gas from the North Slope to a gas pipeline system for transportation to markets in this state or elsewhere

Alaska Gasline Inducement Act

Under AGIA, pre-construction work proceeds while commercial agreements are being negotiated

- Alternative is to pace pre-construction work commensurate with commercial progress
- Result would be a potential delay of construction of up to several years



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AGIA Commitments

APP has consistently met AGIA objectives and commitments:

- Effective lines of communication with state AGIA team
- Opportunities for in-state gas access
- First open season in history of North Slope with multiple bids received
- Improved commercial terms for customers by \$500 million per year in initial open season offering
- Permitting process progressing toward Oct. 2012 filing
- Advancing initiatives to maximize the use of Alaskan businesses and workers



State of Alaska has equally met its commitments to date

Because of AGIA, an Alaska natural gas pipeline project has advanced further than ever before technically and under the regulatory process--and is effectively positioned for ongoing progress

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AGIA Commitments

TC's AGIA license application identified 2014 as end of Development Phase

- Provided up to 6 years for acquisition of “firm transportation commitments”
- Decision to proceed / final investment decision expected to be made at that time

TC's schedule reflected challenges of developing the project

- Scope, magnitude and financial risk of the project requires intense multi-year effort to complete all work necessary for Shippers to make final irrevocable decision to commit \$100+ billion to the project

Legislature's approval of AGIA license to TC ratified this schedule

HB 142 Appears to Violate AGIA License Agreement

APP is opposed to HB 142:

- Effectively amends key provisions of AGIA License Agreement
- Raises uncertainty of the State's support for AGIA at a critical time
- Undercuts efforts to achieve alignment of all parties necessary for successful project

HB 142 unilaterally would change the contract between the State and the AGIA Licensee:

- AGIA presumes that the Project is economic unless the Licensee agrees or arbitrators rule that it is not
 - HB 142 reverses that key presumption
- AGIA mandates a viable work plan and timeline for developing the Project, but does not mandate a specific deadline for securing firm transportation commitments
 - HB 142 imposes an arbitrary and non-viable work plan and timeline by establishing a specific deadline for firm transportation commitments
- AGIA contains a defined process for joint State/Licensee determination of whether the Project is economic
 - HB 142 alters that process by directing Commissioners to take action that is reserved to their discretion under AGIA

AGIA Reimbursement Process

AGIA reimbursement process working as intended and funding qualified activities

Qualified activities:

- Pursuing firm transportation commitments
- Securing financing
- Obtaining a Certificate of Public Convenience and Necessity from FERC
- Satisfying a requirement of an agency with jurisdiction over the project

All expenditures submitted for reimbursement subject to a due diligence review and audit

State reimbursement:

- As of 3Q of 2010: \$50M reimbursed (additional assessments pending)
- Forecasted reimbursement FY 2011: \$125M
- Governor's proposed budget FY 2012: \$160M

AGIA funding supporting real work to advance an Alaska natural gas pipeline; TC and EM committing their own funds in combination with the state

Path to Success

Project exceptionally large, complex and important

2010 very productive for APP:

- **Conducted first open season in North Slope history**
- **Making good progress on multiple fronts**
- **Diligently conducting the work needed to advance the project**
- **AGIA working as intended and commitments being met**

To succeed we must:

- **Attract customers**
- **Obtain regulatory approvals**
- **Achieve project financing**
- **Secure and maintain the support and active engagement of all key parties**



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Progress: Use of Alaska Resources

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Activities across all APP teams:

- Over 1,000,000 work hours
- 115 TC and EM employees--Anchorage / Calgary / Houston / Whitehorse
- Peak work levels: Over 400 workers in the field

As of 1Q2011: 40 Alaskan companies / 470 Alaskans have worked on the project

AECOM
Aero-Metric
Arctic Hydrologic Consultants
Air Logistics
ASRC (AES)
Baseline GeoConsulting
Carns General Contractors
Central Environmental
Clarus Technologies LLC
Discovery Drilling
Doyon (Universal Services)
Dryden & Larue Inc.
Dwayne Miller & Associates
ERA Helicopters
ERM
Guardian Security
GCI Telecommunications
GeoNorth Inc.
Golder & Associates
HDR

Immersive Media
ISER
Jade North
Lounsbury & Associates
Michael Baker Jr. Inc.
Mullikin
Nana Management Services
Nanuq Inc.
NHG Alaska LLC
Northern Economics
Northern Engineering & Scientific
Oasis Environmental Inc.
Peach Investments LLC
Red Bear
R & M Consultants
Safety Resourcing
Tanana Chiefs
TCC-Mullikin
URS
Nana WorleyParson



Accomplishment: Utilizing skills of Alaska businesses and workers to advance all aspects of the project's development

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Progress: Training Alaskan Workers

Working with the State of Alaska Dept. of Labor and Workforce Development in their efforts to develop and implement training programs for Alaskan workers:

- APP is active member of the Alaska Gas Pipeline Training Plan Committee
 - Participating with state, contractors, labor organizations, University of Alaska and others
 - Implementing Alaska Gasline Strategic Training Plan
- Initial focus: Identifying future APP workforce needs and skills requirements
- Leading to development and implementation of training plans
- APP donated large diameter pipe to Fairbanks pipeline training school to aid in pipe handling and welding training

Accomplishment: Taking the necessary steps to prepare the Alaskan workforce for pipeline construction and operations jobs



Progress: Attracting Customers

APP's open season concluded on July 30, 2010

- Received conditional bids from major industry players and other parties
- Conditions included proposed changes to APP's commercial terms, as well as issues requiring resolution between Shippers/Producers and the State

APP has progressed negotiations with potential Shippers following the close of the Open Season

- Good progress in addressing proposed amendments to commercial terms
- APP continuing engagement with potential shippers



Open Season Starts Today

The first North Slope natural gas open season in the history of Alaska is now underway. Over the next three months, natural gas shippers can evaluate detailed plans for the Alaska Pipeline Project and reserve capacity in the pipeline.

The Alaska Pipeline Project offers a choice of two pipeline routes, one from the North Slope to Alberta, Canada, and one to Valdez, Alaska. Both options would provide opportunities for distributors to deliver gas from the pipeline to Alaskan communities.

The Alaska Pipeline Project open season will be conducted from April 30 through July 30, 2010. For more information about this historic step, visit the open season section of our website.

www.TheAlaskaPipelineProject.com/open_season

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TransCanada ExxonMobil

Alaska Anchorage

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Progress: Attracting Customers

The resolution of State and Shipper/Producer issues is fundamental to progress APP and to underpin the shippers' substantial investment

- **Would be the largest privately financed construction project in the history of North America**
- **Issues will need to be concurrently advanced in order to secure signed precedent agreements**

Accomplishment: APP continuing to progress the commercial process, but:

- **Success will require all parties--including Shippers/Producers, State, and APP--to actively engage to realize a mutually beneficial outcome**



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Progress: Obtaining Regulatory Approvals

Advancing essential regulatory work for securing permits:

- Aligning with regulators on path forward
- Completed extensive environmental field studies in 2010 and initiating major program for 2011
 - Archeology and cultural resources; wetlands delineation; fish habitat surveys
- Actively engaging public along pipeline route:
 - Met with 32 Alaska communities in 2010--project updates and listening for their issues; similar program in 2011
 - Continuing communications with First Nations in Yukon and British Columbia
- Progressing socioeconomic assessment
 - Interviews with Alaskan community leaders on potential impacts of large-diameter gas pipeline
- Secured land access for field studies on public land; progressing for private lands in 2011

Accomplishment: On schedule to complete the work needed to submit FERC certificate application and commence NPA compliance filings by Oct. 2012



Progress: Financing the Project

Conducting the range of work needed to secure project financing:

- Largest private investment in history of North America with unprecedented financing needs
- Developed preliminary finance plan, with input from leading financial institutions, for open season rate design
- On-going discussions with U.S. Dept of Energy on use of Federal Loan Guarantees (FLGs)
 - Successful use of FLGs means lower financing cost for the project
 - Reduces rates to shippers; enhances economic value to all stakeholders
- Collaborating with Senate Committee on Energy and Natural Resources on amendments to 2004 statute authorizing FLGs for AK gas pipeline project
 - If passed by Congress, will increase FLGs from \$18B to \$30B, and allow access to Federal Financing Bank



Accomplishments: Developed preliminary finance plan that supports open season negotiations through reduced rates and enhanced value to all stakeholders; positioned for further financing enhancements

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Progress: Pipeline Engineering & Technology

Progressing pipeline engineering and technology work in the lab and in the field:

- Advancing the project design
 - Geotechnical design; hydraulic and geothermal modeling; geo-hazard assessment; materials engineering; pipeline design; facilities engineering; construction and logistics planning
- Conducting engineering field work in Alaska, Yukon and British Columbia
 - LiDAR and aerial photo; routing; fault delineation; watercourse crossing reconnaissance; borehole and bulk soil sampling; borrow site reconnaissance
- Permafrost studies--includes research program with University of Alaska



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Progress: Pipeline Engineering & Technology

Conducting full-scale testing of project pipe (48" / X80)

- Objective is to validate models used to predict pipe tensile and compressive strain capacity
- Test program is designed to simulate strains caused by frost heave and thaw settlement
- Testing facility will be fully operational by May 2011
- Several mills providing pipe to be tested

Accomplishment: Conducting ongoing series of studies and planning to advance design of pipeline facilities--in alignment with commercial and regulatory schedules

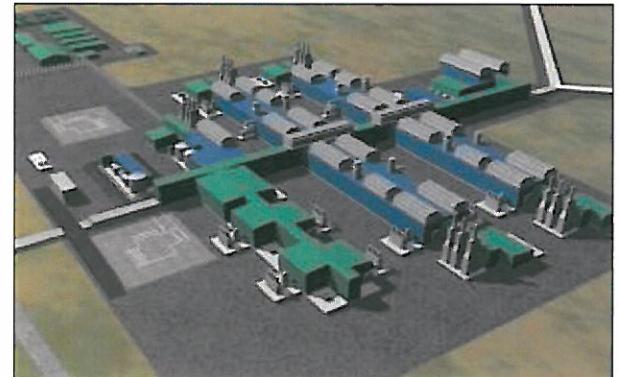


Progress: Gas Treatment Plant

Progressing gas treatment plant (GTP) engineering and technology work in the lab and in the field:

- Optimization and development studies underway in all areas of work
 - Process planning; engineering; regulatory requirements; project execution
 - Studies have identified cost savings and improvements in plant lay-out
- Conducting on-site evaluations of major North American and Asian fabrication facilities to review capabilities and further refine construction planning

Accomplishment: Completed latest phase of studies and planning to advance design of GTP facilities—in alignment with commercial and regulatory schedules



Next Steps

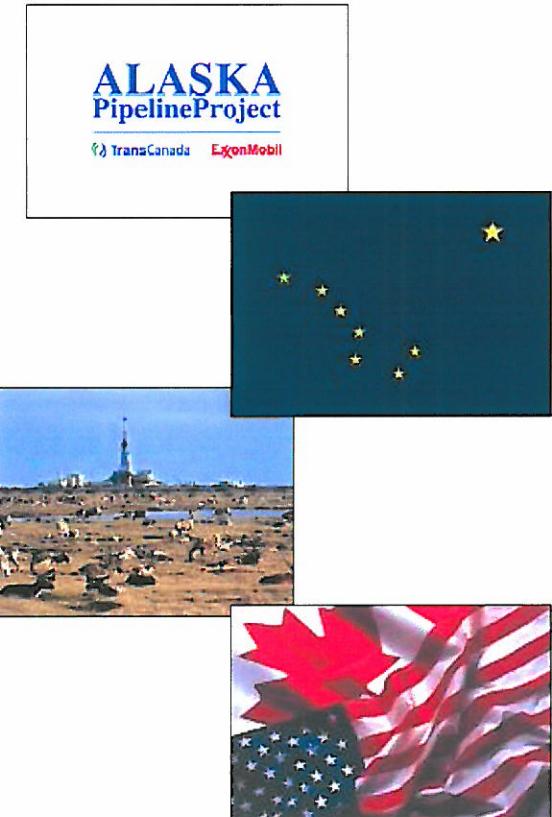
All APP teams conducting the work needed to:

- **Attract customers**
 - APP working diligently to resolve remaining issues
 - Essential that issues outside of APP's control also be resolved
- **Obtain regulatory approvals**
 - APP will submit FERC and major NPA filings in 2012
- **Achieve project financing**

Project can only advance with support and active engagement of all key parties

- **Shippers / Producers**
- **State of Alaska**
- **U.S. and Canadian governments**
- **Communities along the pipeline route**

Each party has a vital role in ensuring the effective commercialization of Alaska's natural gas resources



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Thank You