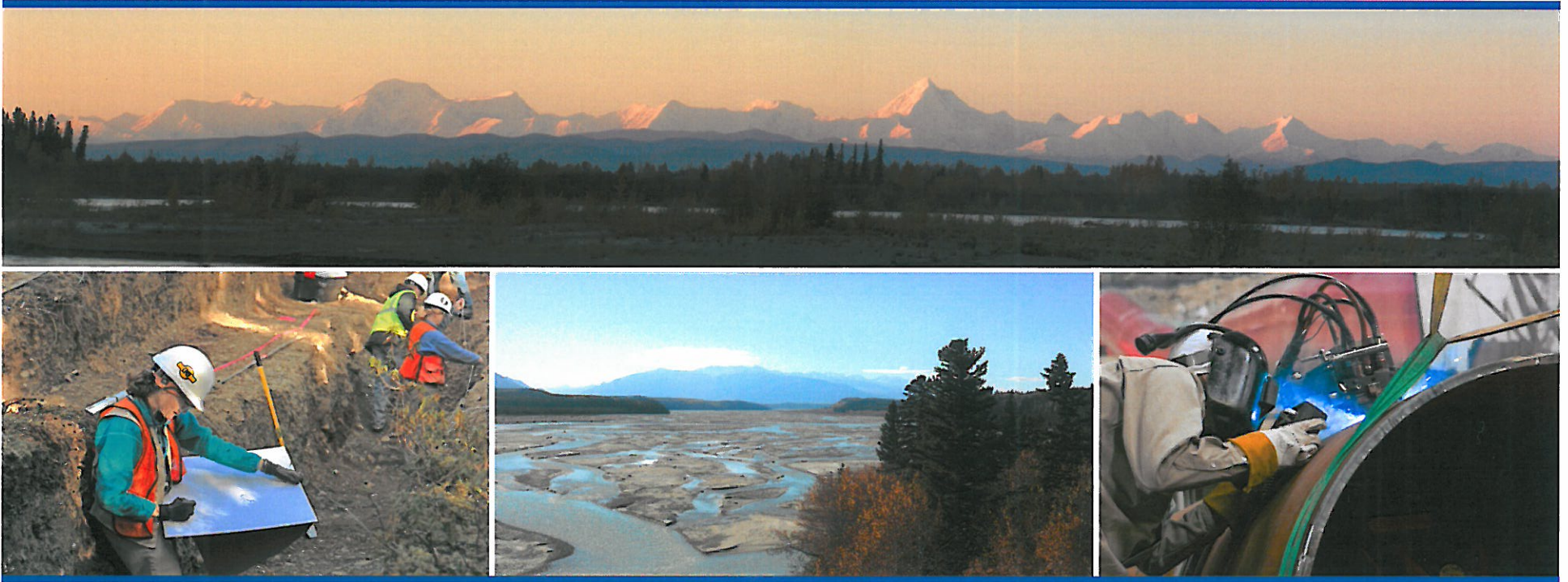


# ALASKA PipelineProject



## Presentation to Alaska State Legislature House Finance Committee

April 4, 2011

## Discussion Items

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**Alaska Gasline Inducement Act**

**AGIA Commitments**

**H.B. 142**

**Path to Success**

**Progress to Date**

**Next Steps**





# Alaska Gasline Inducement Act

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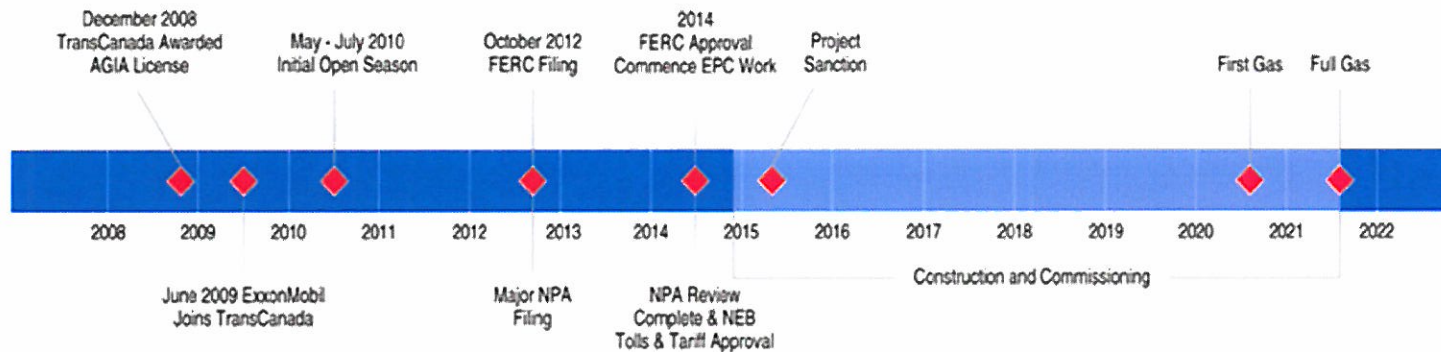
**Alaska Statute 43.90.010: The purpose of this chapter is to encourage expedited construction of a natural gas pipeline that:**

- **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

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## 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 Helicoptors  
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



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## 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



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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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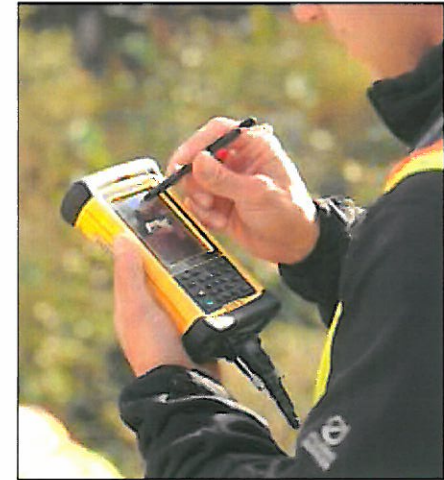


## Progress: Obtaining Regulatory Approvals

### 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



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## 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



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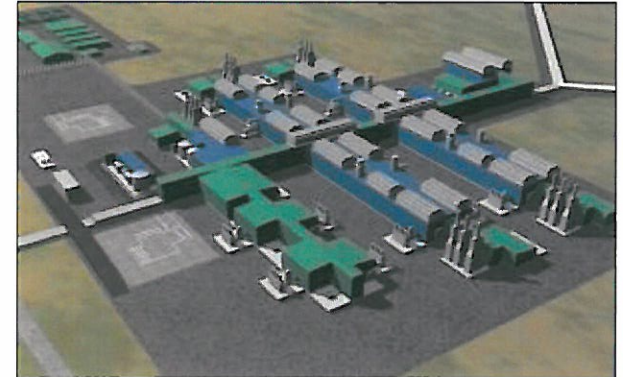


## Progress: Gas Treatment Plant

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



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# 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**

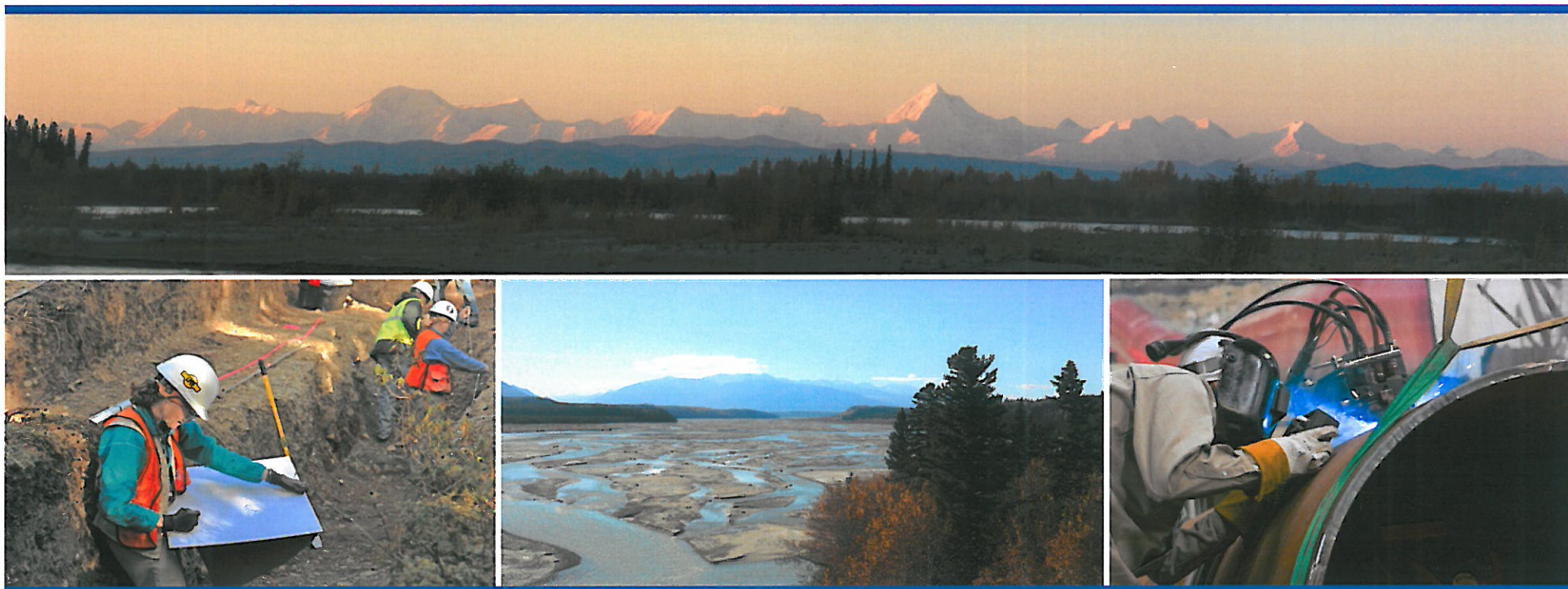
**Each party has a vital role in ensuring the effective commercialization of Alaska's natural gas resources**



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## Thank You