

## Open Season for Alaska Gas Pipeline Projects : What to Expect

# Topics for Discussion

1. Background and Progress Assessment
2. General Discussion of Open Seasons
3. The Alaskan Gas Pipeline Project Open Seasons
4. Conclusions

# We've Made Great Progress But We Still Have A Long Way to Go

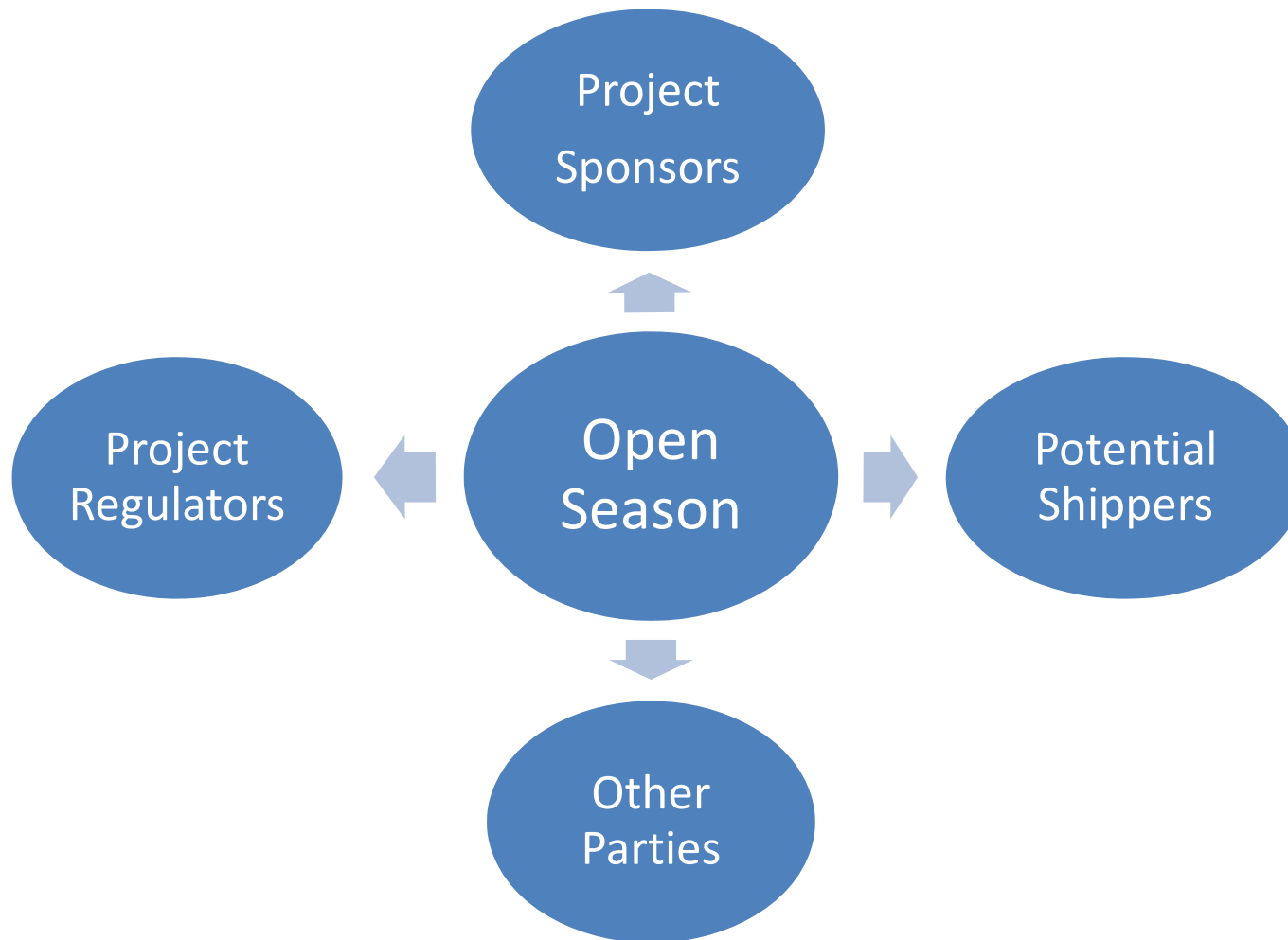
American Gas Association January 2010 Energy Analysis:

*“Creating the pipeline transportation system to connect [Alaskan] supplies to the North American pipeline grid has been proposed for over 30 years. The concept seems to have more tangible momentum with key players ... moving closer to measurable progress ... Many analysts believe that a pipeline connecting North Slope gas reserves to the lower-48 states is closer than ever and that by 2020 or soon after as much as 4.5 Bcf per day may be flowing.”*

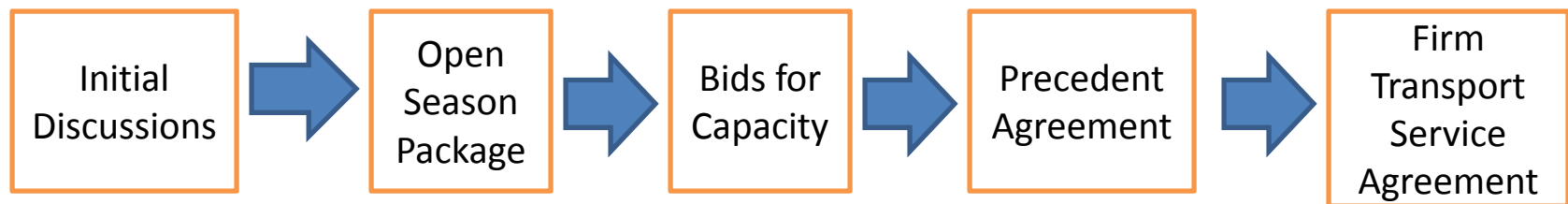
# What is an Open Season and why is it held?

- **A public process** in which Project Sponsors propose key terms and design parameters to prospective customers and solicit bids for capacity
- Requirement of the Federal Energy Regulatory Commission (FERC)
- Ensure that all interested parties can bid on that capacity
- Awards capacity to the highest bidders

# Who will be involved in the open season and negotiation process?



# What takes place in that Negotiation Process



 = Negotiations and project development work

# Precedent Agreements vs. Firm Transportation Service Agreements

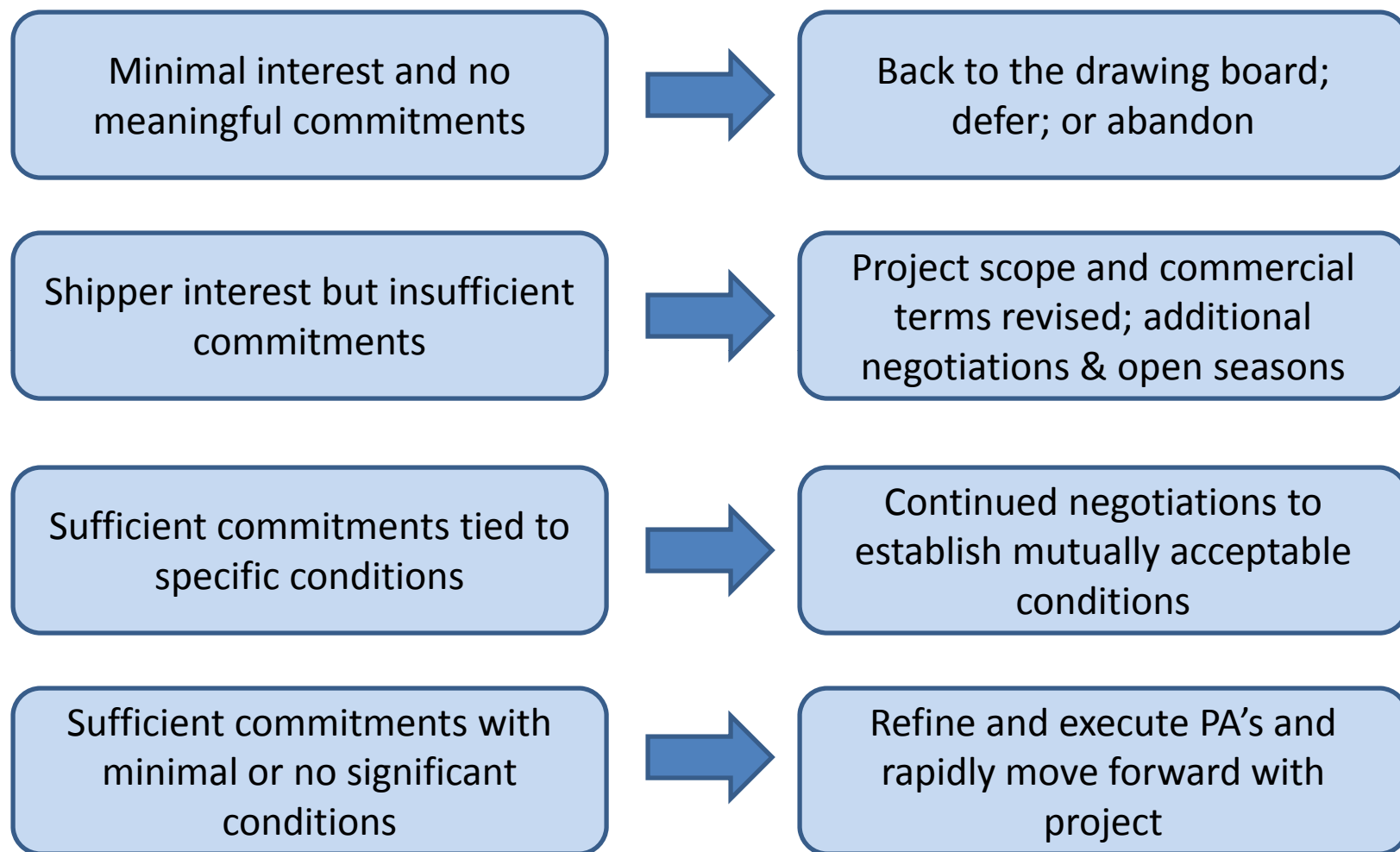
## Precedent Agreement

- Project Scope and services
- Key commercial terms and conditions
- Obligations, representations, and warranties
- Conditions Precedent
- Creditworthiness
- Termination rights
- Other

## Firm Transportation

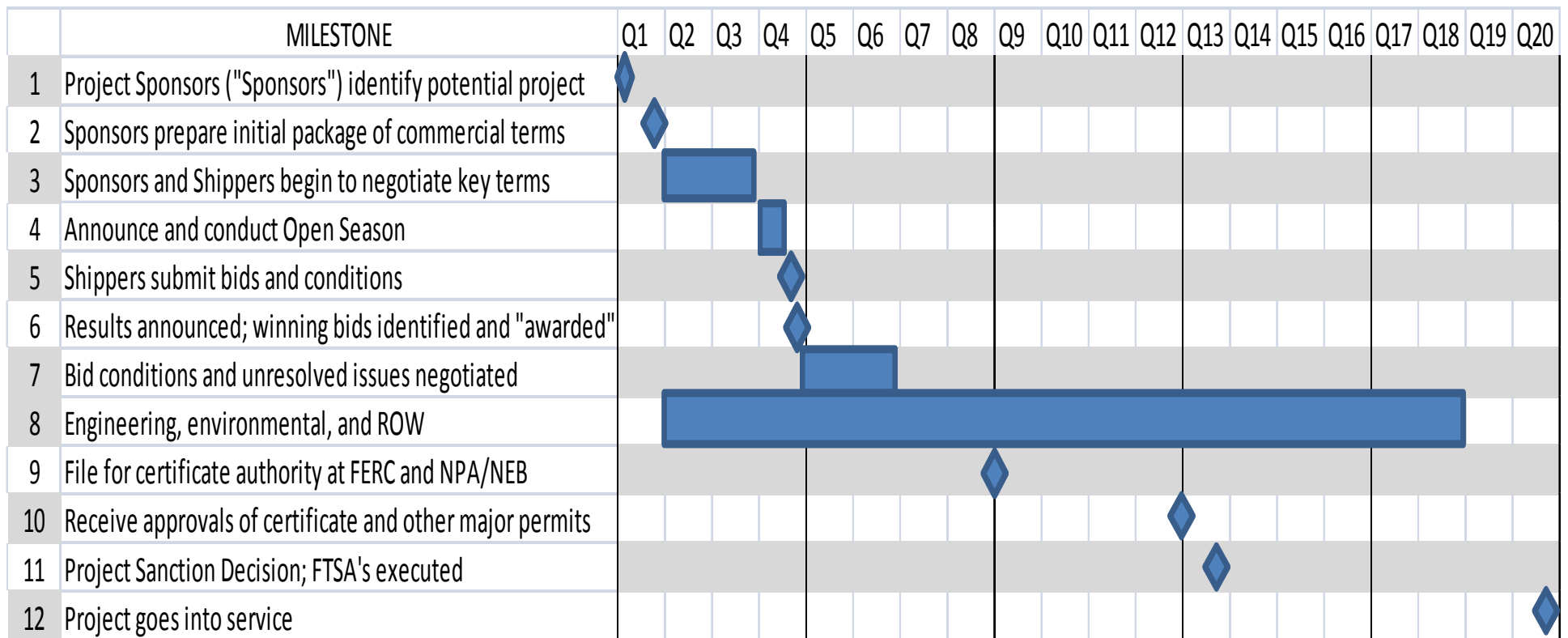
- PA terms carried forward
- Final commercial terms and conditions
- Conditions precedent and termination rights resolved and removed

## Typical Outcomes for an Open Season





# Example Timeline for a Pipeline Project



# When do you know that a project is going to be constructed?

## **PROJECT SANCTION**

**Sponsors commit to construct the project**

**This is generally well after the open season is completed and after:**

- Front End Engineering and Design work
- Environmental impact studies
- Major regulatory and permit approvals (including approvals from the FERC and NEB)
- Critical rights-of-way acquired
- Detailed cost estimates
- **All** conditions precedent in the precedent agreements are resolved
- Firm transportation service agreements executed
- Project financing

# Recent Open Season Workshop by the FERC Provided Additional Information

- Detailed briefing on the regulatory requirements of FERC Order 2005 for any Alaskan Gas Pipeline Open Season
- Cites the Ruby Pipeline Project as good recent example of a major pipeline project progressing over the last few years from:
  - Early negotiations with anchor shippers
  - Open seasons and more negotiations
  - FERC certificate filings
  - Preliminary approvals by the FERC
- Discussion of the commitments and conditions (“Ifs”) in the precedent agreements

# The Alaska Gas Pipeline Project

**“Normal” Project**



**Alaska Gas Pipeline**



# How is this project different from a normal pipeline project?

ISSUE	Alaska Project	Typical Lower 48 Project
Project Schedule/Timeline	Probably a minimum of 10 years	Typically completed in 3-5 years
Development Costs and Total Project Costs	Total project costs > \$30 billion with corresponding development costs	No other North American pipeline project has exceeded \$7 billion*
Gas Quality and Treatment	One of, if not the largest gas treatment facilities ever constructed	No other North American facility even close to this size
Construction and Logistical requirements	Arctic and sub-arctic terrain, mountain ranges, earthquakes, etc.. Over 1700 miles	The closest comparisons are the TAPS line and proposed Mackenzie Project
Regulatory Requirements and oversight	Multiple regulatory agencies and aboriginal oversight spanning two different countries	No other North American project has had to deal with this level of complexity
*Mackenzie Project estimated at \$15-16 billion		

## What will likely be negotiated as part of this Open Season Process?

- Precedent Agreements detailing the terms and conditions previously discussed:
  - In lieu of specific rates, principles governing project cost-of-service, cost allocation, and rate design
- Proposed tariff modifications
- Equity participation and associated governance agreements
- Modifications to project management structure to include potential shippers

# What sort of conditions may be included in negotiated precedent agreements?

- Key commercial terms or tariff provisions not yet resolved
- Adverse changes to project or shipper economics
- Project milestones or deadlines not achieved
- Unacceptable certificate/approval conditions required by regulatory agencies
- Acceptable fiscal terms with the State
- Equity participation in the project
- Approvals by Board of Directors or appropriate authorities
- Termination rights and resulting impact

# What value will conditional open season commitments provide to the project?

- Provides technical information to design the facilities including:
  - Volume commitments and term
  - Maximum and minimum operating and delivery pressures
  - Gas composition and quality
  - Receipt and delivery points
- Provides the commercial terms and conditions needed for shipper commitments
- Defines the allocation or sharing of risks for moving the project forward
- Sponsor understanding of project and commercial requirements



# Timeline for the TC Alaska Development Plan

		2010				2011				2012				2013				2014			
	MILESTONE/ACTIVITY	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	TC Alaska files Open Season plan at FERC	◆	1/29/10																		
2	Deadline to file comments on Open Season plan at FERC	◆	2/28/10																		
3	FERC rules on Open Season plan (unless extended)	◆	3/29/10																		
4	TC Alaska Open Season		■	4/30/10	7/30/10																
5	TC Alaska announces results, begins negotiation of conditions in precedent agreements			■	7/30/10	12/31/10															
6	Target completion of negotiations for precedent agreements			12/31/10	◆																
7	File for certificate authority at FERC and NPA/NEB										10/31/12	◆									
8	Receive approvals of certificates and other major permits																	6/30/14	◆		
9	Project Sanction Decision																		10/31/14	◆	

# Conclusions

- Project has made significant progress but faces future risks and uncertainties
- Numerous issues will need to be negotiated throughout the development phase of this project
- The successful completion of precedent agreements will not ensure that the project will be constructed.
- The project sanction decision expected in late 2014 will ultimately determine if the project will be constructed.

## Conclusions

- State **may** need to negotiate certain issues to help the parties complete precedent agreements but will very likely need to engage in negotiations to ensure project sanction.
- Upcoming open season process will likely result in conditioned “bids” that will frame the issues for completing the precedent agreements.
- Under any scenario, the Project Sponsors will be better informed and equipped to advance this project through regulatory certifications.

# Bio for Scott Hobbs

Scott Hobbs has been in the energy industry for over 33 years and is presently the managing member of Energy Capital Advisors, LLC. Over the last nine years, Mr. Hobbs has provided consulting and advisory services to the State of Alaska, investment bankers, private equity firms, energy companies, and other investors evaluating major projects, acquisitions, and divestitures principally involving oil and gas pipelines, processing plants, power plants, and gas distribution assets. He is presently on the Boards of Directors for three public energy companies.

In the last nine years, Mr. Hobbs has also served as President and Chief Operating Officer of Evergreen Energy, a clean coal technology company, and Executive Chairman of Optigas, Inc., a private midstream (gas gathering and processing) natural gas company.

From 1977 to 2001, Mr. Hobbs worked for the Coastal Corporation where he last served as Executive Vice President and Chief Operating Officer for its gas pipeline operations (Colorado Interstate Gas and Wyoming Interstate) in the Rocky Mountain region. He also was President of CIG Resources with responsibility for certain non-regulated business activities in the Rocky Mountain area. In his different positions at Coastal's pipeline subsidiaries, Mr. Hobbs was responsible for operations, engineering, regulatory compliance, and all commercial activities including gas transportation and storage, gathering and processing, gas production and development, and gas purchase and trading activities. He began his career at Coastal providing audit and consulting services for its accounting and finance group as well as its different operating divisions.

Prior to joining the Coastal Corporation, Mr. Hobbs worked as an auditor with Price Waterhouse and Co. in New Orleans, LA. He received a Bachelor of Science degree in Accounting from Louisiana State University and holds a CPA license in inactive status.