Office of the AGIA Coordinator

Guide to Alaska Open Season

How is an Alaska natural gas pipeline project different from a normal pipeline project?
Both TransCanada Alaska and Denali have natural gas pipeline projects scheduled to reach open season in 2010. For both projects the following observations are true:

- Project Schedule/Timeline: Alaska project schedule will probably take at least 10 years to complete. Other major projects in the lower 48 are completed in 3-5 years
- Development Costs & Total Projected Costs: Alaska project costs will exceed over $30 billion with corresponding development costs. No other US projects have exceeded $7 billion. The Mackenzie project, in Canada, is currently estimated at $16 billion
- Gas Quality & Treatment: Alaska project will involve one of the largest, if not the largest, gas treatment facilities ever constructed. No other North American facility will be even close in size.
- Construction & Logistical Requirements: Challenging arctic construction conditions. The Mackenzie project is the only other project under consideration that would entail arctic construction
- Regulatory Requirements & Oversight: Alaska project will involve multiple regulatory agencies and aboriginal oversight with specific regulations in two different countries (e.g., FERC Order 2005, Alaska Natural Gas Pipeline Act, FERC Order 2005, Northern Pipeline Act, etc.). No other North American project has had to deal with this level of complexity.

In addition to these general considerations, TransCanada, as a project sponsor and licensee under the Alaska Gasline Inducement Act (AGIA) is required to advance its project to FERC for certification, regardless of the results of the upcoming open season. An underlying objective of an AGIA open season is to ensure that detailed information is compiled to achieve a maximum understanding of the project economics in order to move the project through certification.

What will likely be negotiated in this Open Season?
It is anticipated that the upcoming open season will result in precedent agreements detailing: (1) the general scope of the project to be constructed, (2) Key commercial terms and conditions for the services to be provided, (3) Obligations, representations, and warranties, (4) Conditions precedent, (5) Creditworthiness of project participants, (6) Termination rights for project participants through project sanction, (7) Any proposed tariff modifications, (8) Equity participation and associated governance agreements, and (9) Modifications to project management structure to include potential shippers.

What types of conditions may be included in negotiated precedent agreements?
An Alaska Open Season is unique in scope and has never been previously reached in FERC history. The type of conditions that might be identified, include: (1) Key commercial terms or tariff provisions not yet resolved including suggested changes to AGIA requirements, (2) Adverse changes affecting shipper or project economics (including fiscal terms with the State, projected capital and operating costs, etc.), (3) Project milestones or deadlines not achieved (these could include certificate filing dates, receipt by pipeline or shippers of necessary governmental approvals—including the FERC & NEB, project sanction date), (4) Unacceptable certificate/approval conditions required by regulatory agencies, (5) Equity participation in the project, (6) Approvals by Board of Directors or appropriate authorities by a date certain, and (7) Termination rights and resulting impact, i.e., if termination rights are exercised, who pays for development costs that are incurred.

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Guide to Alaska Open Season (continued)

What value will the conditional open season commitments provide to the project?
Conditional commitments will provide insight and understanding to advance a project to project sanction. The conditions will provide technical information to design the facilities for the project. This technical information will include: (1) Volume commitments and term, (2) Maximum and minimum operating and delivery pressures, (3) Gas composition and quality, and (4) Receipt and delivery points. Conditions will identify the commercial terms and conditions needed for shipper commitments to the project and define the allocation or sharing of risks for moving the project forward. Even without executed precedent agreements, the AGIA Licensee will better understand the commercial requirements and issues and can continue to actively advance this project through the certificate process.

What timeline will the Project Sponsors likely follow?

	MILESTONE/ACTIVITY	2010–2014 (Q1–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

What conclusions can be drawn from an Alaska Open Season process?
This project has made significant progress but faces future risks and uncertainties – more than any pipeline project ever attempted in North America. As a result, there are a large number of issues that will need to be negotiated by the shippers and Pipeline Sponsors, most of which will be addressed in the precedent agreements. These negotiations, which have already begun, will likely take all of 2010 to conclude. Even the successful completion of precedent agreements will not ensure that the project will be constructed. A number of other major steps must be completed and that final determination will not be made until the project sanction date which will likely be in early 2014. There may be some issues requiring negotiations/agreement by the State to ensure executed precedent agreements but the State will definitely need to get involved to ensure project sanction. It is reasonable to expect that the upcoming open season process will result in draft or proposed precedent agreements that will frame the issues for completing precedent agreements. Under any scenario, the Project Sponsors will be better informed and equipped to advance this project through regulatory certifications.