Memorandum of Understanding

MOU

Parties:

State of Alaska,
through the commissioners of natural resources and revenue

TransCanada Alaska Company, LLC and
Foothills Pipe Lines, Ltd. (Jointly as Licensee)

TransCanada Alaska Development Inc. (TADI)

Enabling Legislation

Enabling Legislation

- Given the MOU, what changes may be made to the enabling legislation without causing the MOU to fail?   SB 138 and HB 277

Enabling Legislation

- Separation of powers: legislature legislates — executive executes.
    - Only chance to vote is on the enabling legislation.

Enabling Legislation

- When you review the MOU and the Heads of Agreement, consider changes you would like to make in the enabling legislation.
    - Changes must be consistent with the “enabling legislation” or the MOU might not go forward.

Enabling Legislation

- Is there a situation in which enabling legislation may allow the Heads of Agreement to go forward, but not the MOU?
  - Ask!

AGIA
Transition

AGIA

- Transition out of AGIA
  - To Alaska LNG Project?
  - Is the AGIA Project to Alberta uneconomic under AS 43.90.240?

AGIA

- MOU address “uneconomic” exit in the recitals.
- What if enabling legislation fails?
    - What if the MOU is not implemented?

AGIA

- Transition out of AGIA
  - Is there a risk that the Alaska LNG Project is a competing project to the AGIA project?
  - Is the state “safe” from the damages in AS 43.90.440?
  - Why doesn’t the MOU mention AS 43.90.440?

AGIA

- February 2013 Memo regarding the assurances in AS 43.90.440 questions the change in AGIA project as being inconsistent with AS 43.90.130 and the project licensed by the legislature.

AGIA

- What is the AGIA Project?
  - Project to Alberta?
  - To Tidewater and an LNG plant?

AGIA

- The Project Plan Amendments:
  - Resulted in a different project?
  - There are different requirements in AS 43.90.130 for an Alberta and an LNG project.   AS 43.90.130 solicited different information for each route.

AGIA

- The Project Plan Amendments:
  - What is the “AGIA project” eligible to receive reimbursement for qualified expenditures?

State Ownership

State Ownership

- How does the state acquire an equity interest in the midstream part of the Alaska LNG Project?

State Ownership

- Under the MOU an affiliate of TransCanada would hold that portion of the midstream project equal to the percentage of North Slope gas the state may receive as royalty in kind and production tax on gas paid as gas.
  - May be 20 - 25% depending on amount of royalty gas in kind and production tax paid as gas.

State Ownership

- Precedent agreement & Firm Transportation Services Agreement commits the State to ship its gas in the part of the midstream project owned by TransCanada for 20 - 25 years.

State Ownership

- State must decide to acquire an option to eventually own part of TransCanada’s interest near the end of the initial contract term — 20 -25 years.
- TransCanada expects to keep at least 14%
- State could acquire the difference between 14% and the percentage of the midstream project that corresponds to the state’s percentage of gas, which could be 20 - 25% of North Slope gas.

State Ownership

- AGDC may participate in the LNG plant while TransCanada initially holds an interest in the midstream portion that the state may acquire an option to acquire.

Why TransCanada?

Why TransCanada?

- Is the MOU the best deal?
- Should the state solicit proposals from others?

Why TransCanada?

- Are the producers happy with the state’s selection of the fourth partner?
  - Do the producers expect TransCanada to take the lead in developing the Alaska LNG Project?

Why TransCanada?

- Would TransCanada compete with itself?
    - Lelu Island and the 460 mile B.C. potential LNG project.

Things we don’t know

Things we don’t know

- Things we don’t know:
  - What happened during the first open season in 2010? Why did it fail?
  - Why did it take from July 2010 to May 2012 to conclude that the first open season failed?

Things we don’t know

- TransCanada solicited interest in both the Alberta Project as well as transportation to Valdez during the first open season in 2010 and during the solicitation of interest in 2012.
    - What happened? Were changes identified that would make the AGIA project viable? Conditions?

Things we don’t know

- What’s next?