

BUILDING A WORLD OF DIFFERENCE

**OBSERVATIONS ON HEADS OF AGREEMENT
PRESENTATION TO SENATE FINANCE COMMITTEE**

PREPARED FOR THE STATE OF ALASKA

FEBRUARY 19, 2014



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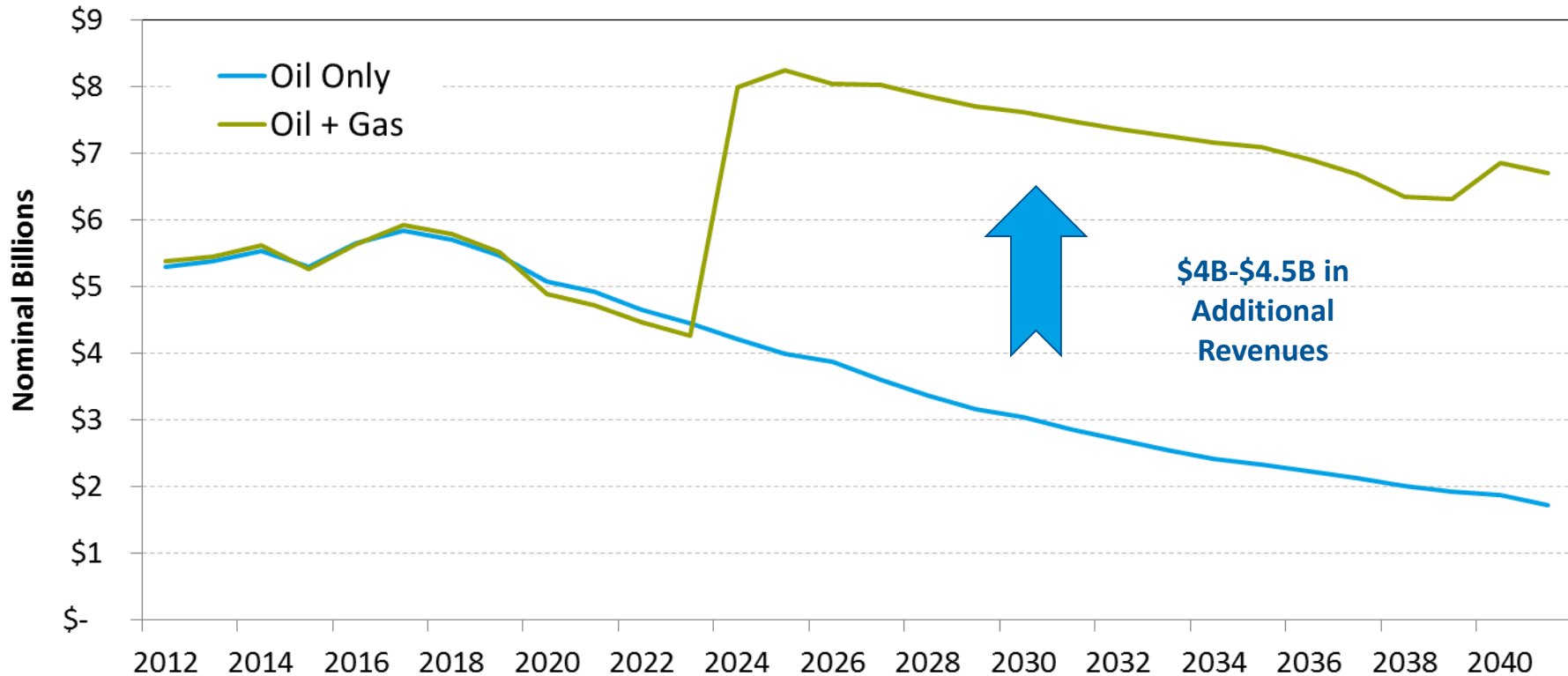
Deepa Poduval is a Principal in Black & Veatch's Management Consulting Division and is responsible for business strategy and project management. Ms. Poduval focuses on strategic analytical services supporting energy asset valuation and optimization, marketing and business strategy development. She has been involved in providing analysis and commercial support related to Alaska North Slope gas monetization for eight years. Ms. Poduval holds an M.E.M. from Dartmouth College and a M.Sc. Economics and B.E., Mechanical Engineering from BITS, Pilani, India.



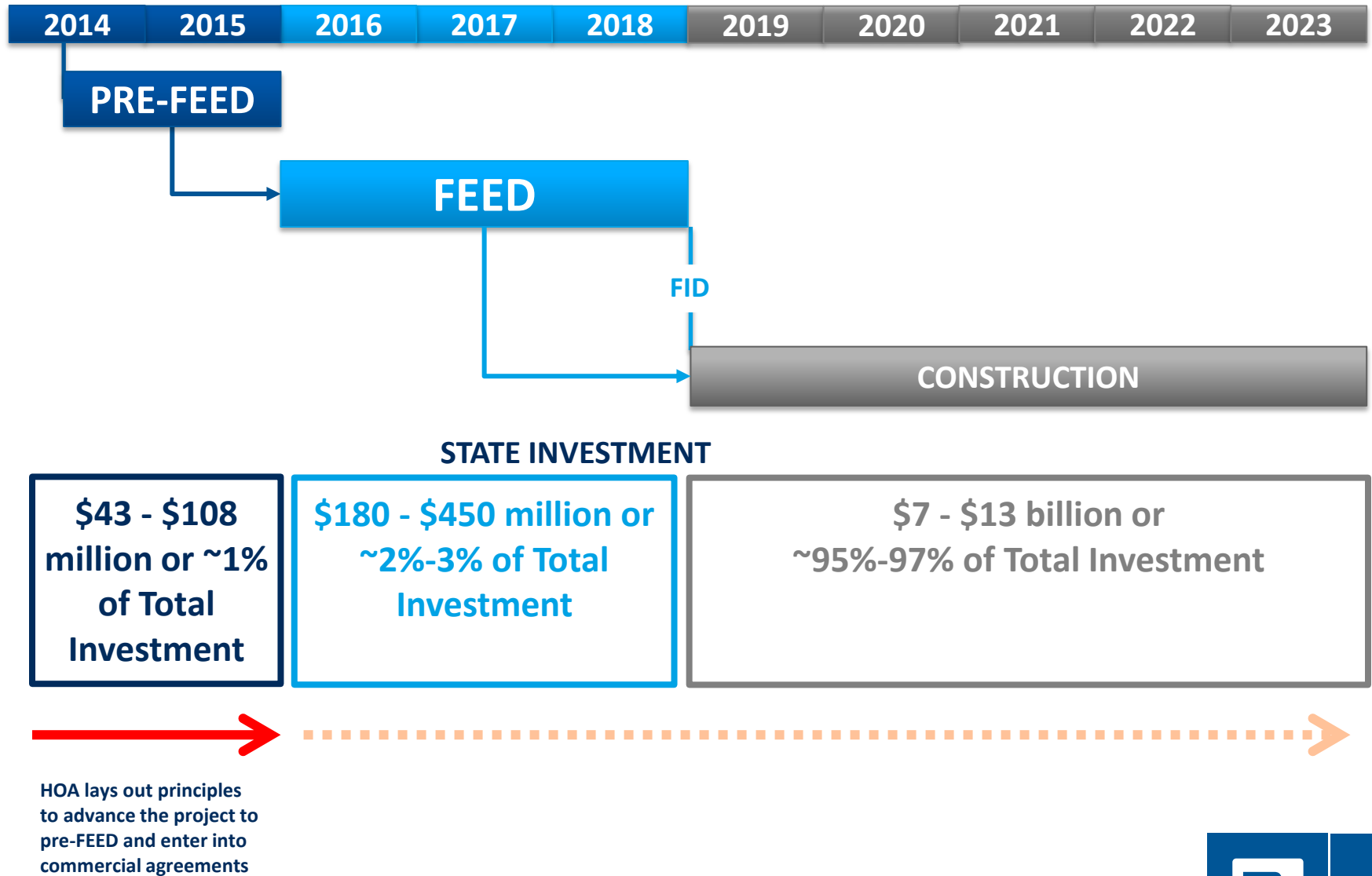
Jason De Stigter is a Senior Consultant with Black & Veatch's Management Consulting Division and is responsible for business analysis and project management. Mr. De Stigter's client engagements center on economic, financial, market, and risk analysis of large capital projects. He has extensive experience in developing complex and innovative economic and risk analysis models. Mr. De Stigter holds a B.E., Mechanical Engineering and a B.A. Business Administration from Dordt College and is a Professional Engineer.

LONG-TERM NORTH SLOPE OIL & GAS REVENUES ARE DRIVEN BY AKLNG PROJECT SUCCESS

State of Alaska – North Slope Oil & Gas Annual Revenue Forecast



PUTTING THE HOA WITHIN THE CONTEXT OF AKLNG TIMELINE



ROYALTY STUDY HIGHLIGHTS & RECOMMENDATIONS

STUDY FINDINGS

GLOBAL LNG MARKET IS GROWING & COMPETITIVE

GOVERNMENT TAKE & COST STRUCTURE FOR AKLNG PROJECT ARE HIGH

AKLNG IS EXPECTED TO BE A LARGE, COMPLEX, HIGH COST PROJECT

PROJECT STRUCTURE IS LIKELY TO BE PRODUCER-OWNED INTEGRATED

VARIOUS RISKS INHERENT IN PROJECT & STATE PARTICIPATION

RECOMMENDATIONS

IMPROVE COMMERCIAL ATTRACTIVENESS OF PROJECT

RETAIN VALUE TO STATE

CREATE ALIGNMENT BETWEEN STATE AND PRODUCERS

RECOGNIZE & MANAGE RISKS ACTIVELY

STATE EQUITY PARTICIPATION

CRITERIA APPLIED FOR EVALUATION OF HOA TIE IN TO ROYALTY STUDY RECOMMENDATIONS



HOA – ALIGNMENT THROUGH EQUITY PARTICIPATION

ALIGNMENT



Royalty Gas and Tax as Gas = State Gas Share

State Gas Share = State Equity Share



State Equity Share Impacts State Investment and State Revenues



State Holds Equity Along The Entire Supply Chain

Commitments Made In A Stage-Gated Manner

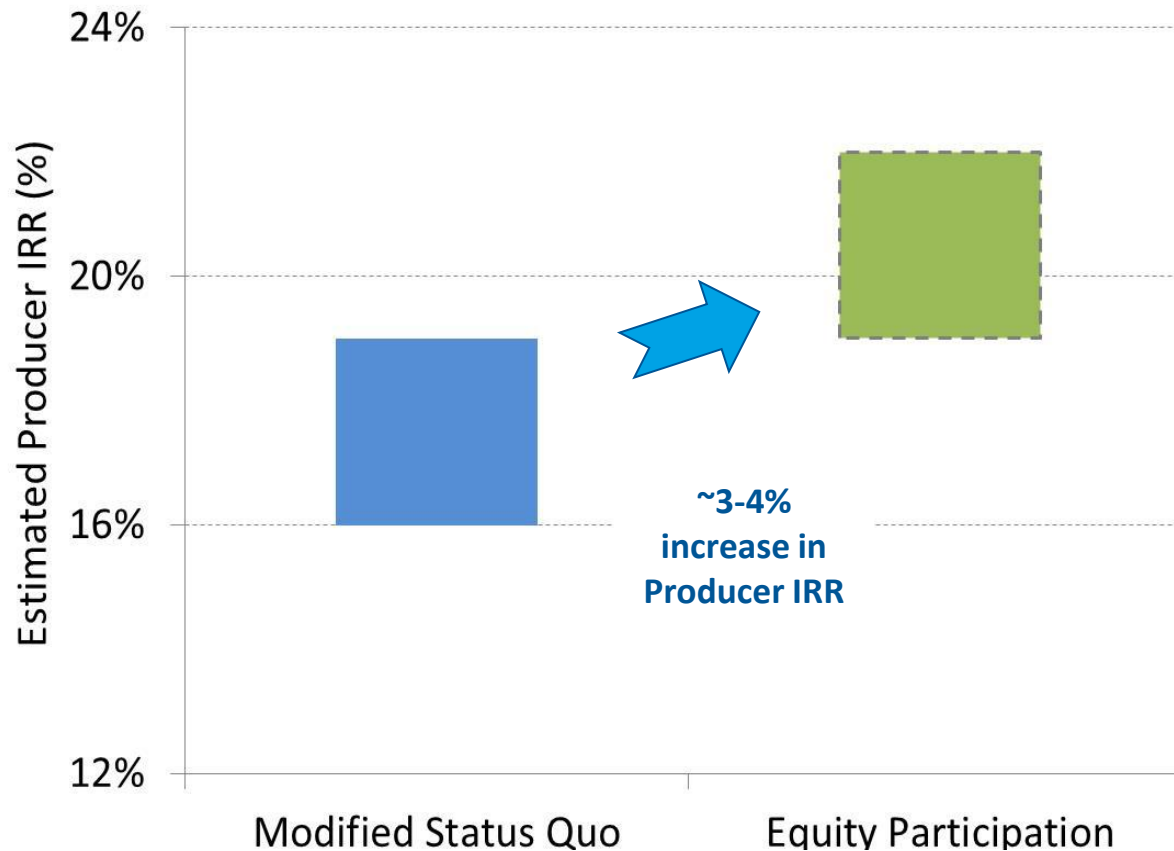
- Current decisions focused on enabling pre-FEED



IMPROVE COMMERCIAL ATTRACTIVENESS OF AKLNG PROJECT



Producer IRR



- Reduces upfront investment by Producers
- Risk is shared with the State
- Potentially reduces valuation disputes if State elects RIK

* Assumes 25% State equity participation

PRESERVE VALUE TO STATE FROM ROYALTY & TAXES



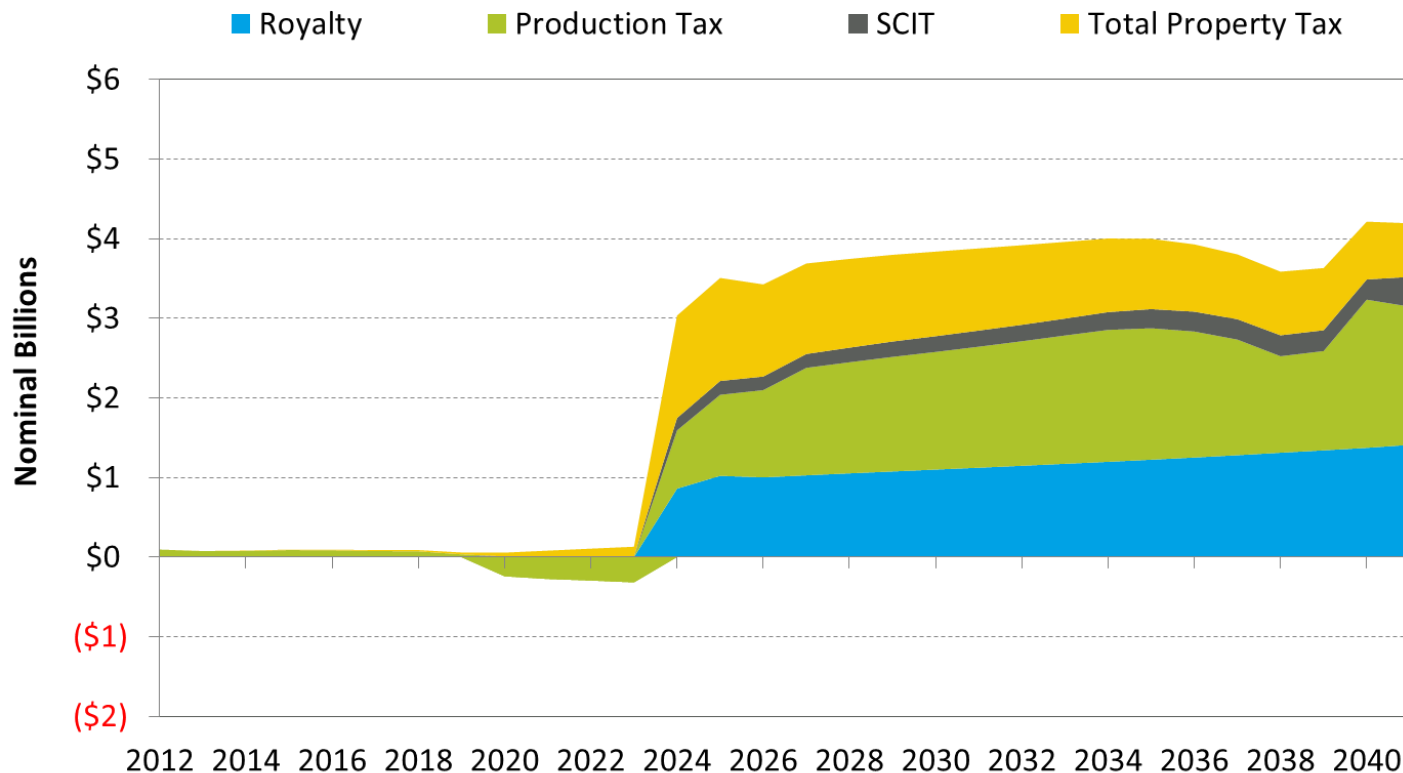
- Obtain value in return for the State's incentives to the project
- Preserve the State's expected revenues from the AKLNG Project relative to an RIV world without State equity participation

PRESERVE VALUE TO STATE FROM ROYALTY & TAXES



VALUE TO SOA

State of Alaska Modified Status Quo Annual Cash Flow



Total Cash Flow (Through 2041) = \$68 Billion

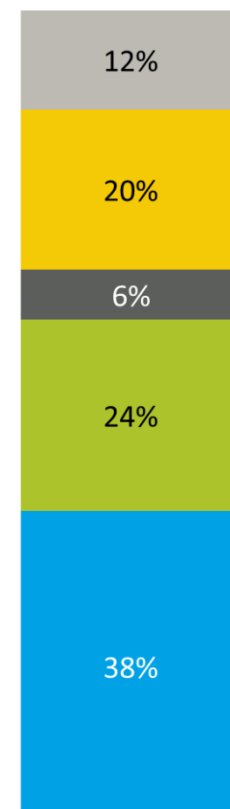
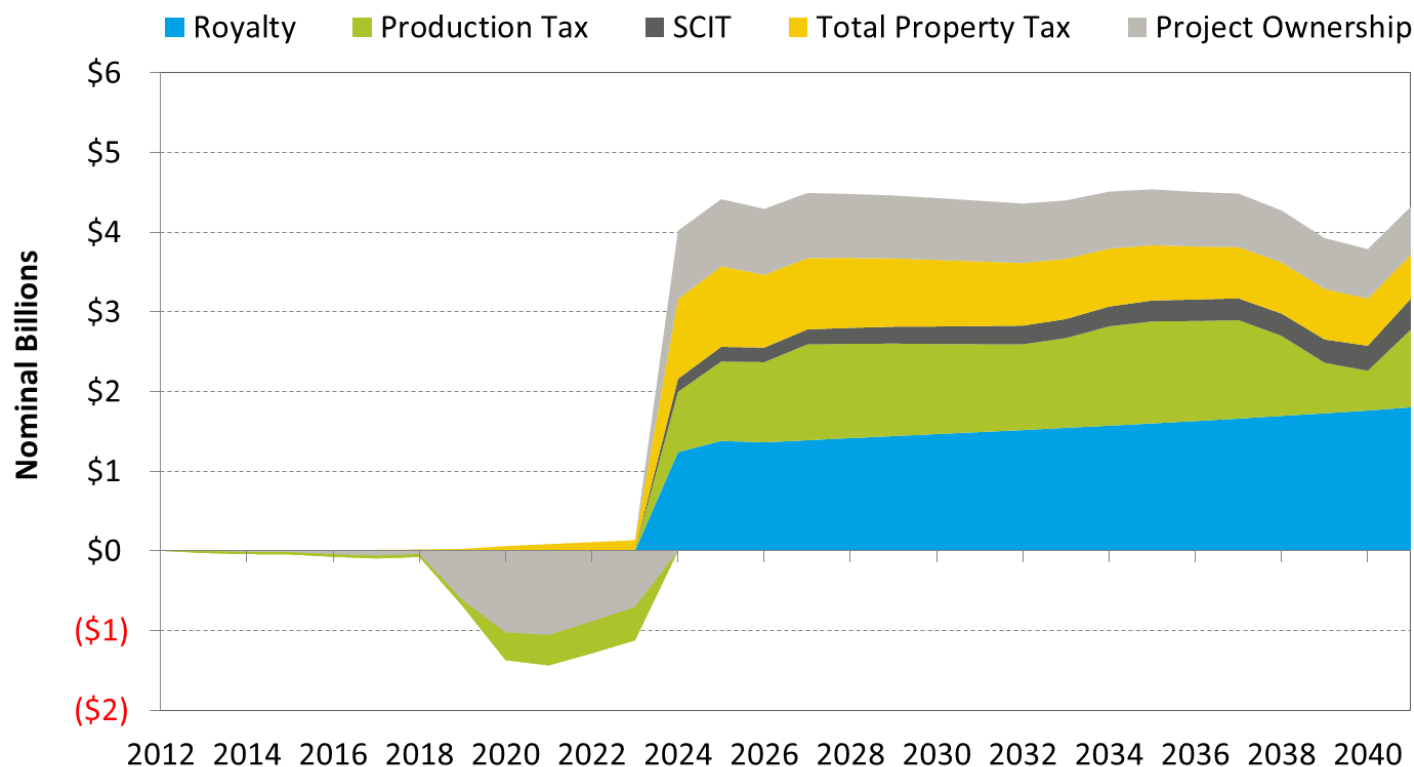


PRESERVE VALUE TO STATE FROM ROYALTY & TAXES



VALUE TO SOA

State of Alaska 25% Equity Alternative Annual Cash Flow



Total Cash Flow (Through 2041) = \$72 Billion

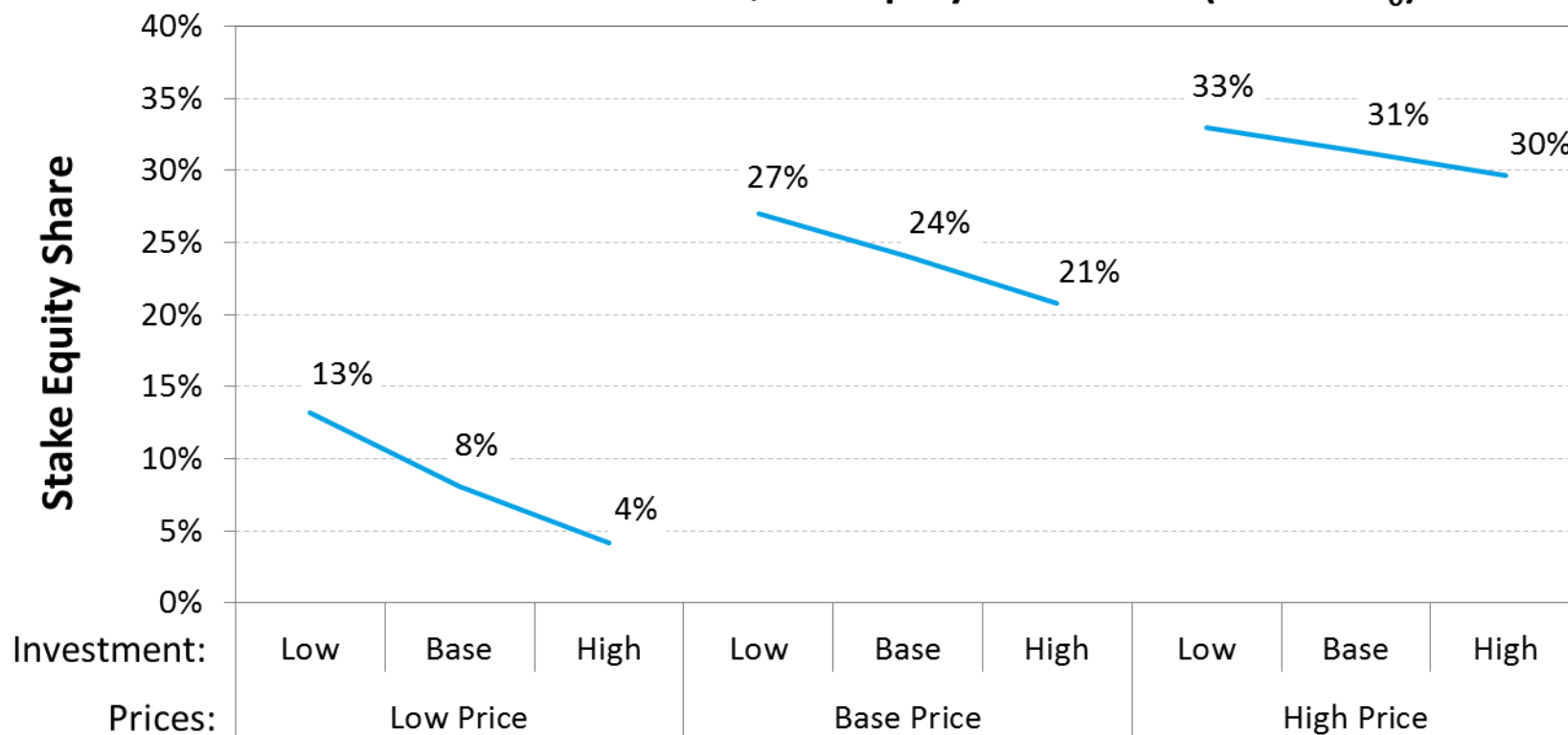


PRESERVE VALUE TO STATE FROM ROYALTY & TAXES



VALUE TO SOA

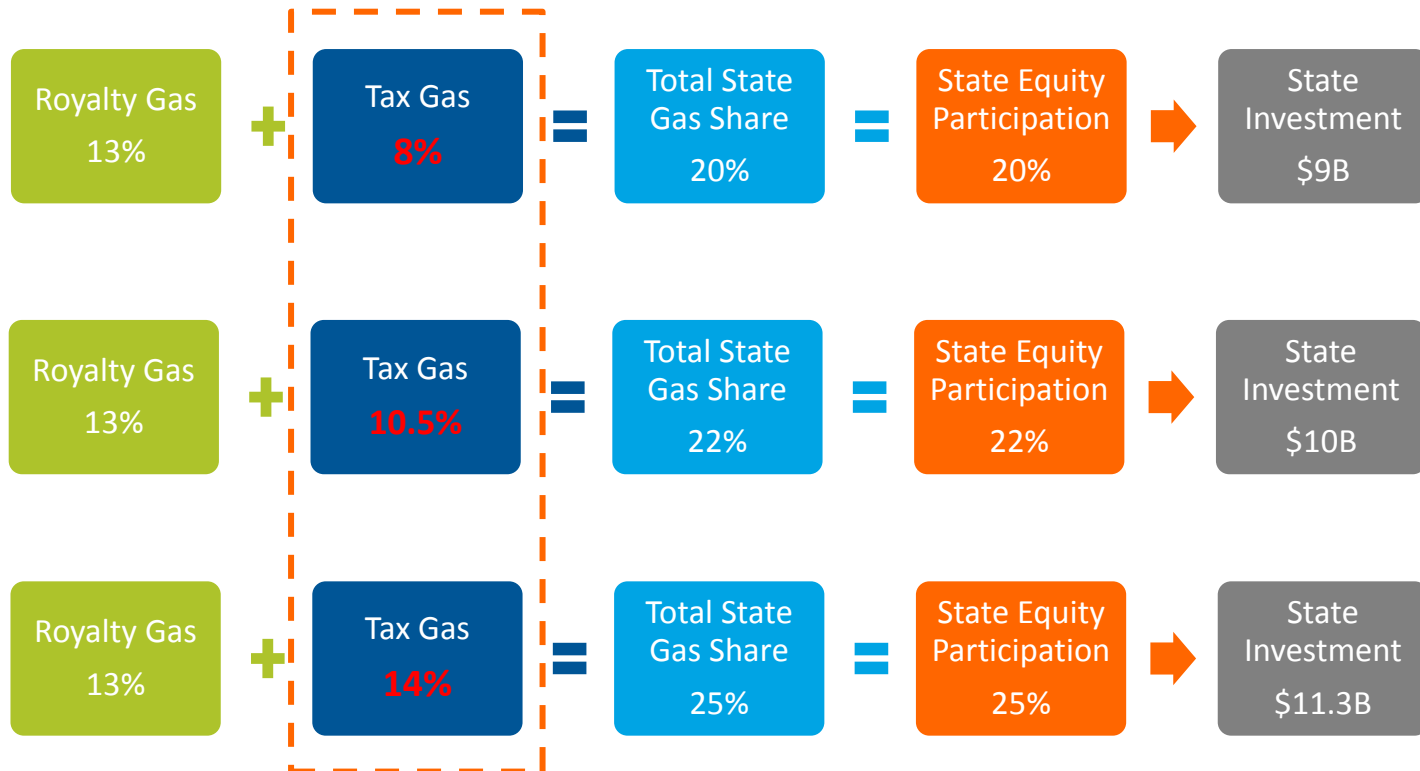
State Equity Investment for Modified Status Quo = Equity Alternative (SOA NPV₀)



GROSS TAX RATE SETS THE TOTAL STATE GAS SHARE & EQUITY PARTICIPATION



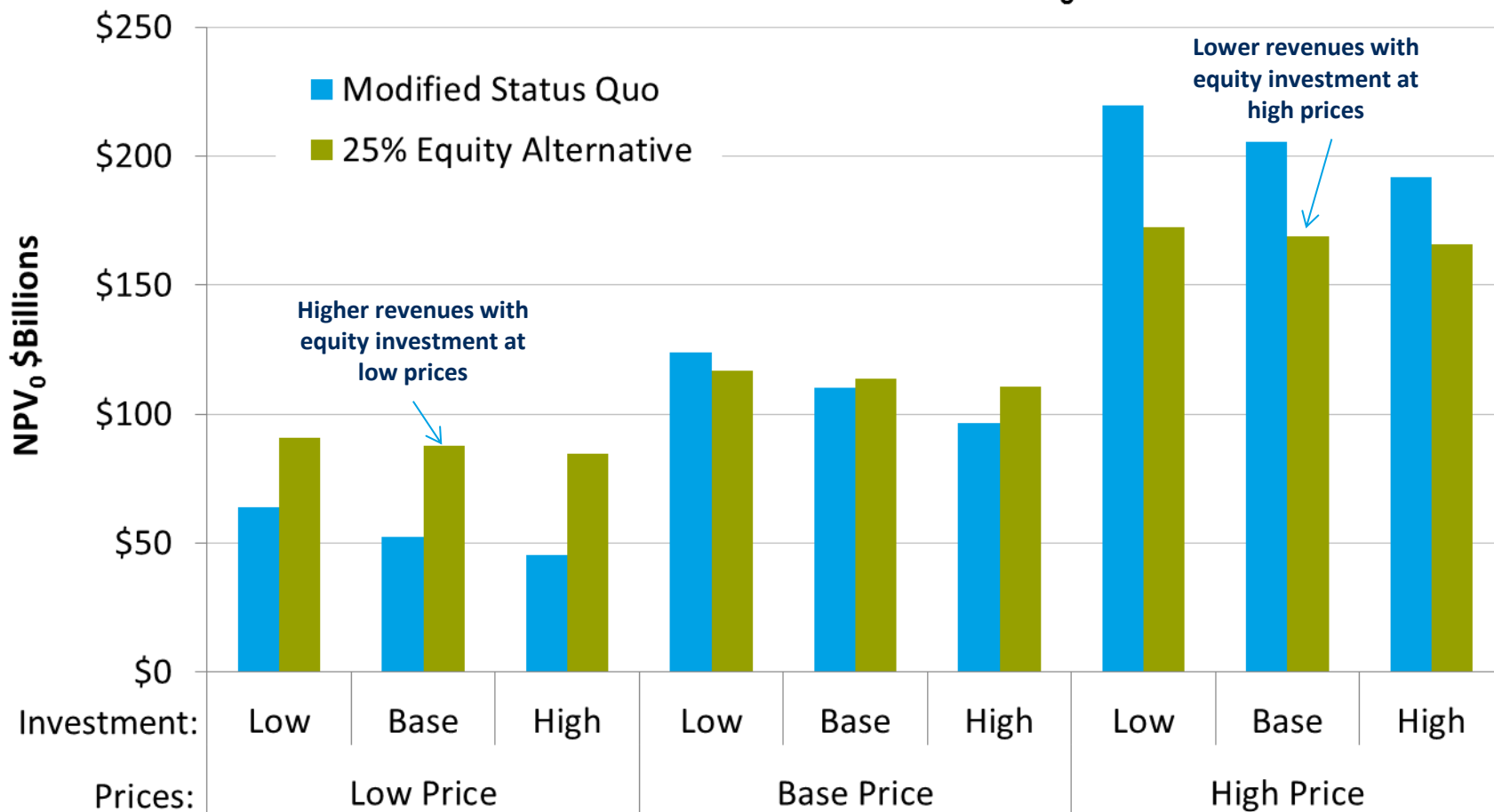
VALUE TO SOA



MANAGE RISKS – EQUITY INVESTMENT HELPS TO HEDGE PRICE EXPOSURE



State of Alaska Total NPV₀



MANAGE RISKS – CAPITAL COST EXPOSURE REDUCED THROUGH TC PARTICIPATION

MANAGE RISKS



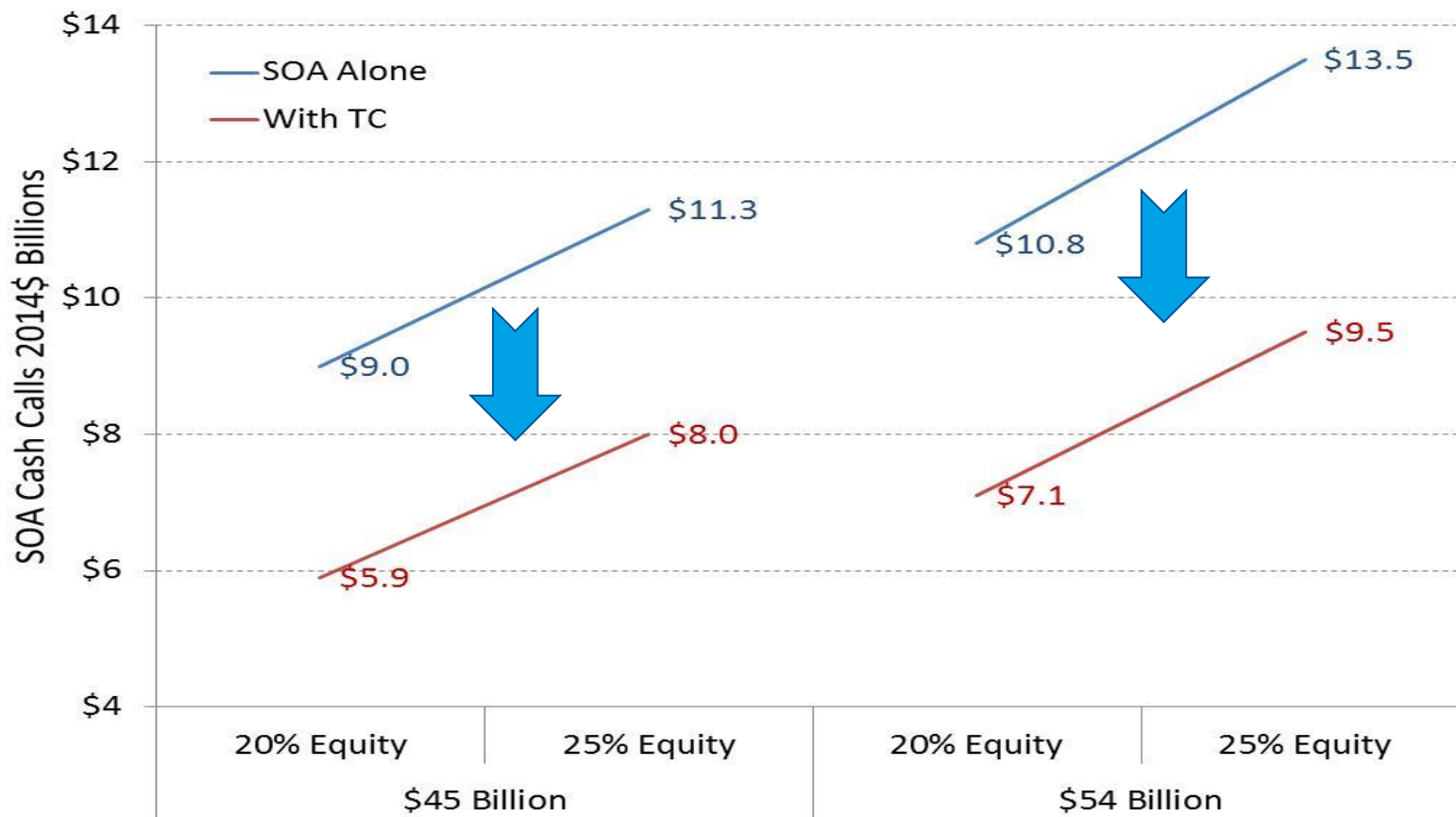
- Highest risk exposure is prior to project start when cash calls are not supported by project revenues
- TransCanada (“TC”) participation allows State to retain 20%-25% of gas share while being responsible for only 13%-18% of the upfront costs
- This is especially important if cost overruns occur on project

MANAGE RISKS – CAPITAL COST EXPOSURE REDUCED THROUGH TC PARTICIPATION

MANAGE RISKS



TC Participation Reduces Upfront Cash Calls on SOA by ~40%



* Assumes State exercises 30%-40% equity buy back with TransCanada



MANAGE RISKS – REDUCE POTENTIAL LOSS OF VALUE THROUGH RIK

MANAGE RISKS



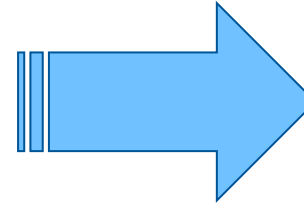
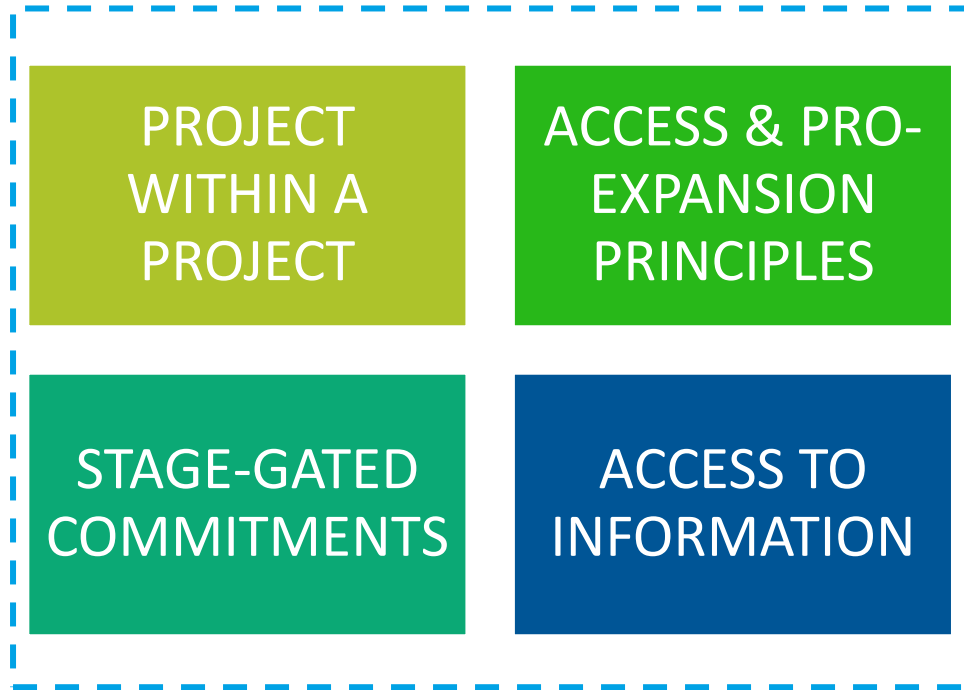
- HOA includes intent of Producers to offer to negotiate separately to market State's share of gas – proportional to each Producer's share of producer capacity
- SOA to only obligated to elect RIK if the Producers make "satisfactory arrangements for disposition of the State's share of LNG"
- SOA would benefit from Producers marketing expertise rather than competing with them
 - Could recreate marketing benefit of RIV

MANAGE RISKS – STRUCTURE OF PARTICIPATION

MANAGE RISKS



HOA ELEMENTS



COMMERCIAL AGREEMENTS

HOA SCORE CARD RELATIVE TO CRITERIA

Royalty Study Recommendations	How HOA Addresses Recommendation	
Alignment Through Equity	Equity Participation Along Supply Chain; Royalty and tax as share of gas	
Improve Commercial Attractiveness	Increases Producer IRR Shares/Reduces Producer Risk	
Preserve Value to the State	State could be Cash Flow Neutral relative to status quo depending on final equity share	
Manage Risks		
Price Exposure	Equity Participation in midstream dampens exposure to prices	
Capital Costs	TC participation lowers State's cash calls prior to commercial operation	
RIK Marketing	HOA reflects intent of Producers to negotiate to market State's share of gas	
Structure of Participation	Project within a project, Stage gated commitments, Access & pro-expansion principles, Access to information	

THANK YOU

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