

# BUILDING A WORLD OF DIFFERENCE

**TRANSCANADA PARTICIPATION IN AKLNG PROJECT  
PRESENTATION TO SENATE FINANCE COMMITTEE  
PREPARED FOR THE STATE OF ALASKA**

**FEBRUARY 21, 2014**



**BLACK & VEATCH**  
Building a world of difference.®

# BLACK & VEATCH PRESENTERS



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# MEMORANDUM OF UNDERSTANDING – HIGHLIGHTS OF THE DEAL ON THE TABLE



TC Holds the State's Equity Share in GTP+Pipe

SOA Option to Buy Back 40% of TC's Share at FEED



State Commits to 25 Year Transportation Agreement with TC



Agreement Commits TC to a WACC of 6.75%

Various Milestones & Off Ramps for SOA and TC

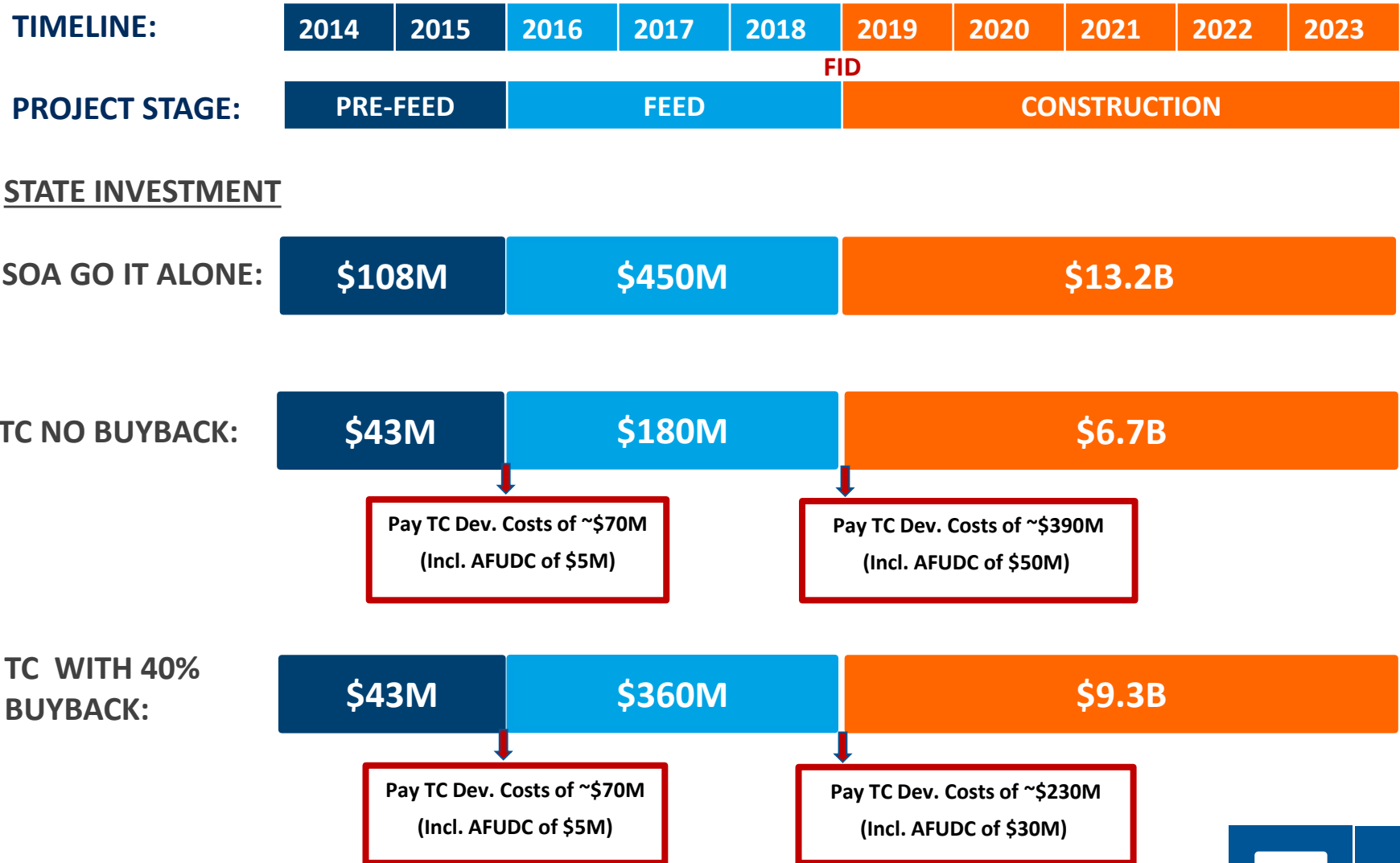


# OPTIONS IDENTIFIED BY STATE FOR EQUITY PARTICIPATION

	GTP	Pipeline	LNG Plant
SOA Alone	SOA : 25%	SOA: 25%	SOA: 25%
SOA + TC No Buyback	TC: 25%	TC: 25%	SOA: 25%
SOA + TC with Buyback	TC: 15%	TC: 15%	SOA: 25%
	SOA: 10%	SOA: 10%	

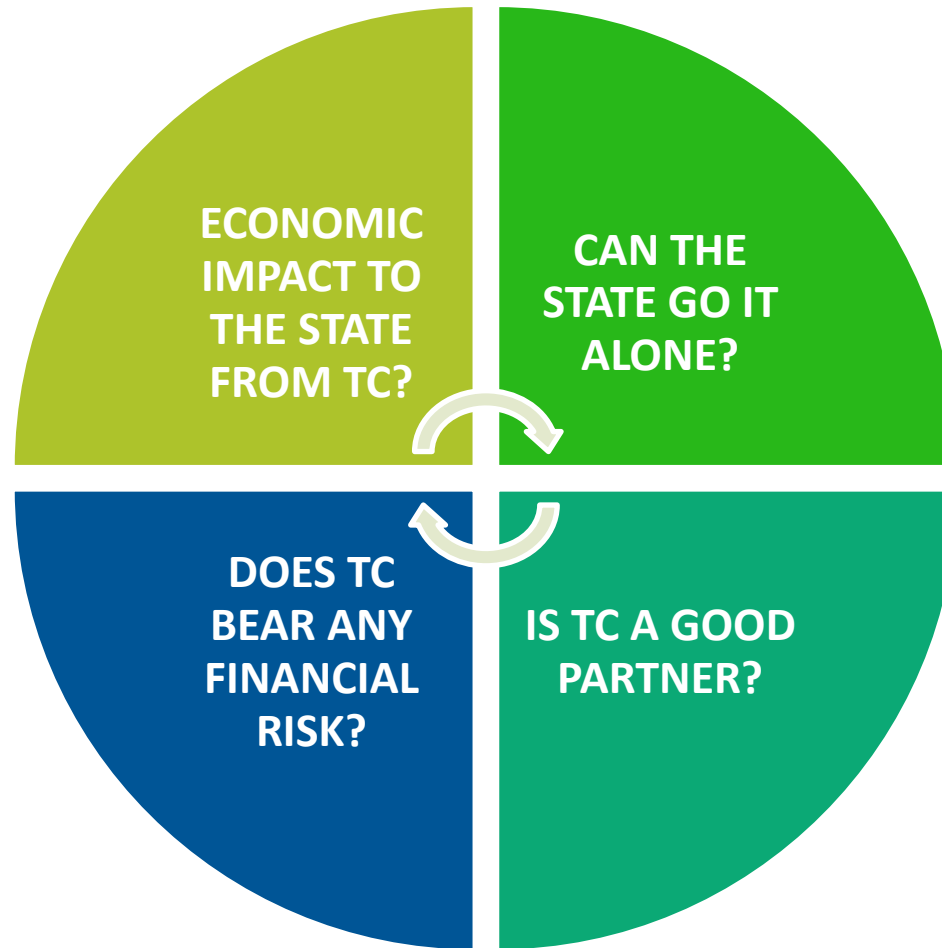
\* Assumes 25% State equity participation

# IMPLICATIONS OF OPTIONS AND POTENTIAL OFF RAMP



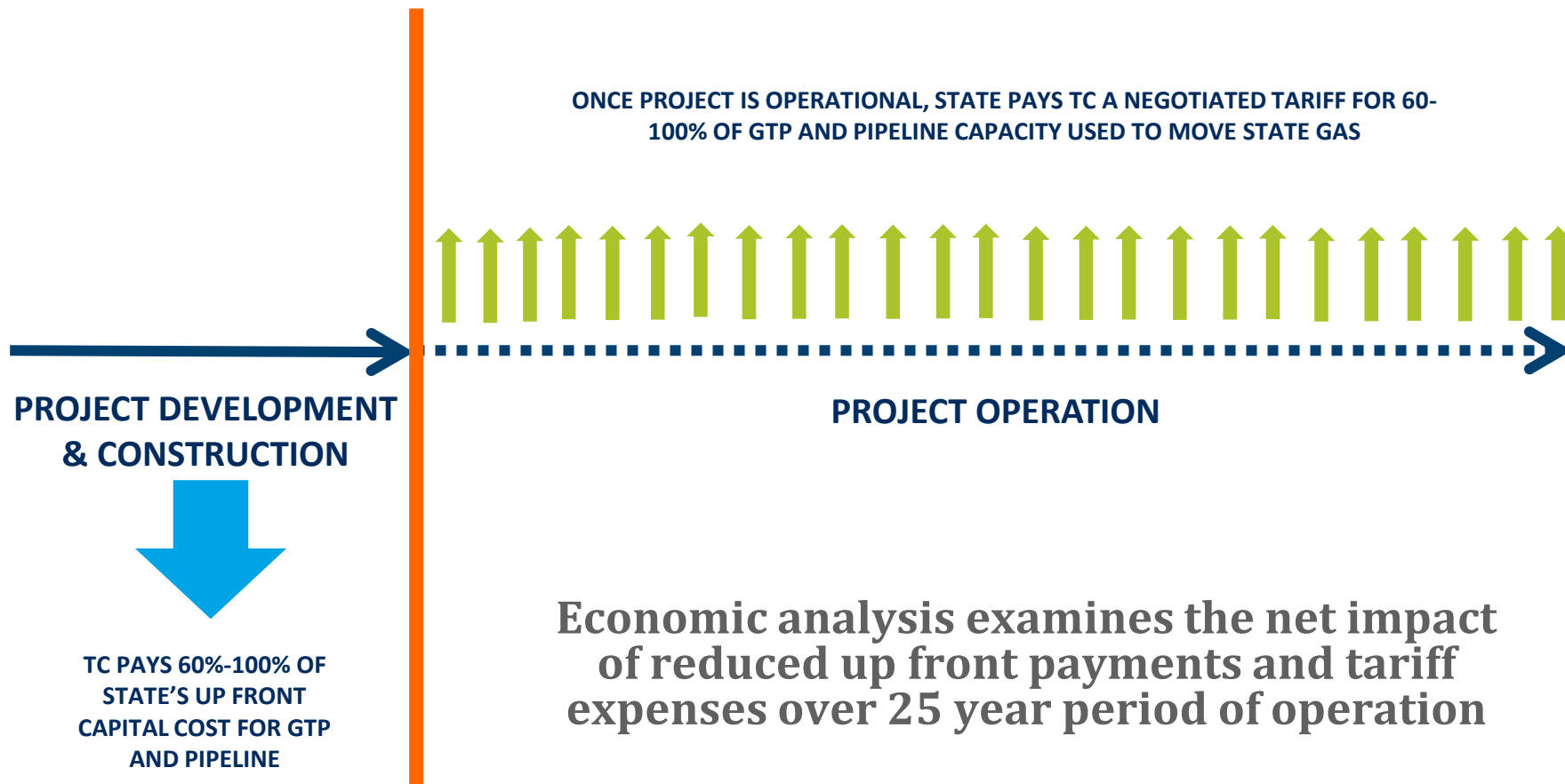
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# KEY QUESTIONS IN LOOKING AT VALUE OF TRANSCANADA'S PARTICIPATION

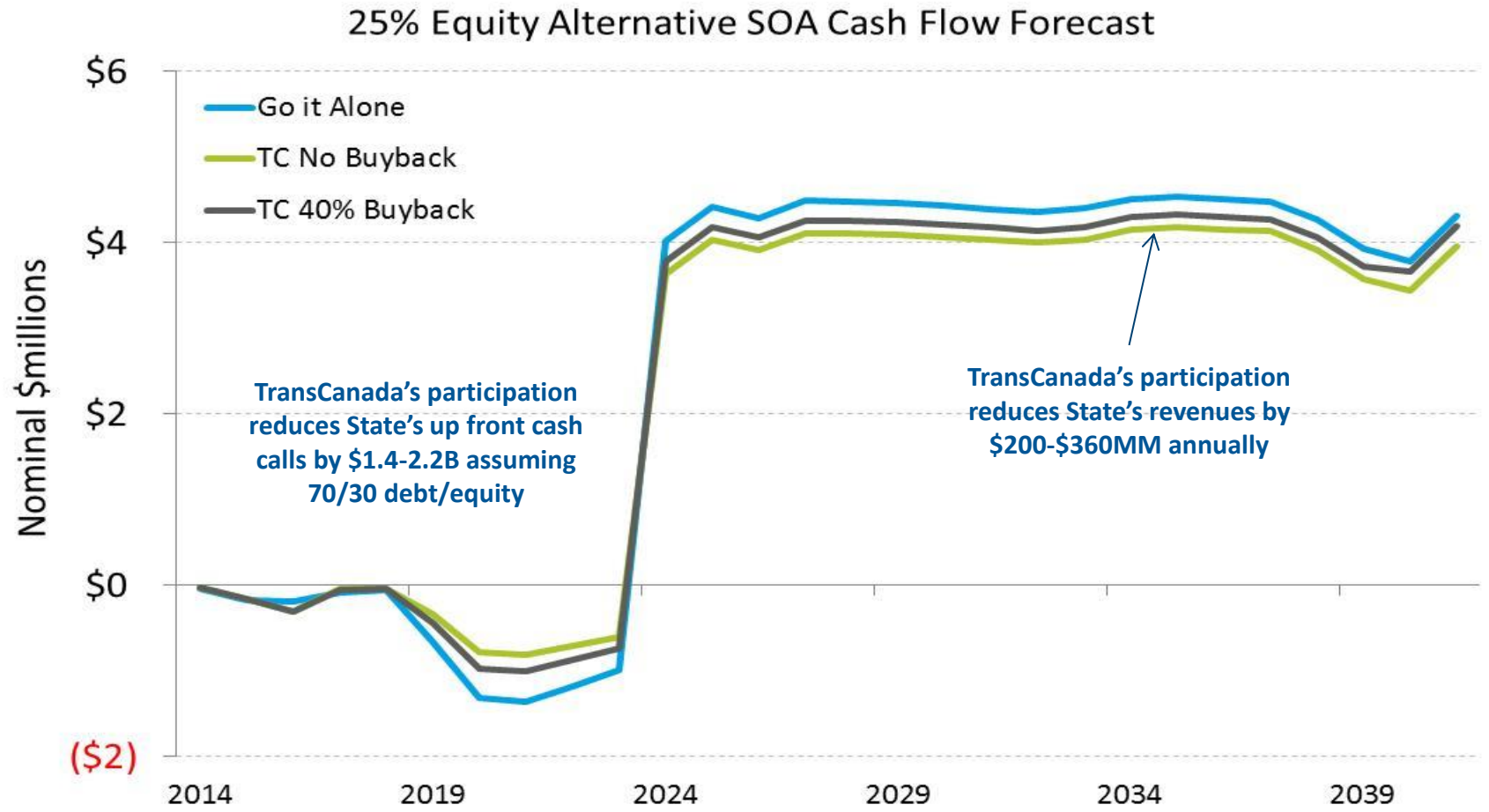


# WHAT IS THE ECONOMIC IMPACT TO STATE FROM TRANSCANADA'S PARTICIPATION?

SOA IMPACT



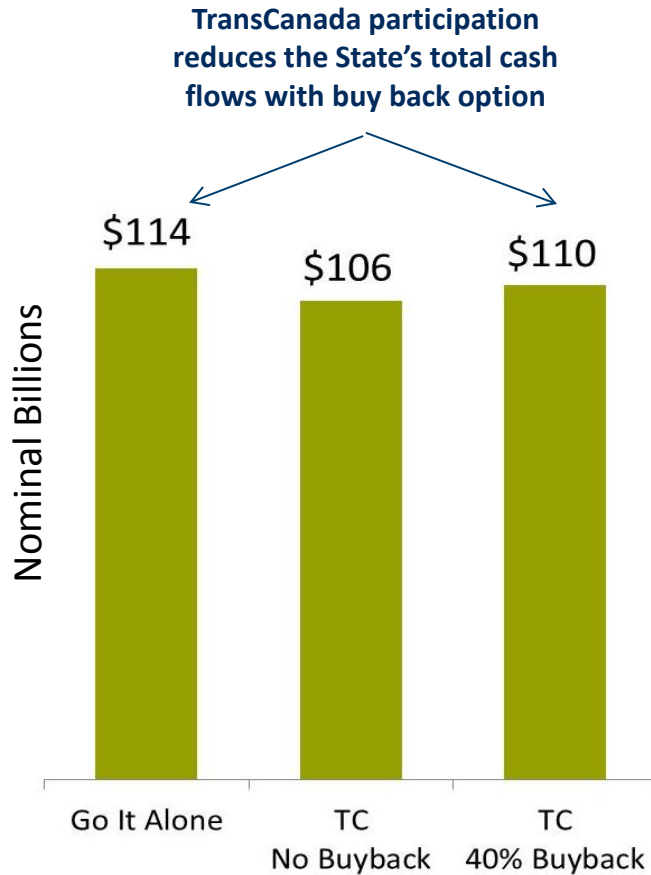
# TRANSCANADA'S PARTICIPATION IMPACTS SOA UP FRONT CASH CALLS AND REVENUES FROM PROJECT



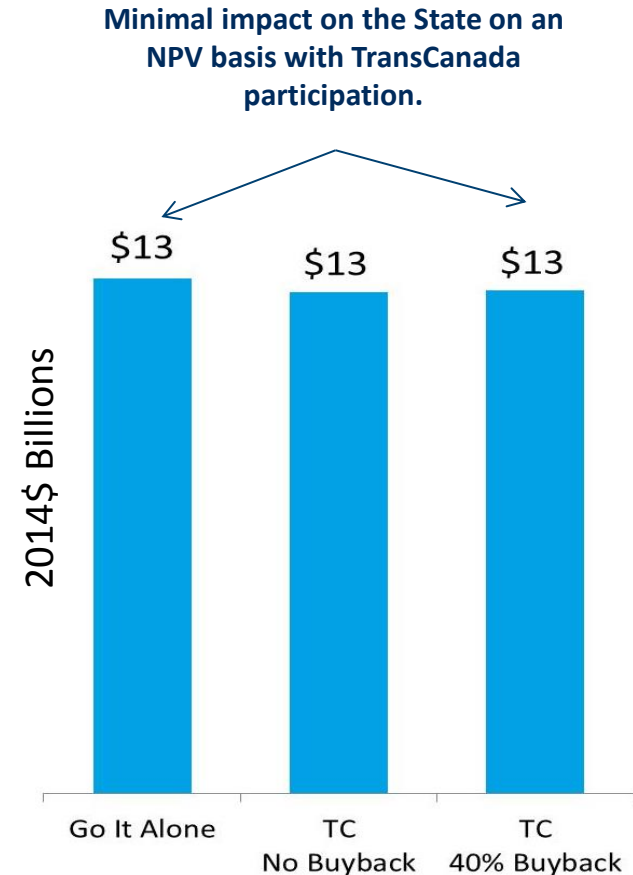


# WHAT IS THE ECONOMIC IMPACT TO STATE FROM TRANSCANADA'S PARTICIPATION?

SOA IMPACT



STATE OF ALASKA CASH FLOWS



STATE OF ALASKA NPV<sub>10</sub>

**TransCanada's NPV is expected to be \$150-\$200MM over the initial 25 year period**

\* Assumes 25% State equity participation

# CAN THE STATE GO IT ALONE?



- What are the capital cost and investment implications of going it alone
- What are the debt implications of going it alone?

# SOA UP FRONT CAPITAL COST EXPOSURE IS REDUCED THROUGH TC PARTICIPATION

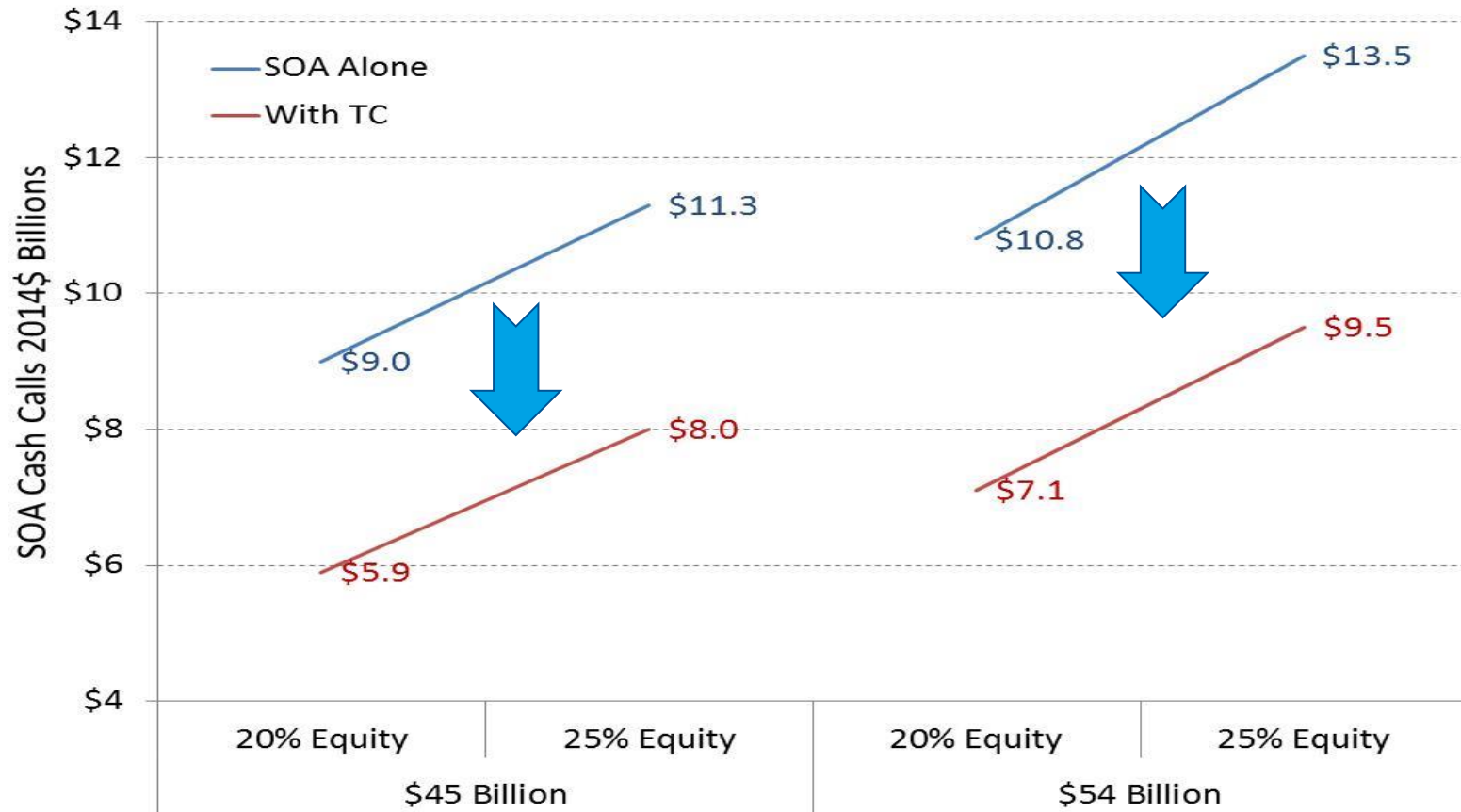


- Highest risk exposure is prior to project start when cash calls are not supported by project revenues
- TransCanada (“TC”) participation allows State to retain 20%-25% of gas share while being responsible for only 13%-18% of the upfront costs
- This is especially important if cost overruns occur on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

# SOA UPFRONT CAPITAL COST EXPOSURE IS REDUCED THROUGH TC PARTICIPATION



## TC Participation Reduces Total Upfront Investment by SOA by ~40%

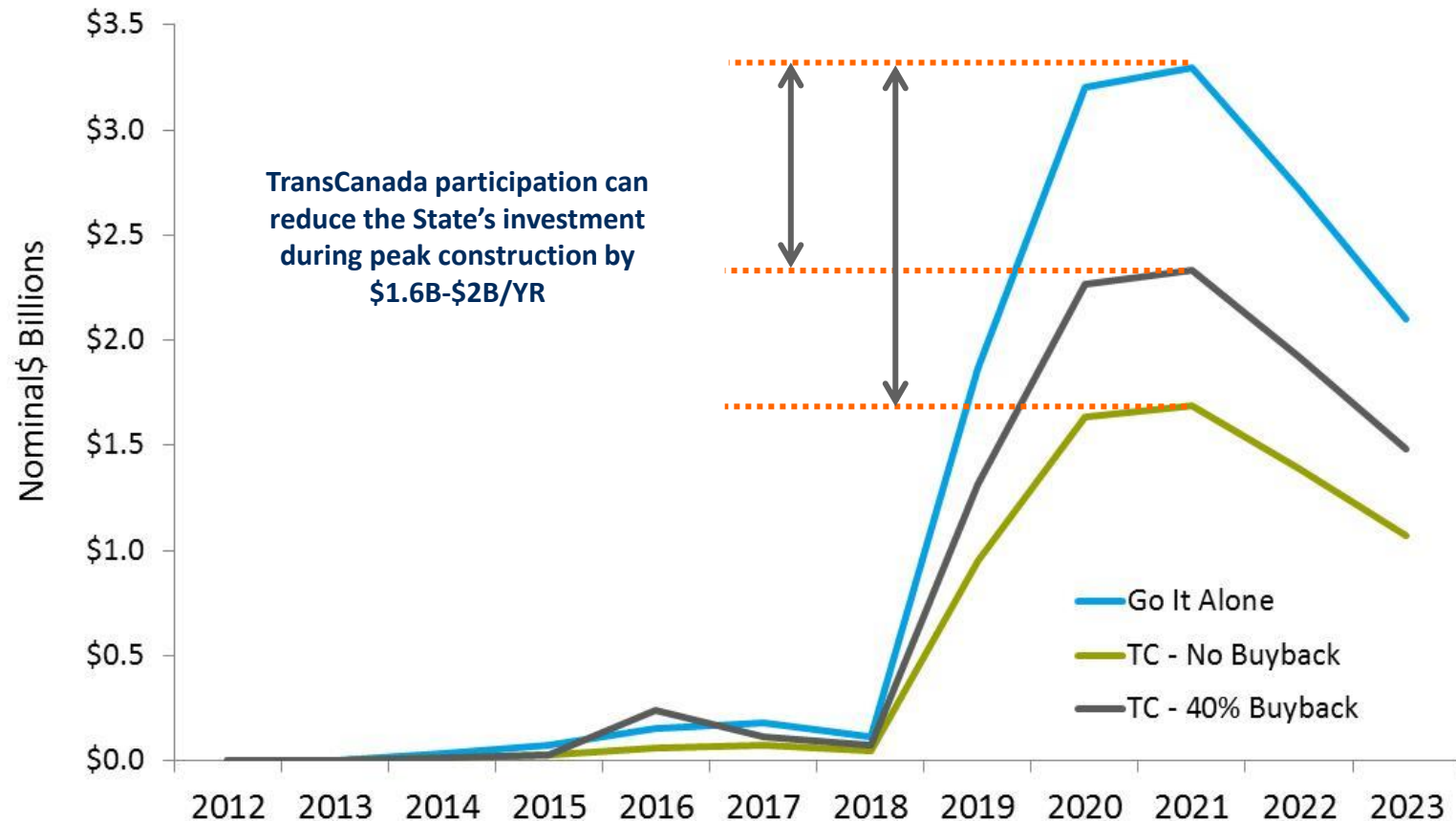


\* Assumes State exercises 30%-40% equity buy back with TransCanada

# SOA UPFRONT CAPITAL COST EXPOSURE IS REDUCED THROUGH TC PARTICIPATION



STATE OF ALASKA ANNUAL INVESTMENT



\* Assumes 25% State equity participation

# CAN THE STATE GO IT ALONE?

## - STATE'S DEBT CAPACITY



- **Financing the State's share of the AKLNG Project on the State's balance sheet – key issues:**
  - At what cost of debt?
  - Debt servicing as what % of general fund unrestricted revenue?

### Scenario 1 (lower interest)

- SOA Debt at 4.6%
- Debt Service limited to 3% of GFUR

### Scenario 2

- SOA Debt at 4.9%
- Debt Service limited to 5% of GFUR

### Scenario 3 (higher interest)

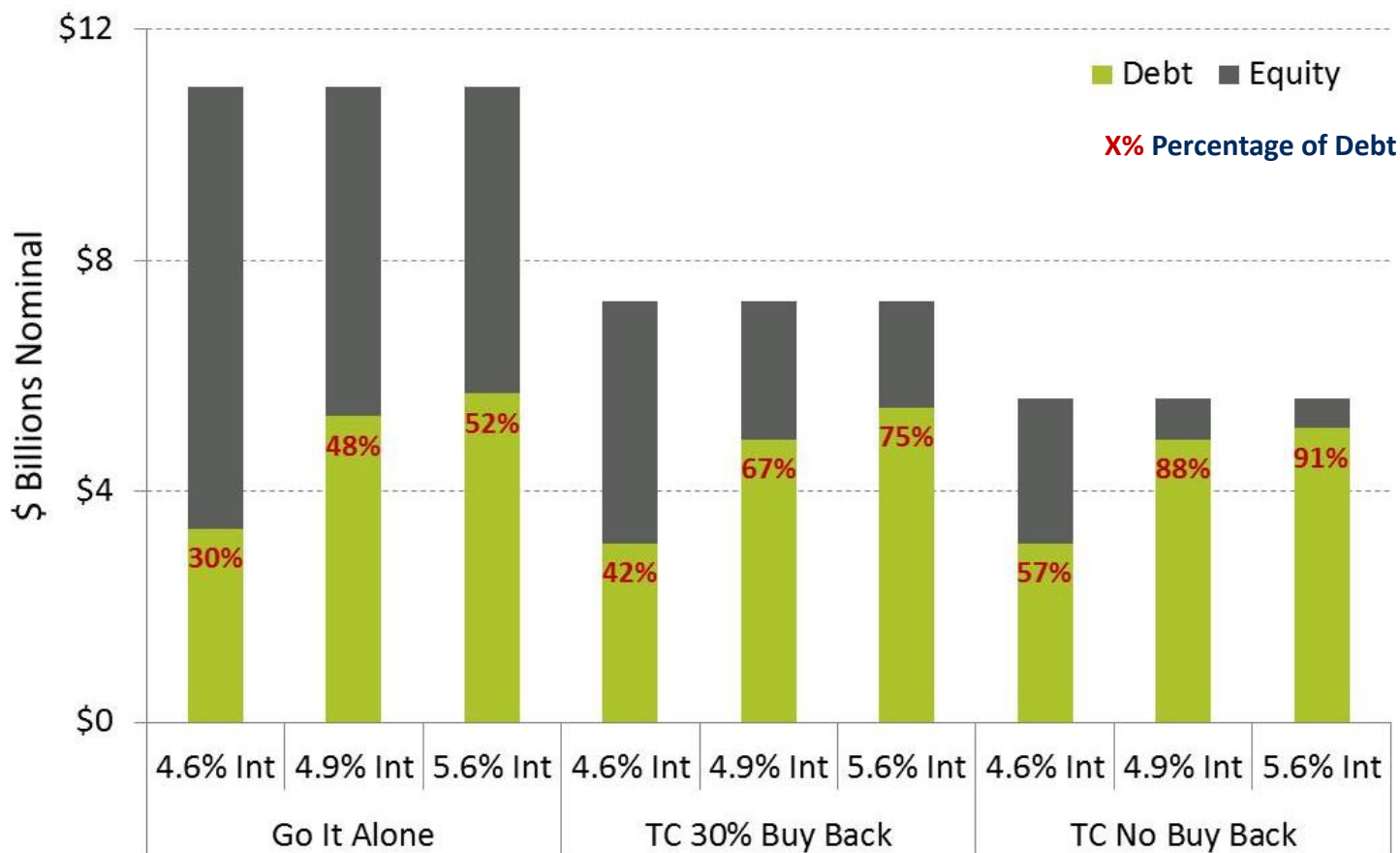
- SOA Debt at 5.6%
- Debt Service limited to 6% of GFUR

\* High-level, indicative assumptions based on input from Department of Revenue

# THE AMOUNT OF CHEAP DEBT AVAILABLE TO THE STATE COULD BE LIMITED



Indicative Levels of Debt for State to Finance 20% Equity Stake in AKLNG Project



\* Analysis based on high-level, indicative assumptions based on input from Department of Revenue. Financing arrangements for the AKLNG project will become clearer further into the development process.

# IS TRANSCANADA A GOOD PARTNER FOR THE STATE OF ALASKA IN THE AKLNG PROJECT?



Extensive experience in building, owning and operating northern pipelines

Long history of interest in Alaska Pipeline

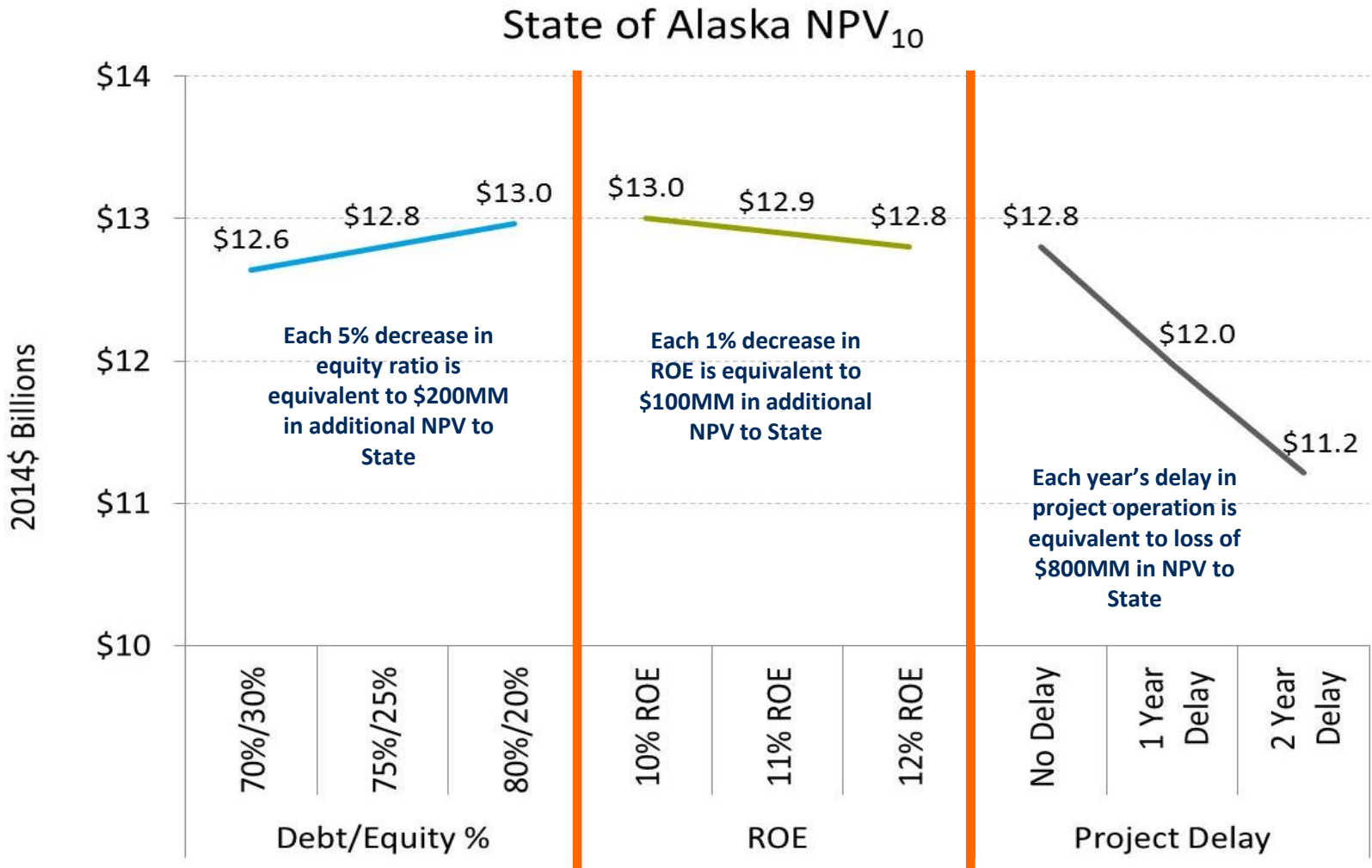
Retains momentum in the project

Facilitates expansion





# RETAINING MOMENTUM ON PROJECT COULD BE MORE VALUABLE THAN SECURING BETTER COMMERCIAL TERMS

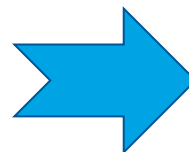


# DOES TRANSCANADA BEAR ANY FINANCIAL RISK?



TransCanada has committed to the following terms for providing treating and transportation services to the State

- D/E split of 75%/25%
- Return on equity of 12%; Cost of debt of 5%



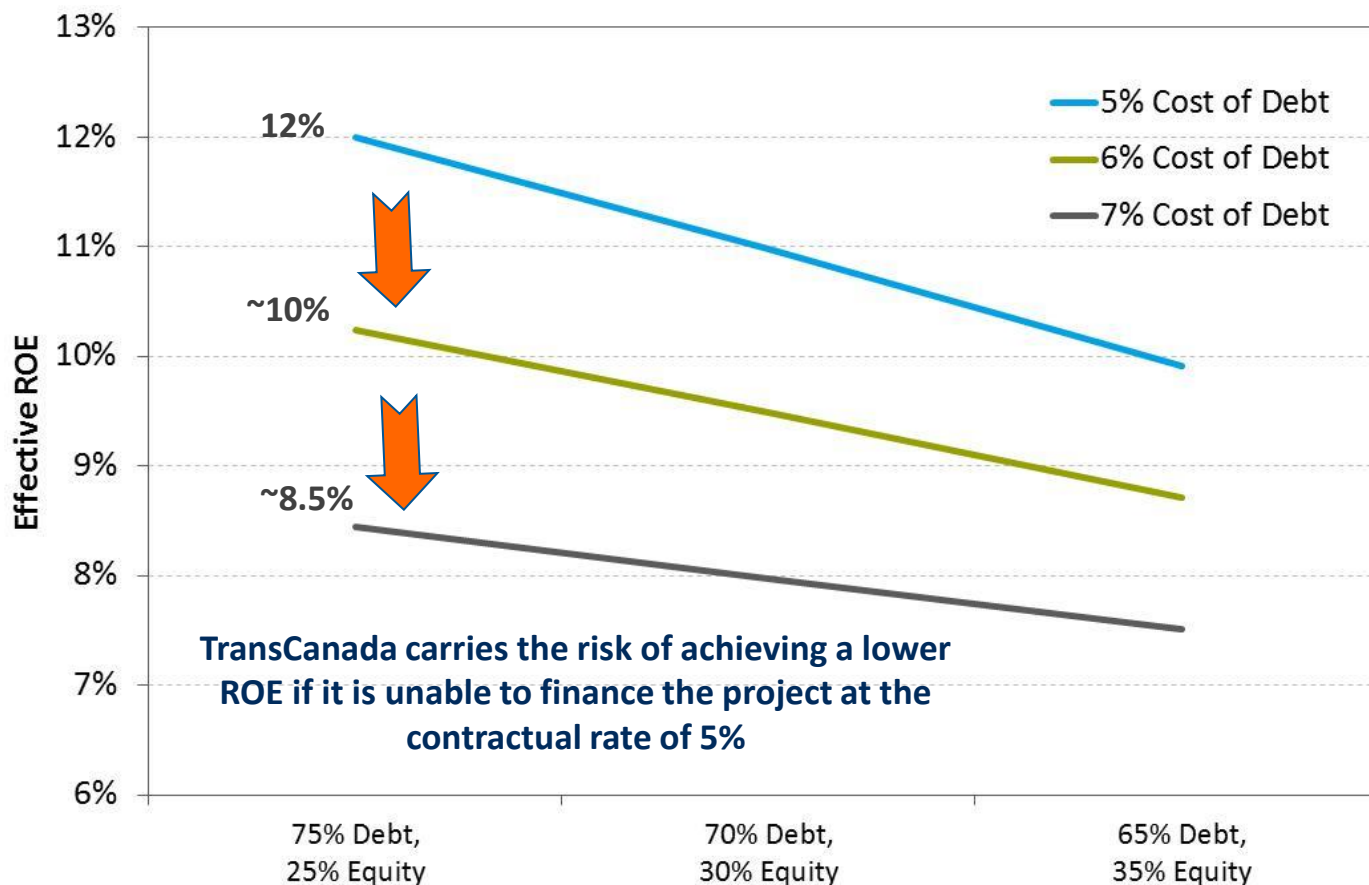
Locking in this capital structure before actual financing arrangements have been made for the project places a risk on TransCanada of under-earning its expected return on equity and eroding its expected NPV from the project

Given the scale of this project and the uncertainties associated with it, financing remains a significant risk

# DOES TRANSCANADA BEAR ANY FINANCIAL RISK?



## TRANSCANADA EFFECTIVE ROE UNDER DIFFERENT FINANCING ARRANGEMENTS



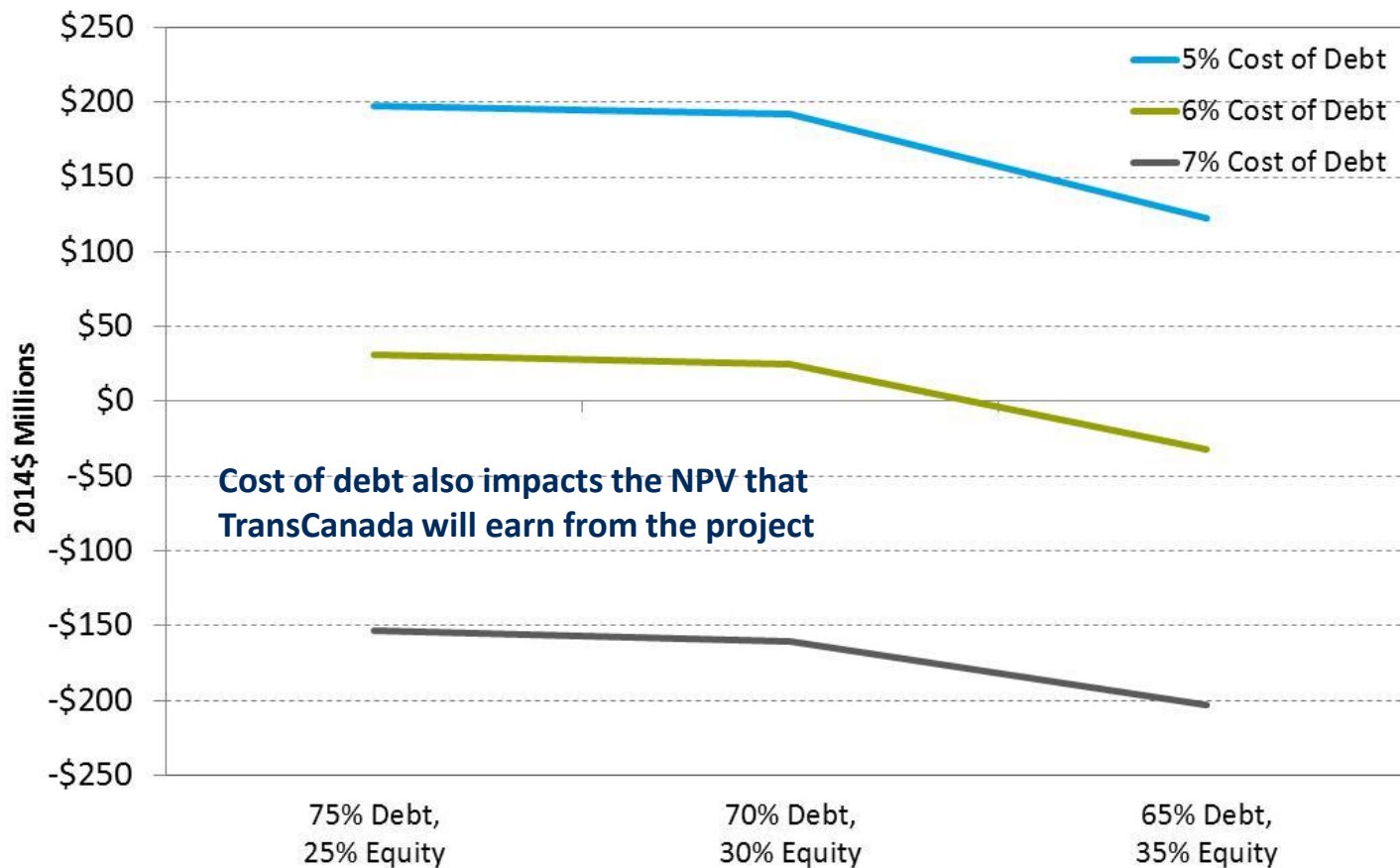
\* Assumes 25% State equity participation without State exercising buy back option

# DOES TC BEAR ANY FINANCIAL RISK?



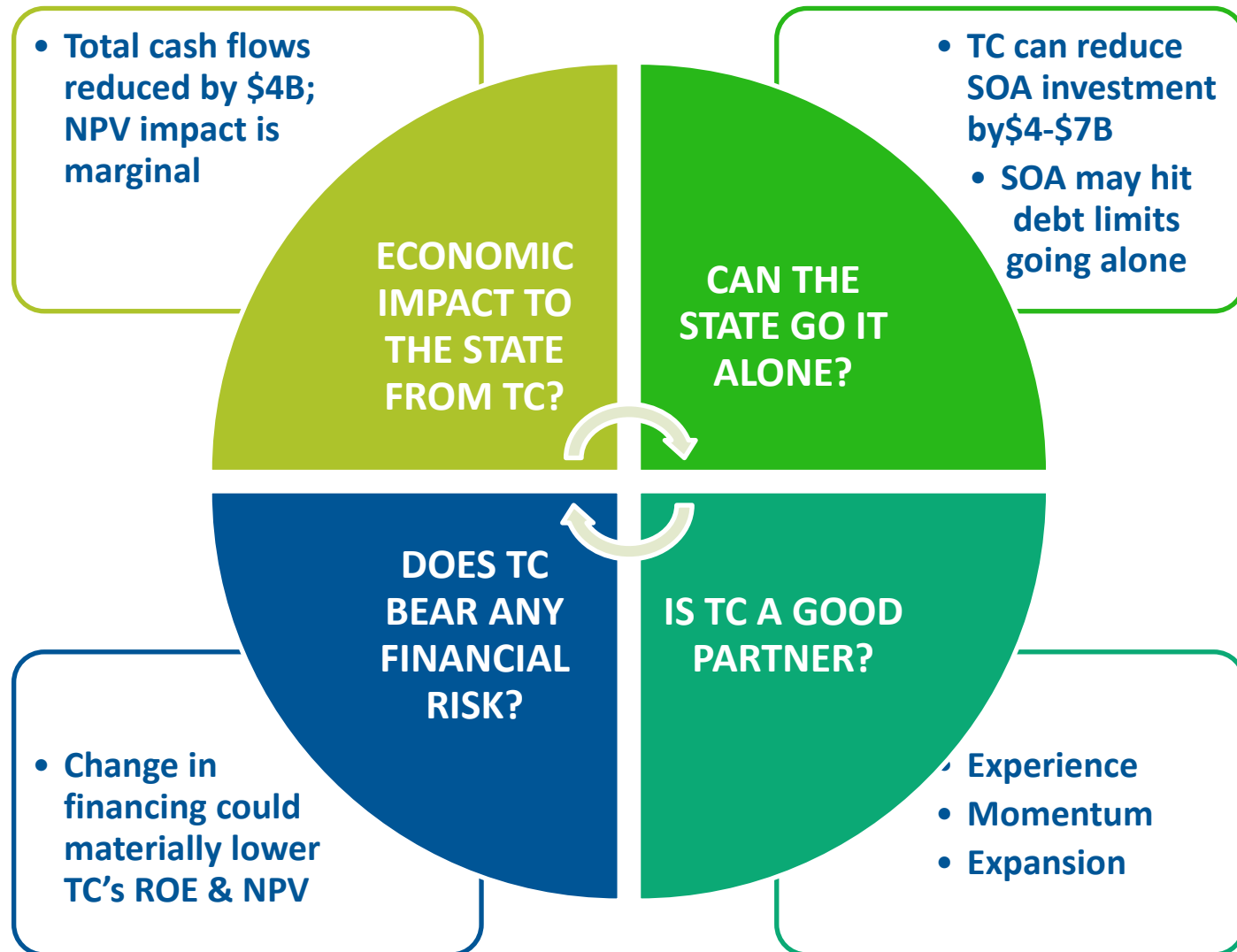
TC RISKS

## NPV<sub>10</sub> TO TRANSCANADA FROM AKLNG PROJECT



\* Assumes 25% State equity participation without State exercising buy back option

# SUMMARY ON 4 KEY QUESTIONS



**THANK YOU**

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