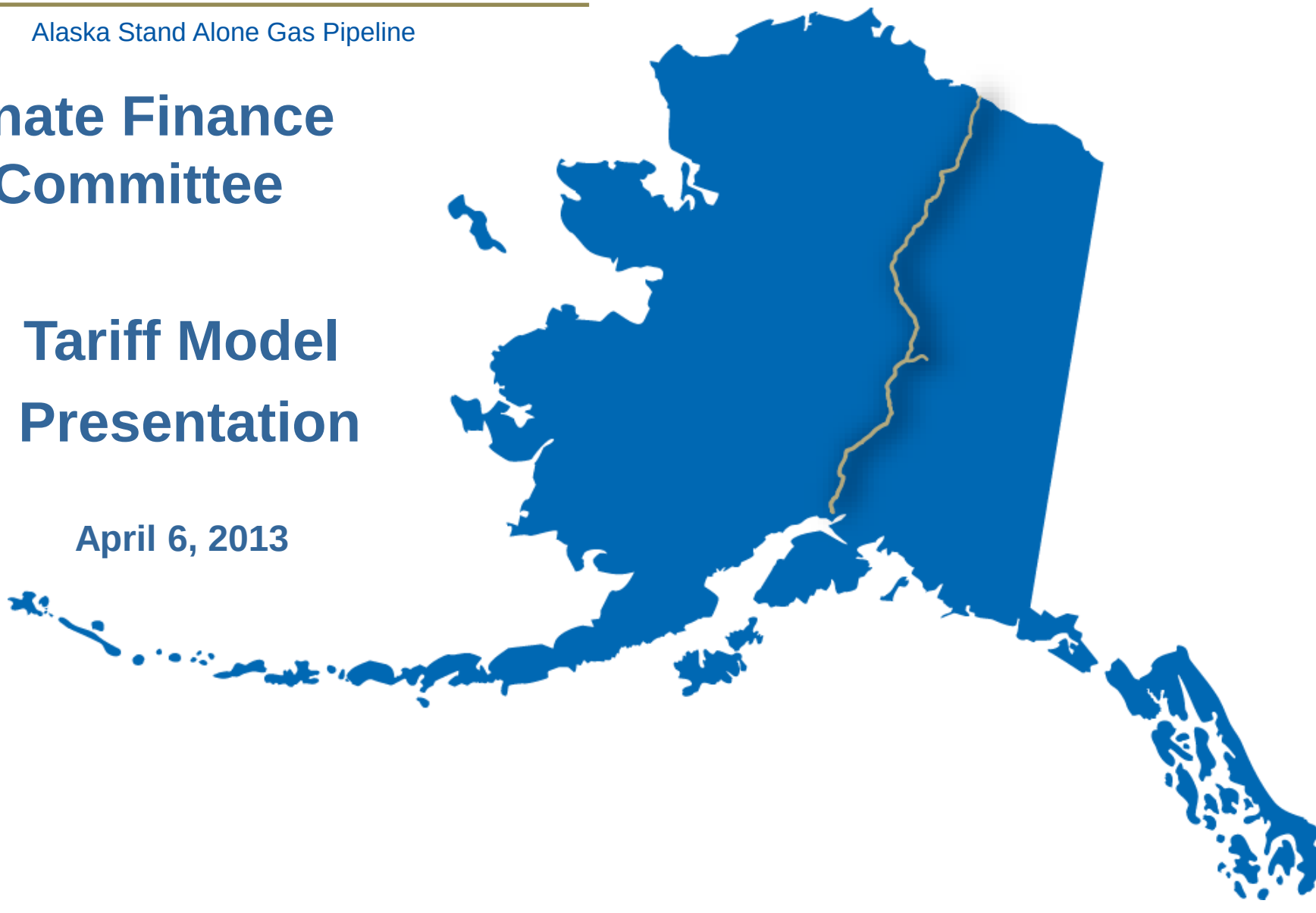
ASAP

Alaska Stand Alone Gas Pipeline

Senate Finance Committee

Tariff Model Presentation

April 6, 2013



Tariff Model - Purpose

- Estimate the cost of building, owning, and operating a gas pipeline over its useful life
- Estimate tariff rates that need to be charged to recover the cost of service
- Assure that financial commitments obtained during the open season will cover all required costs

Primary Factors Impacting Tariff Rates

- Capital costs
- Operating costs
- Volume (throughput)
- Currently all are estimates and in the early phases of engineering

Tariff Model Structure

- Cost of service model
- Capital cost estimates input into FERC code of accounts and broken down by segment
  - Industry standard
  - RCA familiar with cost categories & FERC accounts
- Operating cost estimates based on industry standards
- Gas volume/usage and allocated based on in-state demand study (2010)

Key Financial Assumptions

- Depreciation methodology and depreciable life
- Capital structure : % debt and % equity
- Cost of capital components

Model Outputs

- Revenue requirements calculated for each segment
- Volume (billing units) estimated for each segment
- Recourse tariff calculated

Recourse Tariff

- Initial tariff that is based on Class III estimates for gas conditioning facility/compressor and pipeline
- Sticker price
- Ceiling not floor
- Shippers can negotiate for better rate
- Who would use recourse tariff
  - ✓Small volume shipper
  - ✓Shipper with short term need

Updated ASAP Tariff Assumptions

- Longer term
  - 30 year levelized vs. original 20 years
- Updated capital cost estimates
  - Now $7.70 Bn
    - was $7.52 Bn (all estimates +/- 30%)
- More appropriate contingency
  - Pipeline now 10% vs. 5% (facilities 30%)

Update ASAP Tariff Assumptions

- Equity share and return on equity adjusted
  - Debt/equity split now 75/25 vs. 70/30
  - ROE 11% vs. 12%
- Year delay ($2011 -> $2012)
  - 2.5% inflation per year ($200 mm)
- Fewer billing units (MMBTUs)
  - 523 MMBTUs vs. 584 MMBTUs

Updated ASAP Tariffs

2012 Tariff Comparison Original Project Plan vs. Optimized Project Plan		
	ASAP 2011 Project Plan $/MMBtu	Optimization Update $/MMBtu
$ Levelized at Project Startup (Uninflated/Constant)	$2011	$2012
Fairbanks	$6.45	$4.25 to $6.00
Big Lake	$5.63	$5.00 to $7.25
$Levelized at Project Startup (Inflated/Nominal)		
Fairbanks	$8.99	$4.75 to $6.50
Big Lake	$7.75	$5.75 to $8.00
Cost Drivers		**Tariff Impact**
Capital cost : +/- $1 Billion for pipeline	Fairbanks	+/- $.50/MMBtu
	Big Lake	+/- $.80/MMBtu
State of Alaska Contribution : +$1 Billion		- $.45/MMBtu
Rate of return on equity (ROE): +/- 1%		+/- $0.20/MMBtu
Useful life (bond length): + 10 years		- $0.75/MMBtu
Cost of 1 Yr. Delay to Entire Construction Schedule		+$0.20/MMBtu

Thank You

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