

SCOMM

155:19

ALASKA STATE LEGISLATURE

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Senate Special Committee on Energy
State Capitol, Room 119
Juneau, AK 99801
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Representative John Harris, Chair
House Rules Subcommittee on AGIA
State Capitol, Room 208
Juneau, AK 99801
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Third Special Session
Twenty-Fifth Legislature

Sports Center, Soldotna, Alaska
Thursday June 26, 2008
1:00-8:00 p.m.

Joint Meeting AGENDA

Presentations: Review of AGIA Findings and Determination; Natural Gas Pipeline Project as proposed by TransCanada Alaska Company, LLC and Foothills Pipelines Ltd. (TC Alaska) to the State of Alaska.

➤ **TransCanada AGIA Application**

Tony Palmer, Vice President, Alaska Gas Development

"umbrella final agreement" re: 1st Nations agreeing to Foothills ROW

➤ **Findings & Determination Summary**

Pat Galvin, Commissioner, Dept. of Revenue

Testimony: By Invitation

➤ **6:00 – 8:00 PM Public Testimony**

Testimony – Time Limit May Be Set

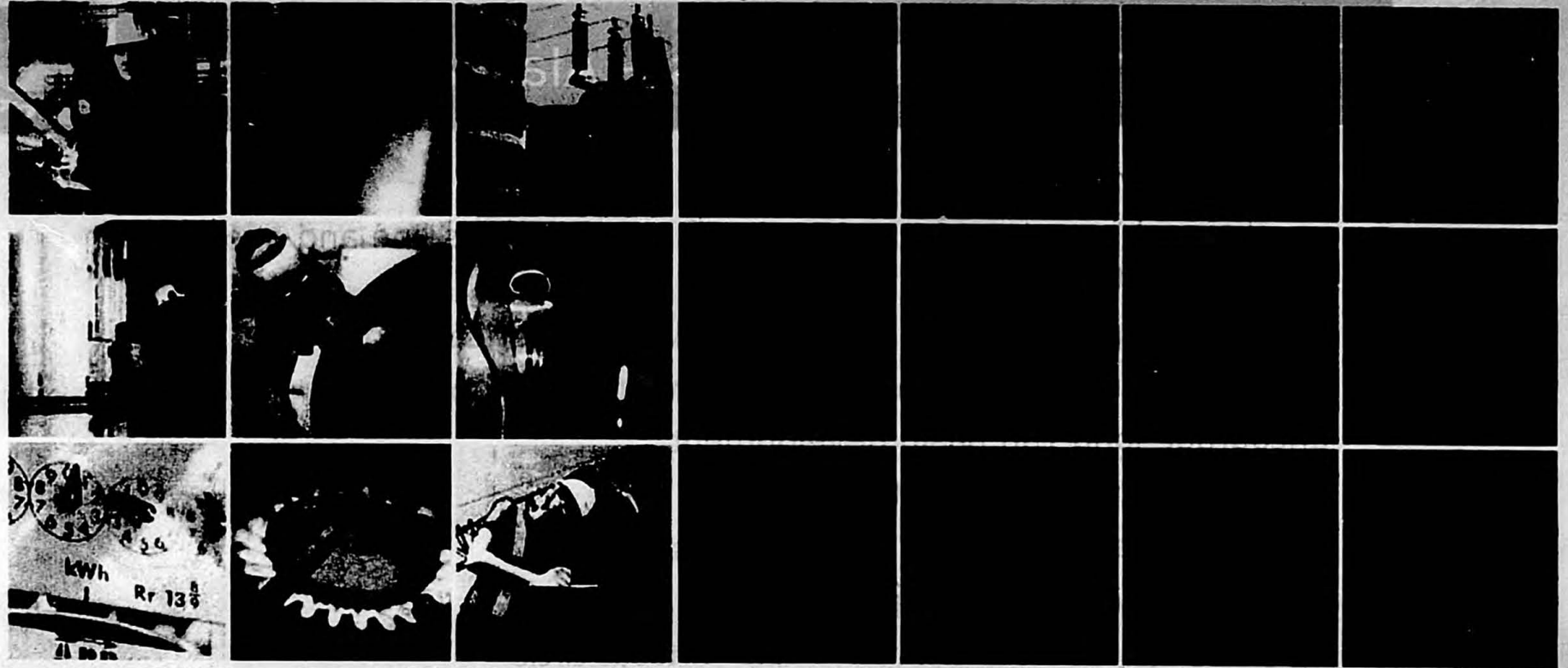
Teleconference- Listen Only

Thursday June 26, 2008 Soldotna

- ✓ Allan Ulen - Commissioner Public Testimony
- ✓ John Williams - mayor ^{need gas} - jobs now 6-8 pm
- ✓ Debbu Brown - school board - VOTE NO on TC appl.
- ✓ Pat Hawkins - believe in process -
- ✓ Bro. Tom Patmor -
- ✓ Bill Warren - for AGIA - and granddaughter Zurray
- ✓ Steve Mapes - 3 sons (30, 25, 21) ^{wants Big Pipe, jobs & industry in AK}
- ✓ Jim Kauffman - for ANGLA/PA ^{FOR AGIA} & LNG in AK; ^{supply the people}
- ✓ Jim Cooper - ^{and ANGLA} for AGIA - but use it here not a Canada Line.
- ✓ Bob Penney - SOA nor Feds can force gasline - don't vote today
- ✓ Jim Gilbert - ^{president} Udalenov Svcs - ^{allow market to work w/no} interference from govt.
- ✓ James Fisher - keep it in AK -
- ✓ John Bowen - take care of AK 1st ^{build train - 1 train = 200 trucks}
- ✓ Gordon Spaulding - keep it (LNG in AK) re Williams
- ✓ Len Malmquist - AK resources to AKs first -
- NO Penny Malmquist - amend. AGIA
- ✓ Mark Hall
- ✓ Daniel Pricer - AK should build it - like other transportation - & bring gas to Alaskans
build it to boarder
put a value on it there & let the Canadians work out their own deal
- ✓ Greg Dyer - 25 yrs here - ^{nothing works in 006 - has to be} joint venture w/ TC & Producers
take it to Canada & charge the market rate
opposed to Buller Line (cost overruns)

presented 6-26-2008 1-5 pm Thursday
Soldotna

Mr Tony Palmer, TC Alaska VP



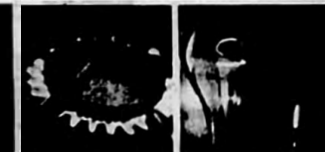
TransCanada's AGIA Application Statewide Legislative Hearings

June / July 2008



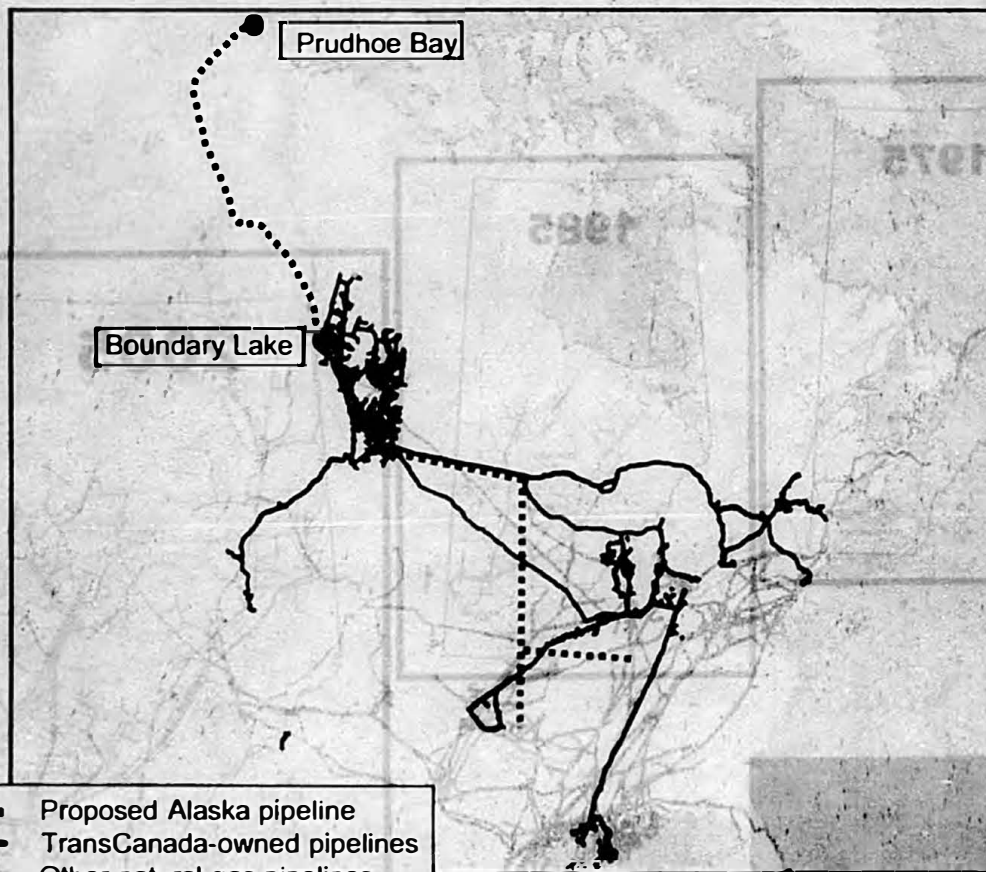
TransCanada
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TransCanada's Objectives – Alaska Project



- Early in-service
 - Largest investment opportunity in core business line and geographic footprint
 - Utilize spare capacity on existing North American pipelines
 - LNG market as alternative investment opportunity
- Encourage long-run basin development
 - Serve In-State and other markets
 - Increase market and supply diversity
 - Growth investment opportunities
 - Pipeline expansions can create “virtuous circle”
 - Pipeline expansions promote more exploration and drilling which, if successful, leads to more pipeline expansions
- Equitable treatment for all customers
 - 50-year successful track record of balancing interests
 - Initial and future
 - Large and small

TransCanada's Credentials

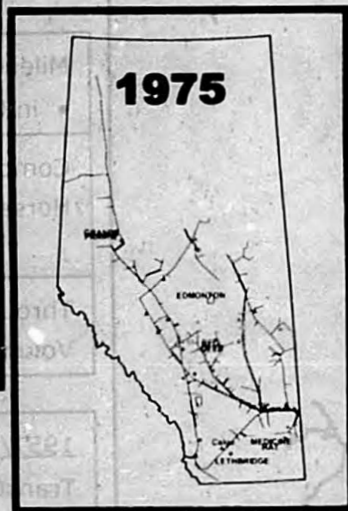


- Proposed Alaska pipeline
- TransCanada-owned pipelines
- - - - - Other natural gas pipelines
- · - · - Keystone pipeline

	TransCanada Total	Alaska Pipeline Project
Miles of Pipe • in U.S.	36,500 • 12,000	1,715 • 750 in Alaska
Compression Horsepower	5,370,000	750,000 • 265,000 in Alaska
Throughput Volumes	15 bcf/d	4.5 bcf/d

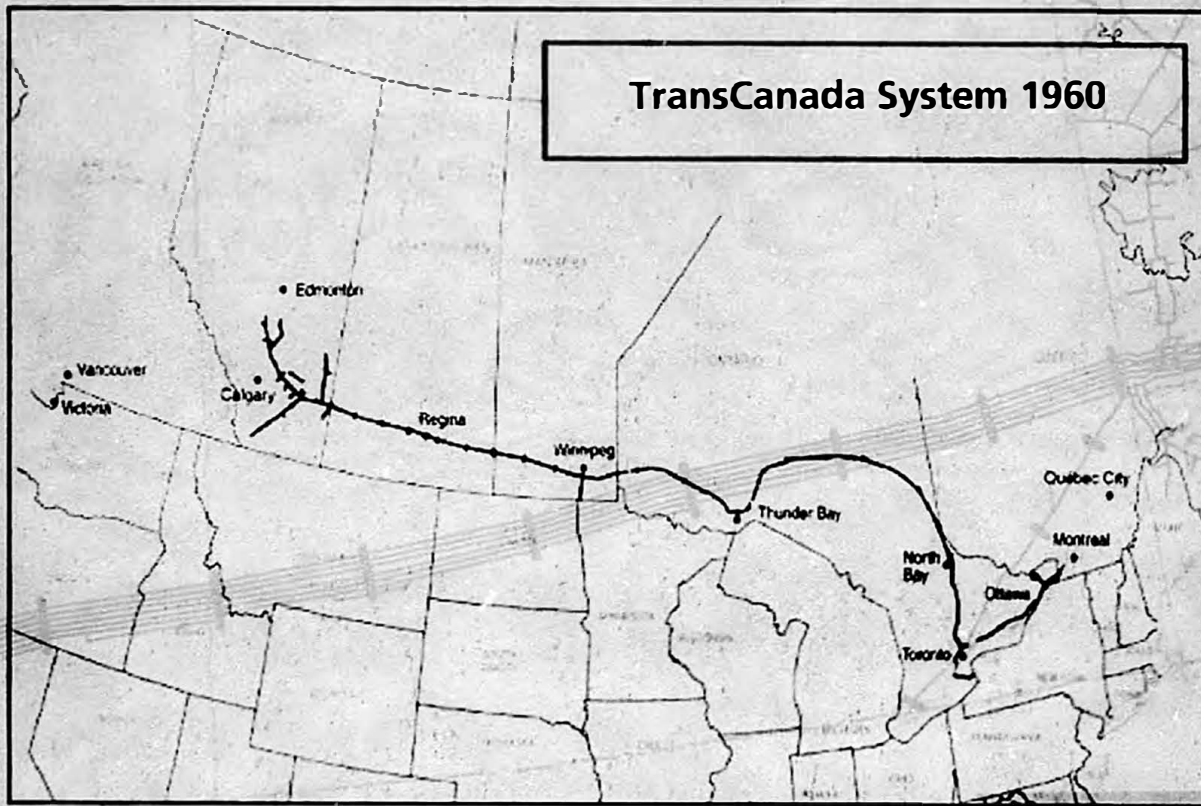
<u>1957/58</u> TransCanada's Mainline	Original build across Canada 2,300 miles
<u>1990s</u> Expansion	7,000 miles Completed within 0.6% of budget and on schedule
<u>2008 - 2009</u> Keystone Pipe	2,150 miles New build in U.S. - 1,380 miles

Proven Basin Developer – Alberta Example



- Regulatory Structure**
- Independent pipeline model
 - Rolled-in tolls
 - 3 customers in 1958, 300+ today

Proven Basin Developer – Mainline Example 1960

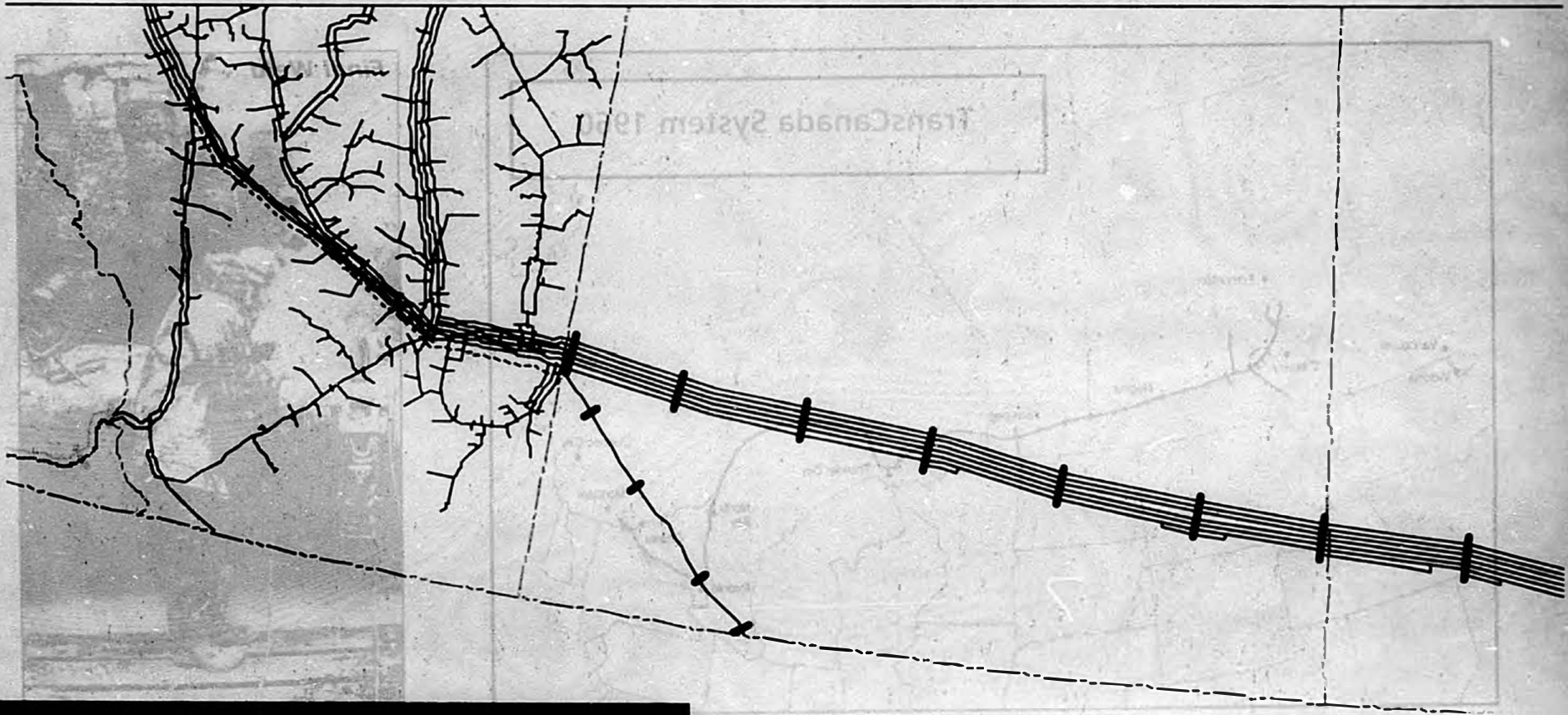


Proven Basin Developer – Mainline Example 2008



Alberta

Saskatchewan



Regulatory Structure

- Independent pipeline model
- Rolled-in tolls
- 3 customers in 1958, 300+ today

AGIA "Must Haves"



AGIA "Must Haves"	TransCanada's Application	Completeness
1. Filed by deadline	Filed on November 30, 2007	✓
2. Project details & schedule	Alaska Highway route 5 bcf/d GTP and 48" 2500/2600 psi pipe 2017 November in-service*	✓
3. Open season date certain Apply for FERC pre-filing Apply for FERC CPCN	Completed by Sept. 2009* June 2010* - not contingent on Open Season December 2011* - as above	✓
4. RCA filing	N/A	N/A
5. Open season frequency	Once every 2 years	✓
6. Expansions - Commitment to expand in engineering increments	Yes, 4.5 bcf/d initial design capacity Expandable to 5.9 bcf/d with compression only	✓
7. Rolled-in tolls	Up to 115% of initial rates in Alaska Full rolled-in rates in Canada	✓
8. Gas treatment plant	TransCanada will build if 3 rd parties do not	✓
9. State reimbursement	Up to \$500 million	✓

* Subject to AGIA license by April 2008

AGIA "Must Haves"

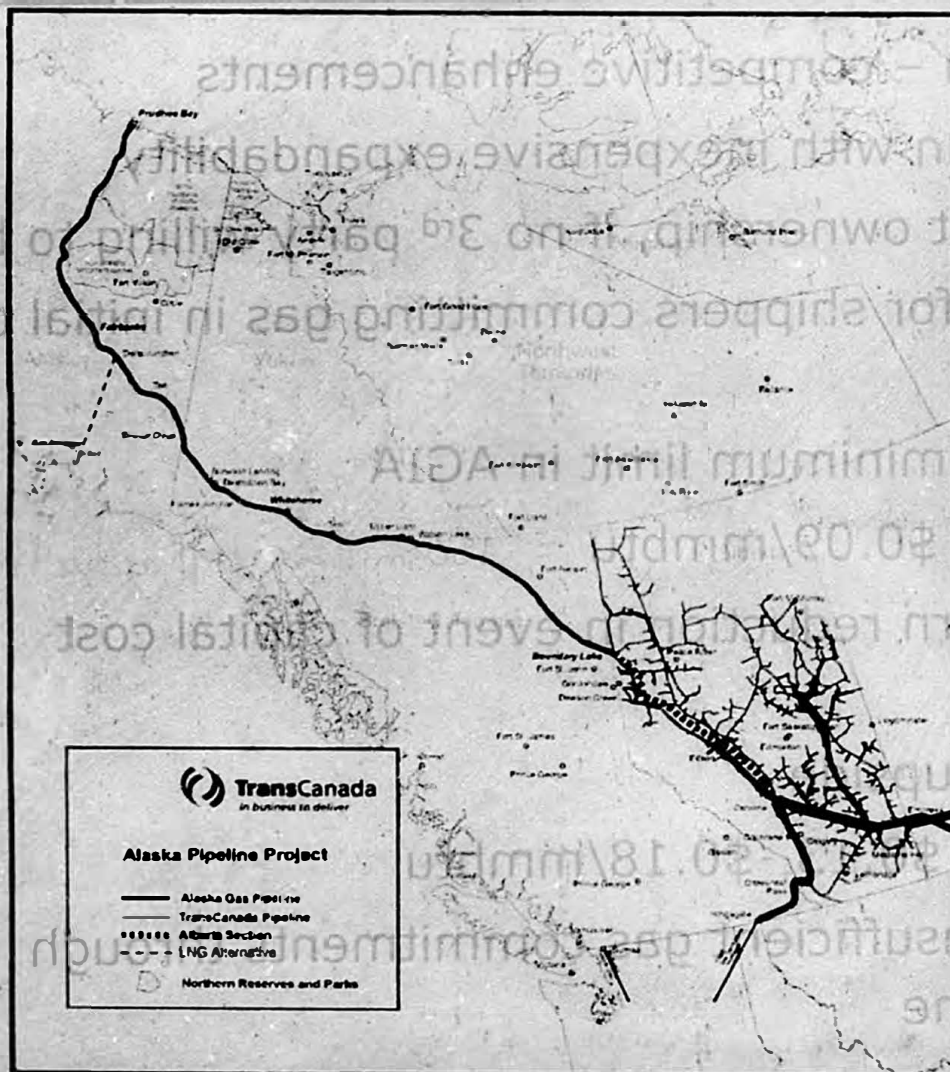


AGIA "Must Haves"	TransCanada's Application	Completeness
10. Project debt ratio minimum	Construction - 70% Operation - 75% (to reduce tolls)	✓
11. Capital cost overrun measures	TransCanada's return reduction (penalty) Potential \$18 B loan guarantee (stable tolls)	✓
12. In-state deliveries	Min. 5 delivery points	✓
13. In-state delivery rates	Distance sensitive rates	✓
14. Local headquarters in Alaska	Yes	✓
15. Local hire, local businesses, etc.	Opportunities for local hire and businesses	✓
16. Waive right to appeal	Waived	✓
17. Project labor agreement	Commit to negotiate PLA	✓
18. Treatment of State reimbursement	Excluded from rate base	✓
19. Details of Applicant	Provided	✓
20. Readiness, financial resources and technical ability of Applicant	Proven record and demonstrated capability	✓

TransCanada's Competitive Response to AGIA

- TransCanada bid to win – competitive enhancements
 - Initial system design with inexpensive expandability
 - Gas treatment plant ownership, if no 3rd party willing to build
 - Equity opportunity for shippers committing gas in initial open season
 - 75% debt vs. 70% minimum limit in AGIA
 - Toll reduction of \$0.09/mmbtu = 150 million toll reduction / year
 - TransCanada's return reduction in event of capital cost overruns
 - Fort Nelson Option upside
 - Toll reduction of \$0.13 - \$0.18/mmbtu
 - LNG alternative if insufficient gas commitments through Canada, or via Y-line

Alaska Pipeline Project



- **Alberta Hub is the most liquid market in North America**
- **TransCanada's Alberta System is the Alberta Hub**
- **Access to all North American markets coast-to-coast on TransCanada's existing pipelines**
 - **By 2018, spare takeaway capacity sufficient for full Alaska volumes**
- **One-third of Alaska pipeline in-service as Prebuild moving 3 BCFD**
- **LNG alternative if insufficient gas commitments through Canada or via Y-line**

Project Description

- Gas treatment plant at Prudhoe Bay
 - 5 Bcf/d initial capacity
 - TransCanada will develop/own only if necessary
- Natural gas pipeline from Prudhoe Bay to Alberta Hub
 - 4.5 Bcf/d initial capacity
 - Expansion to 5.9 Bcf/d with compression only
 - More than 1700 miles
 - 48-inch diameter; 2500/2600 psig
- Alberta Hub to Lower 48
 - TransCanada's existing pipeline system in Alberta is the "Alberta Hub"
 - TransCanada's Alberta pipeline is both a physical and commercial system
 - Largest natural gas trading hub in North America
 - By 2018, downstream pipelines projected to have spare capacity for full Alaska volumes

Project Economics ¹

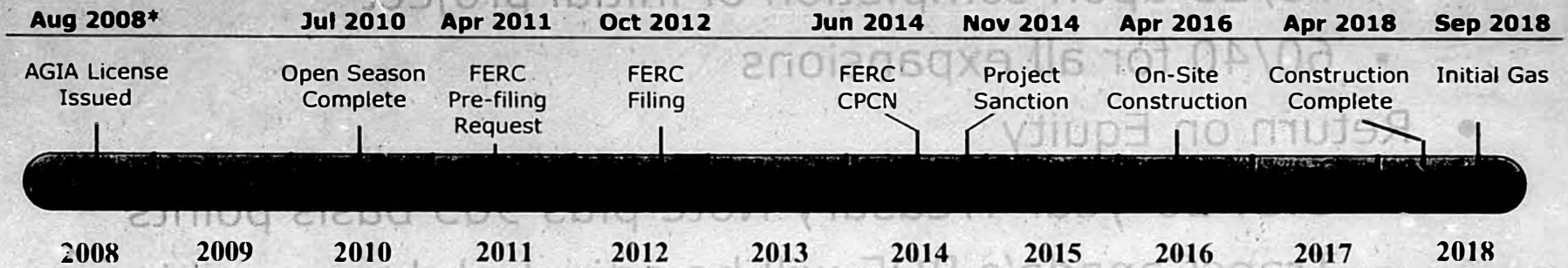
- Capital costs
 - \$26 billion (2007 \$US excluding AFUDC)
 - Approximately \$0.6 billion for Open Season and regulatory certification
- Tolls
 - \$US 2.76/MMbtu in 2018 to the Alberta Hub
 - Levelized negotiated toll for 4.5 Bcf/d in nominal dollars, including fuel
 - Expansion Tolls
 - Rolled-in tolls in Canada
 - Rolled-in tolls in Alaska up to 115% of initial tolls, including fuel

¹ Based on information provided by the State and current TransCanada estimates

Financial Parameters

- Debt/Equity Ratio
 - 70/30 during construction
 - 75/25 upon completion of initial project
 - 60/40 for all expansions
- Return on Equity
 - U.S. 10-year Treasury Note plus 965 basis points
 - TransCanada's ROE will be adjusted downward in first 5 years by up to 200 basis points in the event of CAPEX overruns
- Fuel
 - 7.9% including GTP from Prudhoe Bay to Alberta Hub
 - \$US 0.35/MMbtu in 2018 @ 4.5 Bcf/d

Project Schedule



* AGIA license assumed to be issued in August 2008

Partnership Opportunity



- TransCanada will offer equity opportunity to Shippers in the initial Open Season that subscribe for a threshold volume
 - Should improve likelihood of success and alignment of interests between project sponsors and Shippers

Upstream Fiscal Terms

- TransCanada's AGIA obligations are not conditional on a review of Alaska's upstream fiscal terms.
- TransCanada acknowledges that this issue is between the State and natural gas producers.
- TransCanada requests that the State review upstream fiscal terms for natural gas prior to the initial open season.

Other Project Components

- Natural Gas Liquids (NGLs) Extraction
 - TransCanada can accommodate NGL extraction in Alaska or downstream
 - TransCanada's Alberta system is straddled by three NGL complexes owned by third parties
 - Excess capacity expected at those plants sufficient to process Alaskan gas if Shippers so choose
- LNG Alternative
 - TransCanada is willing to offer gas treatment and transportation services from Prudhoe Bay to an LNG terminal should insufficient gas be committed through Canada or via a Y-line

Regulatory Structure

- Alaska
 - TransCanada Alaska Company, LLC will proceed under Alaska Natural Gas Pipeline Act of 2004
- Canada
 - Foothills Pipe Lines Ltd. will proceed under the Northern Pipeline Act (NPA)
- Canada/U.S. Treaty
 - The pipeline will follow the route set out in the Treaty and the NPA

AGIA "Must-haves" Promote Basin Development

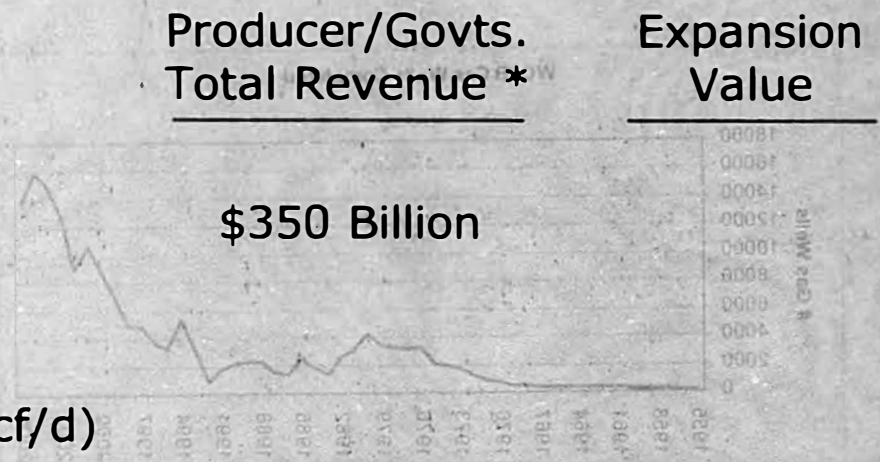
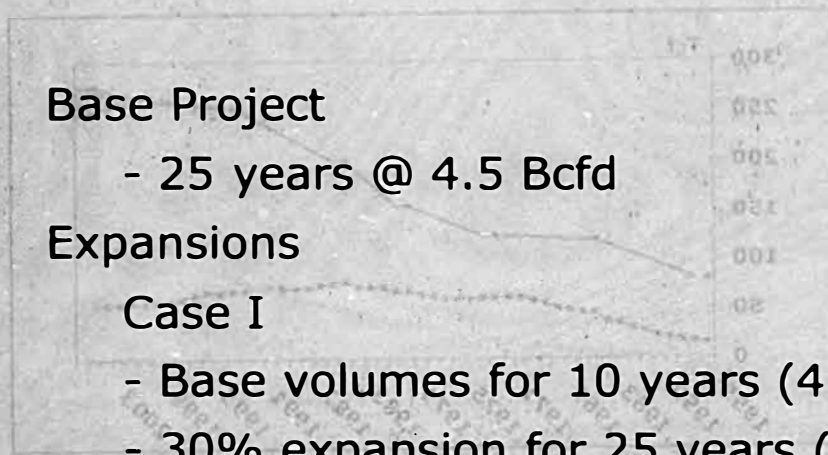
- Rolled-in tolls up to 115% of initial rates in Alaska
- Open Season every 2 years
- In-State deliveries
 - Distance-sensitive tolls
 - Minimum 5 delivery points
- Low equity ratio requirement for pipeline sponsors
- State fiscal incentives (if any) targeted to AGIA pipeline shippers

Long-run Basin Development – Pipeline Expansions

- Value to Producers / Governments?
- Does Alaska have enough gas?
- Drilling impacts?
- Impact of rolled-in tolls?



Value of Potential Expansions (\$Billions)¹



Base Project

- 25 years @ 4.5 Bcf/d

Expansions

Case I

- Base volumes for 10 years (4.5 Bcf/d)
- 30% expansion for 25 years (5.9 Bcf/d)

Case II

- Base volumes for 10 years (4.5 Bcf/d)
- 60% expansion for 25 years (7.2 Bcf/d)

Producer/Govts.
Total Revenue *

Expansion
Value

\$350 Billion

\$600 Billion

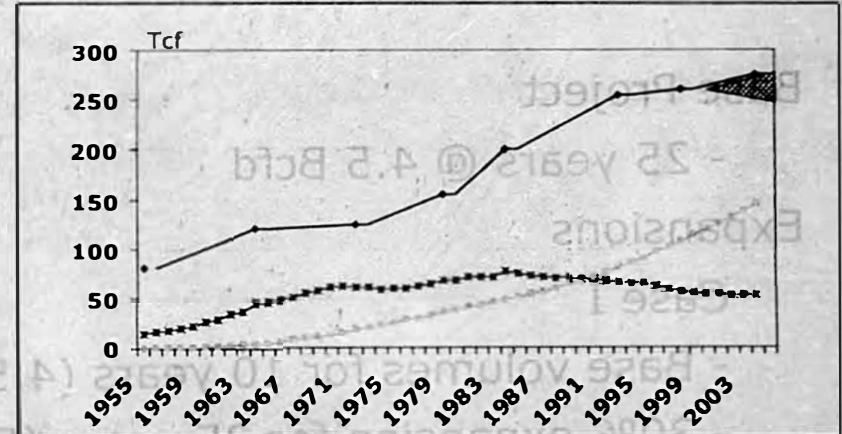
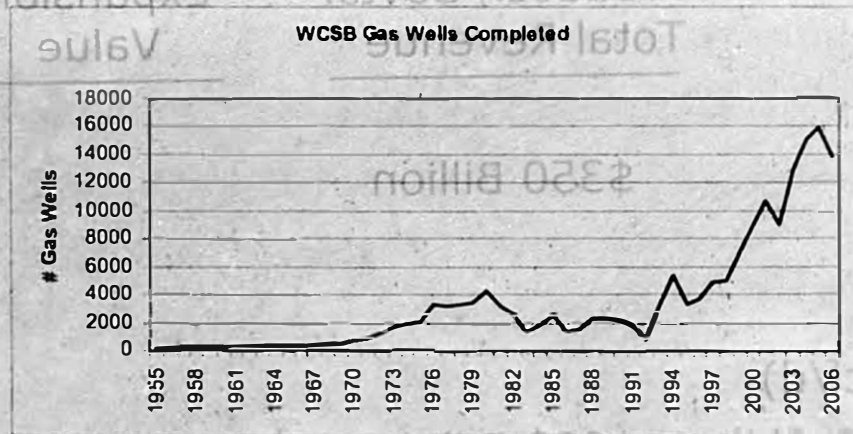
\$700 Billion




\$250 Billion

\$350 Billion

¹ Assumes annual average netback of \$6.89/MMbtu

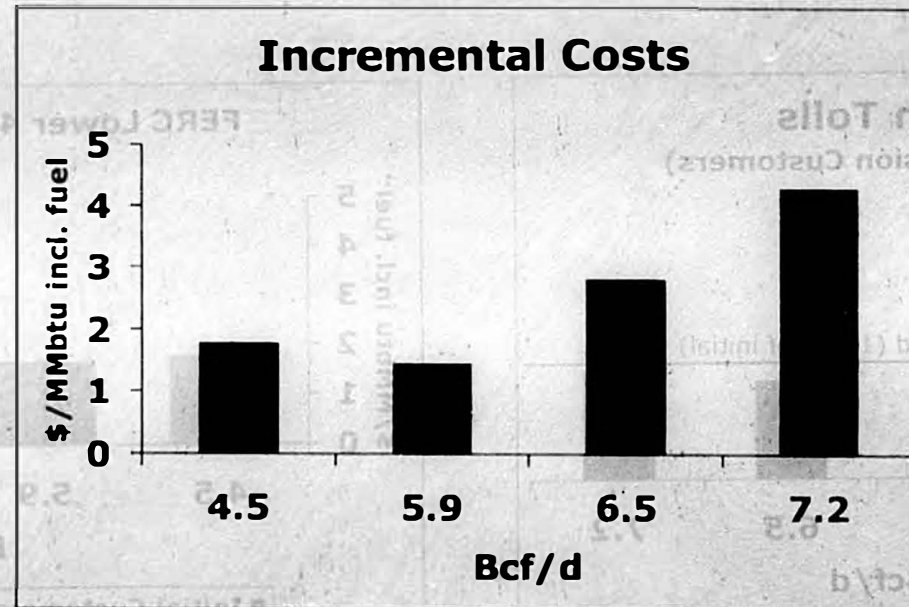
* Direct revenue only
- no indirect impacts from additional E&P activity and spin-offs



 Ultimate Resource Potential Estimate
 Proven Reserves
 Cumulative Production

- Pipeline expansion can create "virtuous circle"
 - More exploration and drilling
 - If successful, leads to more pipeline expansion
- Exploration and drilling drives service industry and employment over long term

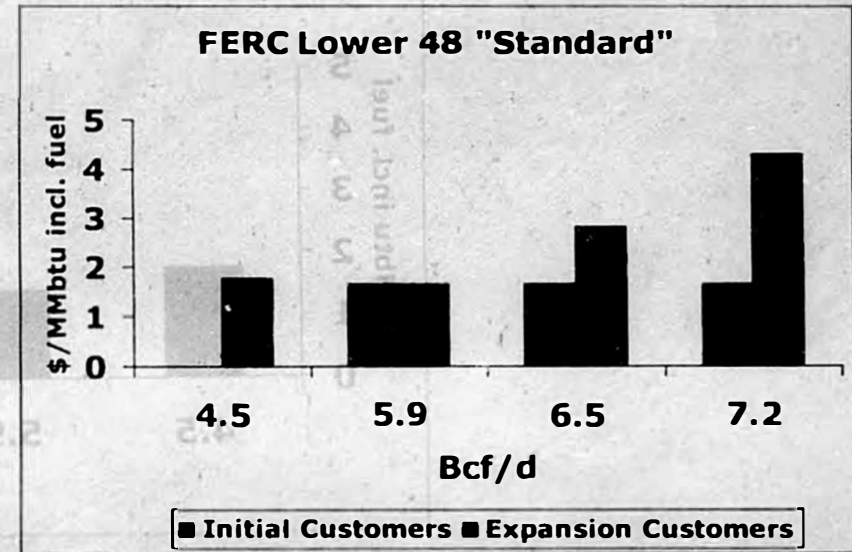
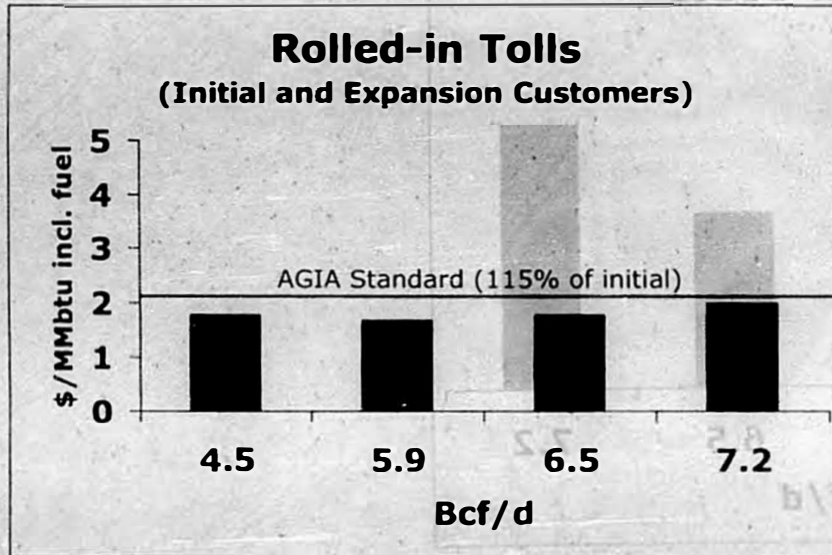
Impact of Rolled-in Tolls?



Alaska & Yukon-B.C. sections only

Assumed Volumes: 4.5 Bcf/d years 1 & 2
5.9 Bcf/d years 3 & 4,
6.5 Bcf/d years 5 & 6,
7.2 Bcf/d years 7 & beyond

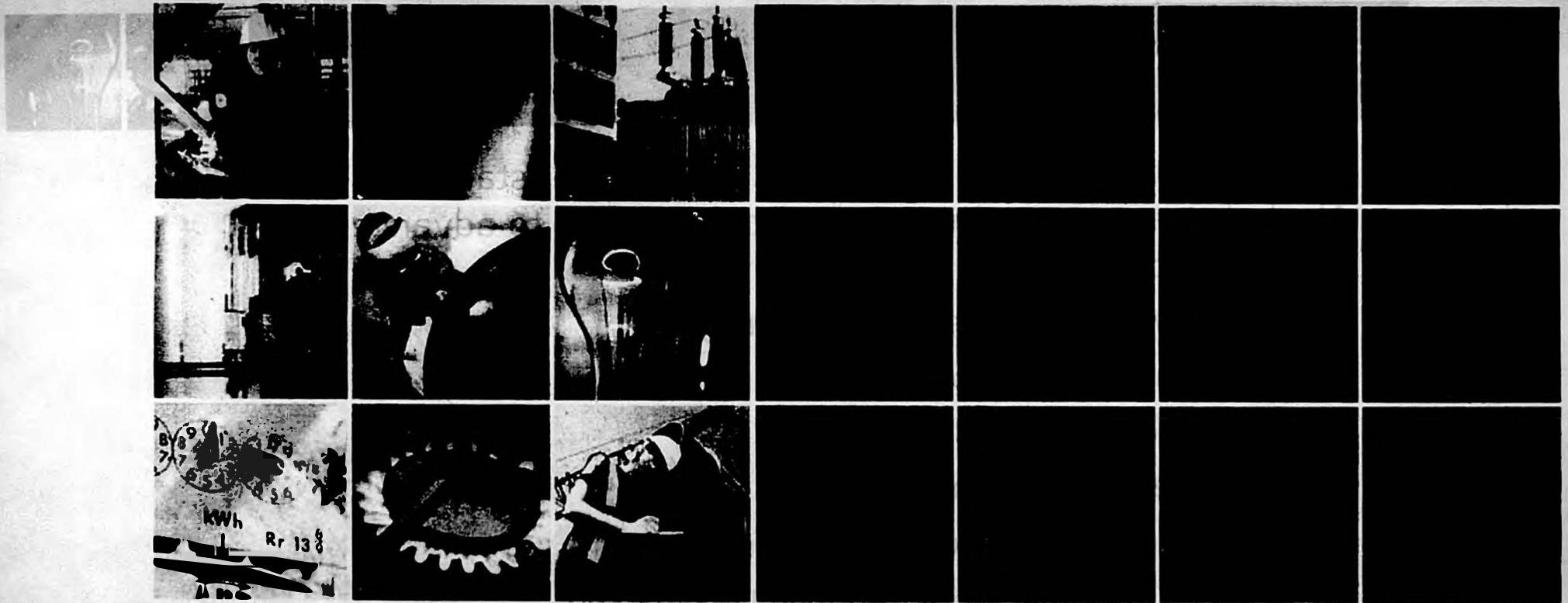
Impact of Rolled-in Tolls?



- Rolled-in tolls increase chance of expansions above 5.9 Bcf/d
 - 35% lower tolls for expansion customers to 6.5 Bcf/d
 - 50% lower to 7.2 Bcf/d

Summary

- Last year, the Administration and Legislature established AGIA as Alaska's transparent and competitive process to advance a gas pipeline project
 - AGIA was structured to encourage:
 - Construction of base project
 - Long-run basin development
 - Open access terms for:
 - Initial and future shippers
 - In-State, Lower 48, and LNG markets
- TransCanada has the credentials and capacity to build, own, operate and expand the project
- TransCanada's objectives are aligned with AGIA
 - Early in-service
 - Long-run basin development
 - Open access – equitable treatment for all customers



Thank You

- TransCanada has the credentials and capacity to lead, manage, and expand the project
- TransCanada's objectives are aligned with AGIA
- Early in-service
- Long-run basin development
- Open access, equitable treatment for all customers



TransCanada
In business to deliver

JUNE 2008

