

**03/19/14
OVERVIEW:
AKLNG
GUIDANCE DOCS
HEADS OF
AGREEMENT AND
MEMO OF
UNDERSTANDING**

<TARGET><BILL></BILL><SUBJECT>03-19-14 OVERVIEW AKLNG
GUIDANCE DOCS (HEADS OF AGREEMENT AND MEMO OF
UNDERSTANDING)</SUBJECT><COMM>HFIN28</COMM></TARGET>



Overview of the Guidance Documents (Heads of Agreement + Memorandum of Understanding)

A Presentation to the House Finance Committee

March 19, 2014

Department of Natural Resources

**Joe Balash
Commissioner**

Department of Revenue

**Angela Rodell
Commissioner**

Guidance Documents & HB 277

Heads of Agreement (HOA)

- Describes roadmap to advance project through phased process.
- Describes understanding and consensus on key terms.

Memorandum of Understanding (MOU)

- Describes agreement to transition from AGIA License to a more traditional commercial relationship.
- Describes key commercial terms for that relationship.

HOA and MOU
Describe how HB 277
would be used.

House Bill 277

***Participation** in the
AKLNG Project.*

***Percentage** of State
Gas Share and Participation
in the AKLNG Project.*

***Process** for
development of Project
Enabling Contracts and
**Legislative oversight and
approval** of future contracts.*



Legislature
decides whether
to advance or
not.

What is a Heads of Agreement?

January 14, 2014

Definition:

“A non-binding document outlining the main issues relevant to a tentative partnership agreement. Heads of agreement represents the first step on the path to a full legally binding agreement or contract, and serves as a guideline for the roles and responsibilities of the parties involved in a potential partnership before any binding documents are drawn up.”

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HEADS OF AGREEMENT

By and Among

THE ADMINISTRATION OF
THE STATE OF ALASKA

ALASKA GASLINE
DEVELOPMENT CORPORATION

TRANSCANADA ALASKA DEVELOPMENT INC.

EXXONMOBIL ALASKA PRODUCTION INC.

CONOCOPHILLIPS ALASKA, INC.

BP EXPLORATION (ALASKA) INC.

FOR THE ALASKA LNG PROJECT

Organization of the Heads of Agreement:

Heads of Agreement

January 14, 2014

The Heads of Agreement (HOA) is broken into 16 sections that include:

- Recitals of recent events and understandings between the parties.
- 13 Articles covering guidelines for the development of the project and the roles and responsibilities of the Parties to the agreement.
- An appendix articulating access and expansion principles for the project.
- An exhibit that provides copies of the 3 letters to Governor Parnell from the Producer Parties and TransCanada.

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Key Recitals

Recitals:

The purpose of the Recitals section, found on pages 2 through 4 of the Heads of Agreement, is to provide context for the agreement, describe recent events and articulate certain roles, goals and direction for the Alaska LNG Project and Alaska Stand Alone Pipeline (“ASAP”) project currently being advanced by the Alaska Gasline Development Corporation (“AGDC”).

1. Recognizes changed circumstances in the Lower 48 natural gas markets led Governor Parnell to call for a change in direction, under AGIA, in the development of North Slope Gas to an LNG project.
2. Recognizes funding by the State under AGIA has supported key activities for the LNG project but that both the Administration and TransCanada believe it is appropriate to transition from the AGIA license to focus on the Alaska LNG project.
3. Recognizes that AGDC is pursuing the Alaska Stand Alone Pipeline (“ASAP”) project and that the Alaska LNG project and ASAP intend to cooperate with one another.
4. The Alaska LNG Parties wish to ramp up the Pre-FEED phase of the Alaska LNG project, which is estimated to cost over \$400 million.

Key Definitions

Definitions:

Article 1 of the Heads of Agreement begins on page 4 and goes through page 7 of the agreement. In Article 1 a reader can find definitions for key terms used throughout the agreement.

It is important to note that when a term is capitalized in the agreement it is referring to a specific term that is defined in Article 1.

1. “**Enabling Legislation**” describes the key components of legislation (described in more detail in Article 7) necessary to advance the project.
2. “**MOU**” refers to the agreement, referenced in Article 5.4, between TransCanada and the Administration to transition from the AGIA license to a commercial relationship.
3. “**Pre-FEED**” means the pre-front-end engineering and design work and activities for the Alaska LNG project that are sufficient to support filings for the Federal Energy Regulatory Commission (FERC).
4. “**RIK**” means *Royalty in Kind* as described in Article 8.1.1, where in lieu of receiving payments for the value of the State’s royalty, the State takes a share of the gas produced.
5. “**TAG**” means “*Tax as Gas*” as described in Article 8.1.1, where in lieu of receiving payments for production tax the State would receive a share of the gas produced.

Principles and Benefits

Articles 2 and 3 of the Heads of Agreement are found on page 8 of the agreement.

Article 2 describes how the Heads of Agreement sets out the guiding principles upon which the Parties wish to progress work on the Alaska LNG Project and a roadmap for project.

Article 3 describes broadly some of the key benefits of developing the Alaska LNG Project to stakeholders.

Key Provisions

Article 2: Principles

1. Recognizes that if Enabling Legislation is passed that the Parties would negotiate contracts that would incorporate the principles in the agreement.

Article 3: Benefits of the Alaska LNG Project

1. **Gas to Alaskans:** The opportunity for competitively priced, reliable in-state gas supply;
2. **Jobs to Alaskans:** Creating jobs for Alaskans in the exploration, development, production and transportation of natural gas.
3. **Revenues to the State:** Additional revenues to the State.
4. **Opportunities for additional gas development:** Infrastructure enhances opportunities for more gas development.

Alaska LNG Project Work

Article 4, found on pages 8 and 9 of the Heads of Agreement, describes what work will be conducted during the Pre-FEED stage of the project.

The Pre-FEED stage is expected to take between 18 and 24 months.

The Pre-FEED stage would be followed by a review by each Party, its management and the decision to proceed to the next stage ("FEED") would be up to each individual Party.

Key Activities

1. The development of sufficient information for evaluating the technical, cost, and schedule aspects of the Alaska LNG Project.
2. The development of key project services agreements for the State's gas with TransCanada and AGDC (or an AGDC subsidiary).
3. The Parties would work to develop mutually agreeable gas offtake and balancing agreements.
4. The State and each of the Producer Parties would initiate preliminary, individual LNG or gas sales or shipping efforts.
 1. This may also include the State (directly or through AGDC or an AGDC subsidiary) working with each Producer individually to develop agreements for the disposition of a portion of the State's LNG (Article 8.3.3).

State Participation in the Project

Article 5 begins on page 9 of the Heads of Agreement and concludes on page 11 of the agreement. The Article describes broadly the reasons for State participation in the Alaska LNG Project, the Parties support for State participation and how the State would participate in the project.

Additionally, Article 5 also describes how the Administration would participate during the Pre-FEED stage and provides principles for access to information during the life of the project.

Key Provisions

1. State participation in the Alaska LNG Project could yield significant benefits to the State including:
 - A. Maximizing the value of the State's resources for the people of Alaska.
 - B. Deliver gas to Alaskans.
 - C. Public transparency of State's approval process.
 - D. An opportunity for additional State revenues.
 - E. Access and pro-expansion principles for the Alaska LNG Project.
 - F. Improving alignment of interests between the State and the Producer Parties.
 - G. Reducing valuation and other potential disputes between the Producer Parties and the State.
2. State will participate in the infrastructure by entering into agreements with TransCanada and a Subsidiary of AGDC to carry the State's interest in the infrastructure.
3. The State's interest should be consistent with the State's share of the gas (20%-25%).

Regulatory Framework, Access & Expansion

Article 6 begins on page 11 and continues through page 12 of the Heads of Agreement. Article 6 describes the Parties commitment, during Pre-FEED to advance the Alaska LNG Project under Section 3 of the Natural Gas Act.

The Article is designed to recognize the availability of a tailored regulatory framework under Section 3 and that the access and expansion terms developed for the project would be consistent with Appendix A of the Heads of Agreement.

Key Provisions

1. **At least** five Alaskan offtake points for Alaskans to get their gas.
2. Locations of offtake points will be developed in consultation with AGDC. AGDC's work on ASAP will greatly benefit the State and Alaska LNG Project in developing these locations.
3. Each Party's shares in capacity would be managed on a proprietary basis; essentially creating "*projects within a project.*"
4. AGDC and TransCanada's shares of capacity in the project are committed to provide access to third parties on terms developed with the State.

Appendix A: Pro-Expansion Principles

A key foundation for Article 6:
*Regulatory Framework, Access and
Expansion* is found in Appendix A
(pages 21-23) of the Heads of
Agreement.

These principles provide high level
principles governing the expansion
of any component of the Alaska
LNG Project.

The Appendix commits the Parties
to the principle that components of
the Project (treatment plant,
pipeline etc.) **can be expanded**
and a new LNG train **can be
installed**.

Appendix A Pro-Expansion Principles

The following principles are for the Alaska LNG Project regulated under NGA Section 3. These principles apply to any component of the Alaska LNG Project.

A.1 Alaska LNG Project Expansion. The potential expansion of any component of the Alaska LNG Project (excluding the modification of an installed Alaska LNG Project liquefaction train, or installation of a new liquefaction train) would be addressed in the agreements to be developed during Pre-FEED, reflecting the following principles:

A.1.1 Following start-up of the Alaska LNG Project, any Alaska LNG Party may initiate the process for an expansion of any component of the Alaska LNG Project in which that Alaska LNG Party has an interest, unless that expansion would:

- a. Materially and adversely affect or alter the Alaska LNG Project facilities or operations, including technical aspects, or scheduling or quality of deliveries from the Alaska LNG Project facilities;
- b. Diminish service to the existing shippers or users of the Alaska LNG Project;
- c. Cause the Alaska LNG Project to be in violation of any applicable environmental or safety laws or regulation; or
- d. Cause a violation of the Alaska LNG Project right-of-way agreements or any other contractual obligations with respect to the Alaska LNG Project facilities.

Subject to Section A.2 regarding modification of an existing LNG Plant liquefaction train and Section A.3 regarding installation of new LNG Plant liquefaction trains, if an Alaska LNG Project expansion is proposed, all Alaska LNG Parties with an interest in the Alaska LNG Project component being expanded will have the right, but not any obligation, to participate in the proposed expansion ("Expansion Party"). Any Expansion Party may request additional volumes thereby increasing the capacity of the proposed expansion. If, however, as a result of the review of the design and cost of the proposed expansion, all the Expansion Parties determine that they wish to reduce the size of the proposed expansion, then they may do so. An Alaska LNG Party's ownership interest in the post-expansion Alaska LNG Project component would be equivalent to the proportion of its capacity to the aggregate capacity on the post-expansion Alaska LNG Project component.

Expansions can proceed if they meet the criteria in Section A.1.1 above.

A.1.2 The Expansion Parties will pay all costs related to the expansion and will have access to and share the incremental capacity developed by the expansion, provided terms related to impacts on fuel use for an expansion would be addressed during Pre-FEED by the Parties. Those Alaska LNG Parties that do not elect to participate

Enabling Legislation

Article 7 begins on page 12 and continues through page 13 of the Heads of Agreement. The article describes in broad terms the necessary component of “Enabling Legislation” that the Parties believe is necessary to advance through Pre-FEED for the AK LNG Project.

The Article describes a two stage process where:

1. General take terms and mechanisms for State participation are enacted during the 2014 Legislative session.
2. Project enabling contracts are returned to the Legislature for review in a 2015 legislative session.

The Timeline¹

April 2014:	Legislature passes enabling legislation.
2014 – 2015:	Administration and Alaska LNG Project Parties develop project enabling contracts, including, but not limited to, agreements with TransCanada and AGDC for project services for the State Gas Share, gas offtake and balancing agreements with the Producer Parties, and preliminary LNG or gas sales contracts.
2015:	Legislature considers project enabling contracts.
2015-2016:	Parties decide whether to advance to FEED.

1. The timeline above assumes a success case.

Royalties and Production Taxes

Article 8 which begins on page 13 and continues through page 15 of the Heads of Agreement describes changes to the State's royalty and tax system that will facilitate progress on the Alaska LNG Project by creating a predictable State Gas Share.

The State Gas Share is the combination of royalty in kind (RIK) gas and tax as gas (TAG) received by the State for its Production Tax.

The Article also provides guidance for the range of Production Tax (~7%-13%) that the Parties believe will enable the Alaska LNG Project to advance.

Key Provisions

1. Alaska Statute AS 38.05.182(a) provides that "royalties on oil and gas shall be taken in kind unless the commissioner (DNR) determines that the taking in money would be in the best interest of the state."
2. The November 2013 "Alaska North Slope Royalty Study" performed by Black & Veatch identified potential issues related to the State taking in-kind; primarily those associated with marketing risk.
3. In Article 8.3.3 the Producer Parties commit, if asked by the State to "negotiate separately with the state in good faith to enter into an agreement with the State regarding the purchase or other disposition of a portion of the LNG that is made from the State's deliveries (RIK + TAG) of natural gas to the Alaska LNG project."

Other Project Enabling Terms & Additional State Support for the Alaska LNG Project

Articles 9 and 10, found on page 15 of the Heads of Agreement detail other terms necessary to advance the Alaska LNG Project through Pre-FEED and into FEED.

Those terms include a broad range of continued State and stakeholder support at the local, state and federal level for the project.

Key Provisions

1. The Administration, in consultation with local governments, will develop payments in lieu of property tax and impact payments during construction for the project.
2. Project enabling contracts negotiated between the Parties will need to be of sufficient duration to support investment decisions, permit realization of a competitive economic return, to enable necessary financing, and to support gas and LNG sales agreements; *all of which are needed by the State as well as the Alaska LNG Project Parties to advance the project.*
3. General support for the development of necessary infrastructure and other local, State and federal permitting requirements.
4. A healthy, long-term oil business.

Alaska Hire and Content

Article 11 is found on page 16 of the Heads of Agreement and provides key direction for the Alaska LNG Parties in developing the project.

These include guidance to:

- Hire Alaska residents,
- Contract with Alaska businesses,
- Participate with the State Department of Labor and Workforce Development to update training plans and provide training, and
- Commit to negotiate in good faith project labor agreements for the Alaska LNG Project.

Key Estimates¹

Estimated Total Cost: \$45 - \$65 billion

Jobs:

Producing Fields: 500 – 1,500

Gas Treatment Plant: 500 – 2,000

Pipeline: 3,500 – 5,000

Liquefaction Plant: 3,500 – 5,000

Storage/Loading: 1,000 – 1,500

Peak Construction: 9,000 – 15,000

Operations: ~1,000 jobs in Alaska

1. Source: Letter dated October 1, 2012 to Governor Parnell (Exhibit I-B of HOA) and may vary with estimates by Black & Veatch.

What is an “MOU”? - Memorandum of Understanding

According to one definition:

“A legal document outlining the terms and details of an agreement between parties, including each parties' requirements and responsibilities. The MOU is often the first stage in the formation of a formal contract. An MOU is far more formal than a handshake and is given weight in a court of law should one party fail to meet the obligations of the memorandum.”

www.investopedia.com

The MOU outlines the terms of the State of Alaska's relationship with TransCanada in the Midstream component of the Alaska LNG Project; however, the MOU will not be binding until the Legislature enacts “Enabling Legislation”.

Key Terms of the MOU

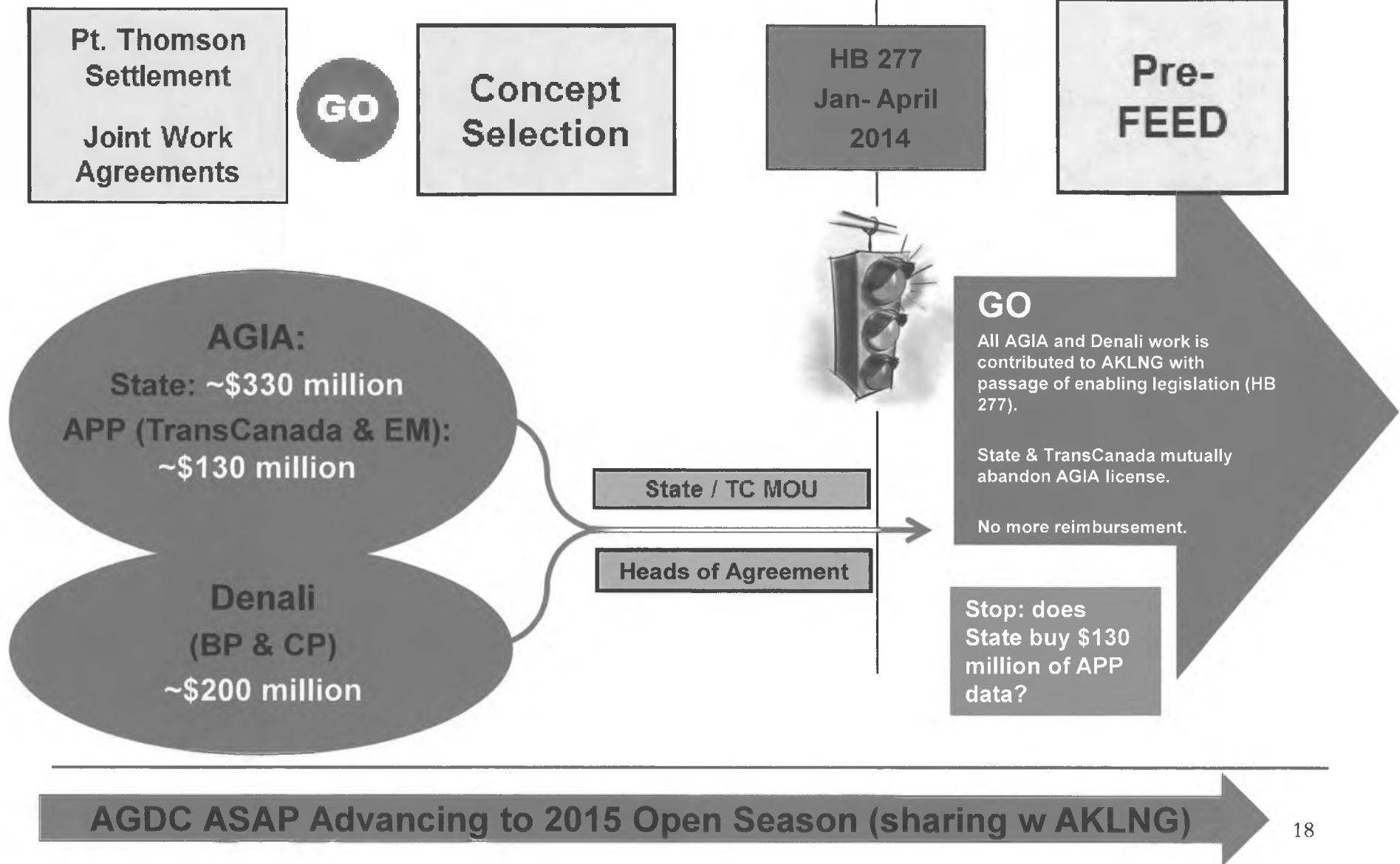
Exhibit C is the Alaska LNG Midstream Services

Agreement, which sets out the commercial terms under which TADI shall operate and expand the midstream components of the AKLNG project.

Key Terms of Exhibit C:

1. Favorable Debt to Equity Ratio
 - 75/25 ratio for rate-making purposes reduces the State's tariff.
 - Lower tariffs improve the State's overall cash flows.
2. Cash Contributions by TransCanada
 - TransCanada as project developer reduces the State's exposure to cash calls and obligations until the pipeline is in service.
3. Improved Value to the Treasury
 - When you consider the opportunity cost of utilizing the State's capital (which earns 6% in the treasury), our NPV is improved overall.
4. Expansions
 - TransCanada committed to 70/30 capital structure for expansions.
5. Gas to Alaskans
 - At least 5 offtake points
 - Distance sensitive rates with three zones for delivery

Where We Are Today? ★



What Happens if HB 277 Passes?

**Pre-Front End Engineering & Design
(Pre-FEED)
12-18 months**

Estimated Cost: ~\$435 million
(Does not include costs upstream in Prudhoe Bay & Pt. Thomson)

Producer Share: ~\$348 - \$327 million

State/AGDC Subsidiary

Share: ~\$35 - \$43 million
(Does not include Agency/AGDC costs and contingency in support of project)

TransCanada: ~\$53 - \$67 million

Note: Savings with TransCanada include cash commitments by TransCanada for Pre-FEED costs which reduce State of Alaska appropriations by \$53 - \$67 million and seamless transition into Pre-FEED with personnel and data continuing to be committed to the project.



FEED
(Front-End Engineering & Design)

**Legislative Approval of Contracts
Yes/No?**

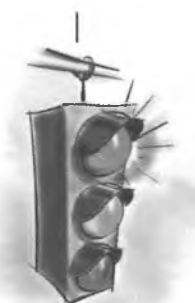
GO
Exercise Option for 40% of FEED = \$21 - \$27 million?

Stop
Pay TC Development Costs (~\$53-\$67mm) + 7.1% AFUDC.

AGDC ASAP Advancing to 2015 Open Season (sharing w AKLNG)

What Happens after FEED?

**Front End Engineering & Design
(FEED)
2-3 years**



**Final Investment
Decision ~
Construction**

Estimated Cost: ~\$1,800 million

(Does not include costs upstream in Prudhoe Bay & Pt. Thomson)

Producer Share: ~\$1,440 - \$1,350 million

State/AGDC Subsidiary

Share: ~\$145 - \$180 million

(Does not include Agency/AGDC costs and contingency in support of project)

State/AGDC Subsidiary

Share (w Equity Option): ~\$230 - \$290 million

TransCanada: ~\$215 - \$270 million

TransCanada (w Option): ~\$130 - \$160 million

(Note: FEED includes "NEP" rough estimate and support)

**Approval by all
Parties &
Financing
Yes/No?**



STOP
Pay TC development
costs (~\$183 - \$337 mm)
+ 7.1% AFUDC.

Note: FEED estimates based on Black & Veatch independent assessment of 4% of \$45 billion. 60%/40% Mid/Downstream.

AGDC Advancing Gas to Alaskans through interconnections etc.

Summary

- The Heads of Agreement (HOA) and Memorandum of Understanding (MOU) provide guidance on how the powers provided in HB 277 will be used.
- At each stage in the project there are “off-ramps” and decision points for Legislative and public review.
- Commitments by the State will be made commensurate with progress by the project.

“While North Slope gas commercialization is challenging, working together, we can maintain the momentum toward our shared vision for Alaska.”



Source: Letter dated October 1, 2012 to Governor Parnell (Exhibit I-B of HOA)

THANK YOU

Please find our contact information below:

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Resources

<http://dor.alaska.gov/AKGasDocs.aspx>

www.dnr.alaska.gov/AKgas.htm



January 14, 2014

HEADS OF AGREEMENT

By and Among

**THE ADMINISTRATION OF
THE STATE OF ALASKA**

**ALASKA GASLINE
DEVELOPMENT CORPORATION**

TRANSCANADA ALASKA DEVELOPMENT INC.

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FOR THE ALASKA LNG PROJECT

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THIS HEADS OF AGREEMENT is made this 14th day of January, 2014 ("Effective Date") by and among:

- (1) The Administration of the State of Alaska, by and through the Commissioner of the Department of Natural Resources ("DNR") and the Commissioner of the Department of Revenue ("Administration" or "Commissioners");
- (2) Alaska Gasline Development Corporation ("AGDC");
- (3) TransCanada Alaska Development Inc. ("TADI");
- (4) ExxonMobil Alaska Production Inc. ("EMAP");
- (5) ConocoPhillips Alaska, Inc. ("ConocoPhillips"); and
- (6) BP Exploration (Alaska) Inc. ("BP").

The Administration, AGDC, TADI, EMAP, ConocoPhillips, and BP may hereinafter be collectively referred to as the "Parties" and separately as a "Party". TADI, EMAP, ConocoPhillips, and BP (and their respective Affiliates participating in the Alaska LNG Project) and AGDC are collectively referred to as the "Alaska LNG Parties" and EMAP, ConocoPhillips and BP (and their respective upstream Alaska Affiliates) are collectively referred to as the "Producer Parties".

RECITALS

- (A) Each of the Producer Parties owns natural gas resources on the Alaska North Slope and each Producer Party has explored and pursued, individually and jointly, various means of bringing ANS natural gas to market in previous projects, including the Alaska Natural Gas Transportation System project, liquefied natural gas export projects, gas-to-liquids conversion projects, the Alaska Gas Producers Pipeline Team project, the Denali Gas Pipeline project and the Alaska Pipeline Project.
- (B) The Parties are currently undertaking work to evaluate a project to potentially commercialize ANS natural gas resources through the Alaska LNG Project (as that term is defined below). The Administration and AGDC believe that the Alaska LNG Project may provide an opportunity for AGDC to provide gas to Alaskans at the lowest possible cost.
- (C) In October 2011, in response to changed circumstances, including a substantial increase in U.S. shale gas reserves in the Lower 48 states, Governor Parnell requested the Licensee under the Alaska Gasline Inducement Act ("AGIA") to work cooperatively with the Producer Parties to evaluate the economic feasibility of an LNG alternative, which would include LNG export volumes and the opportunity for deliveries of in-state gas. The Licensee (an Affiliate of TADI) had previously (with an Affiliate of ExxonMobil) been focused on a project to transport Alaska gas to Alberta for further delivery to North American markets.

- (D) In January of 2012, the CEOs of ExxonMobil, BP and ConocoPhillips met with Governor Parnell and on March 30, 2012, the CEOs issued a letter informing the Governor of their progress and planned activities in pursuit of an LNG export project utilizing ANS gas resources, which would also provide the opportunity for in-state gas deliveries, and noting the importance of establishing appropriately structured and stable fiscal arrangements (see Exhibit I-A).
- (E) In October of 2012, ExxonMobil, BP, ConocoPhillips and TADI informed the Governor of the significant early efforts to progress what is now known as the Alaska LNG Project, including the establishment of an integrated team with specialized skills to further pursue and advance the work. Numerous potential options to commercialize the ANS gas resources were analyzed due to the complex nature of developing the vast ANS gas resources. The letter also described the challenges facing development of the Alaska LNG Project and the need for a healthy, long-term oil business, underpinned by a competitive fiscal framework (see Exhibit I-B).
- (F) In February of 2013, the Producer Parties and TADI agreed on a concept for the potential Alaska LNG Project and began to undertake initial Pre-FEED activities which is an important and substantial step in major project developments. Those Parties are currently considering ramping up Pre-FEED activities (see Exhibit I-C).
- (G) The Alaska LNG Parties are currently negotiating commercial agreements for Pre-FEED to move to the next phase of the Alaska LNG Project based on the concept development and successful 2013 summer field season work performed by the Producer Parties and TADI.
- (H) Funding by the State of Alaska ("State") under AGIA has supported some key activities including the 2013 summer field season. Now that it is evident that an LNG export project (along with the opportunity for in-state delivery of gas), rather than a pipeline to Alberta, Canada, is the leading case to commercialize ANS gas resources, the Administration, the AGIA Licensee and TADI have concluded that it is appropriate to transition from the AGIA license and to focus efforts on the Alaska LNG Project.
- (I) In 2013, the Legislature passed and Governor Parnell signed legislation for AGDC to pursue an in-state gas pipeline, the Alaska Stand Alone Pipeline ("ASAP") project. The Administration and AGDC intend that AGDCS would participate in the Alaska LNG Project, and AGDC would establish membership on the board of AGDCS which may include the Commissioners, to the extent permitted by law. The Administration also intends to seek funding for AGDC (or AGDCS, when formed) participation in the Alaska LNG Project. AGDC will also continue to pursue the ASAP project. AGDC and the Alaska LNG Parties intend to cooperate with one another on technical and engineering matters to achieve efficiencies and share technical data to effectively manage resources.
- (J) The Alaska LNG Parties wish to ramp up the Pre-FEED phase of the Alaska LNG Project, which is estimated to cost over \$400 million, but are seeking understandings with the State concerning the State's and the Producer Parties' desire for State participation in the Alaska

LNG Project, consistent with certain fiscal and commercial principles described in this HOA, prior to ramping up the Pre-FEED phase. Similarly, the Administration is seeking understandings from the Alaska LNG Parties to advance the Alaska LNG Project.

- (K) The Administration has determined that State participation in the Alaska LNG Project could yield significant overall benefits for the State. The Parties recognize that enabling legislation to facilitate State participation in advancing an LNG export project to develop Alaska gas resources is desirable.
- (L) The Producer Parties and the Administration have developed guiding objectives to progress the Alaska LNG Project, which include creating an environment to: (a) enable the Alaska LNG Project to be completed in an expedited and reasonable fashion; (b) maximize the value of ANS resources to the State, Producer Parties and other stakeholders; and (c) expand the contribution of ANS resource development to Alaska's economic growth.
- (M) The Parties have entered into discussions as to how they may cooperate with each other to jointly pursue the Alaska LNG Project. Accordingly, this HOA establishes certain guiding principles and understandings to support advancement of the Alaska LNG Project and that would lead to important commercial and operating arrangements between the Parties.

NOW, THEREFORE, the Parties agree as follows:

ARTICLE 1: DEFINITIONS

1.1. *"Affiliate"* means,

- a. In relation to TADI or a Producer Party, any company, corporation, partnership or other legal entity (in this definition, each such entity and each Party are sometimes referred to as a "Company"), that:
 - (i) Is directly or indirectly owned or controlled by such Party;
 - (ii) Directly or indirectly owns or controls such Party; or
 - (iii) Is directly or indirectly, owned or controlled by a Company that also, directly or indirectly, controls such Party; and
- b. In relation to AGDC, those State entities that otherwise meet the requirements of the definition above, when acting only in the State's proprietary capacity, including other independent State corporations.

For the purpose of this definition, a Company is directly owned or controlled by another Company that owns or controls shares or other interests carrying in the aggregate more than 50 percent of the voting rights exercisable at a general, shareholders, or members meeting of the first-mentioned Company, or the right to appoint or dismiss a majority of the directors thereof, or the power to direct or cause the direction of the management or policies through the ownership of securities, by contract or otherwise. A Company is indirectly owned or controlled by a

Company or Companies (the “parent Company or Companies”) if a series of Companies can be specified, beginning with the parent Company or Companies and ending with the particular Company, so related that each Company of the series, except the parent Company or Companies, is directly controlled by one or more of the Companies in the series.

- 1.2. “*AGDC*” means the Alaska Gasline Development Corporation as set forth in AS 31.25.
- 1.3. “*AGDCS*” means a wholly-owned subsidiary of AGDC to be formed for the specific purpose of participating in the Alaska LNG Project.
- 1.4. “*Alaska LNG Project*” means, collectively, the project components consisting of the LNG Plant, the Gas Pipeline, the Gas Treatment Plant, the PBU Gas Transmission Line, and the PTU Gas Transmission Line.
- 1.5. “*Alaska North Slope*” or “*ANS*” means that part of Alaska that lies north of 68 degrees North latitude.
- 1.6. “*Enabling Legislation*” means legislation enacted by the Alaska Legislature that has become effective as provided in AS 01.10.070, and that at a minimum:
 - a. Provides for a confidential process that would allow the Administration to participate in developing terms for contracts associated with a project, including but not limited to (1) project-enabling contracts, which contracts are subject to subsequent legislative ratification, (2) the front-end engineering and design work agreements and (3) other project implementation contracts; and
 - b. Allows for contract terms which could include terms that address: State participation; a State share of gas (royalty in kind and gas in lieu of production taxes); property taxes; upstream costs and lease expenditures; in-state gas deliveries; ownership interests; operating agreements; gas treatment, transportation, and liquefaction services agreements; State LNG or gas sales contracts; contract duration and durability; periodic project reporting; Alaska hire; Alaska contracting; and other terms necessary to advance projects to commercialize Alaska’s natural gas resources.
- 1.7. “*FEED*” means a front-end engineering and basic engineering design study, which, without limitation, would include the following:
 - a. Sufficiently detailed basic engineering packages for the components of the Alaska LNG Project and a contracting strategy to enable contractor bidding for the Engineering, Procurement and Construction (“EPC”) contracts;
 - b. A resourcing, commissioning and start-up plan;
 - c. The finalization of the key project agreements required to implement the Alaska LNG Project;
 - d. A technical and commercial definition of the Alaska LNG Project;

- e. A detailed update of the Alaska LNG Project economics, financing and commercial assumptions, including an updated estimate of capital costs sufficient for a final investment decision;
- f. A final assessment of environmental, social and health impacts of the Alaska LNG Project;
- g. Long-lead procurement activities;
- h. Other activities necessary to enable a final investment decision to be taken by the Alaska LNG Parties such as but not limited to financing, permitting and registration; and
- i. The bidding and internal selection of EPC contractors, as applicable.

The detailed work plan and deliverables of FEED will be developed during Pre-FEED.

1.8. **"FEED Agreement"** means the agreement or agreements under which FEED would be undertaken for the Alaska LNG Project.

1.9. **"FERC"** means the Federal Energy Regulatory Commission.

1.10. **"Gas Pipeline"** means the Alaska LNG Project component consisting of a main natural gas pipeline from the outlet flange of the GTP on the Alaska North Slope to the inlet flange of the LNG Plant, including the structures, equipment, underlying land rights and all other associated systems, but excluding any other gas pipelines taking gas from any Offtake Point.

1.11. **"Gas Treatment Plant"** or **"GTP"** means the Alaska LNG Project component consisting of facilities, including the structures, equipment, underlying land rights and all other associated systems and related activities to receive natural gas from the PBU Gas Transmission Line, the PTU Gas Transmission Line, or other facilities, treat the natural gas to pipeline quality specifications, dispose of or deliver by-products, deliver liquid products for further transportation, and deliver treated natural gas for transportation through the Gas Pipeline.

1.12. **"HOA"** means this Heads of Agreement, including its Recitals and Appendix A.

1.13. **"Initial Project Term"** has the meaning provided in Section 9.2.

1.14. **"Joining Party"** has the meaning provided in Section 13.6.

1.15. **"Licensee"** means, collectively, TransCanada Alaska Company, LLC, a Delaware limited liability company, and Foothills Pipe Lines Ltd.

1.16. **"LNG"** means any hydrocarbon or mixture of hydrocarbons consisting predominantly of methane in a liquid state at or below its boiling point at a pressure of approximately one atmosphere.

- 1.17. **"LNG Plant"** means the Alaska LNG Project component consisting of an LNG plant facility, including the structures, equipment, underlying land rights and all other associated systems, for pre-processing and liquefaction of natural gas, and storage and off-loading of liquefied natural gas, including terminal facilities and auxiliary marine vessels.
- 1.18. **"MOU"** has the meaning provided in Section 5.4.
- 1.19. **"NGA Section 3"** has the meaning provided in Section 6.1.
- 1.20. **"Offtake Point(s)"** has the meaning provided in Section 6.5.
- 1.21. **"PBU Gas Transmission Line"** means the Alaska LNG Project component consisting of a natural gas transmission line from the outlet flange of the Prudhoe Bay Unit Central Gas Facility to the inlet flange of the GTP including the structures, equipment, underlying land rights and all other associated systems.
- 1.22. **"PILT"** means a payment in lieu of property tax as set forth in Section 9.3.1.a.
- 1.23. **"Pre-FEED"** means pre-front-end engineering and design work and activities on the approved concept in preparation for FEED for the Alaska LNG Project, including technical and execution studies and optimization and FEED / EPC invitation to tender development including sufficient design detail and environmental field work to support FERC applications and filings.
- 1.24. **"PTU Gas Transmission Line"** means the Alaska LNG Project component consisting of a natural gas transmission line from the outlet flange of the Point Thomson Unit production facility to the inlet flange of the GTP including the structures, equipment, underlying land rights and all other associated systems.
- 1.25. **"RIK"** means royalty in kind as provided in Section 8.1.1.
- 1.26. **"RIV"** means royalty in value as provided in Section 8.1.1.
- 1.27. **"State Gas Share"** means, collectively, the State's share of RIK gas and Tax as Gas as provided in Section 8.3.
- 1.28. **"Tax as Gas" or "TAG"** has the meaning provided in Section 8.2.
- 1.29. **"Transfer"** means any sale, assignment, contribution or other disposition (a) by an Alaska LNG Party of all or part of its participating interests in the Alaska LNG Project or (b) by an Alaska LNG Party or its Affiliates of all or part of its rights and obligations in any ANS lease from which gas would be produced into the Alaska LNG Project, to a transferee (including without limitation by merger or consolidation).
- 1.30. **"Transmission Lines"** means the Alaska LNG Project components consisting of the PBU Gas Transmission Line and the PTU Gas Transmission Line.

ARTICLE 2: PRINCIPLES

2.1 This HOA sets out the guiding principles upon which the Parties wish to progress work for evaluation of the Alaska LNG Project. It is understood and agreed that if the Legislature passes Enabling Legislation that is acceptable to the Parties, the Parties would negotiate contracts, which would incorporate the principles contained in Articles 5 through 12. In entering into this HOA, it is the intent of the Parties that this HOA provide Alaskans with a roadmap for how the Parties intend to advance the Alaska LNG Project.

ARTICLE 3: BENEFITS OF THE ALASKA LNG PROJECT

3.1 A successful Alaska LNG Project would provide substantial benefits to the State, Alaska LNG Parties, and other stakeholders, including, but not limited to:

- a. The opportunity for competitively priced, reliable in-state gas supply;
- b. Commercialization of ANS gas resources through the sale of LNG to global markets and access for in-state gas demand;
- c. Creating jobs for Alaskans in the exploration, development, production and transportation of natural gas;
- d. Increased opportunities for Alaska-based contractors;
- e. Additional revenues to the State and Alaska LNG Parties; and
- f. Infrastructure for development of onshore and offshore state and federal lands to enhance Alaska oil and gas exploration and production opportunities for the Producer Parties and other explorers and producers.

ARTICLE 4: ALASKA LNG PROJECT WORK

4.1 Execution of the Alaska LNG Project involves a phased development process. To date, one or more of the Alaska LNG Parties have accomplished certain work, and the Alaska LNG Project is poised to ramp up the Pre-FEED phase. The purpose of Pre-FEED is to progress technical work that would provide each of the Alaska LNG Parties with sufficient information for evaluating the technical, cost and schedule aspects of the Alaska LNG Project. The Pre-FEED work, when used with other information regarding the commercial, legal, economic, financial, marketing, timing and other necessary aspects of the Alaska LNG Project, will assist the Alaska LNG Parties in determining how to proceed with the phased project development process, including whether to proceed to the FEED phase of the Alaska LNG Project. The FEED phase would involve the expenditure of billions of dollars to progress the Alaska LNG Project to the final investment decision ("FID").

4.2 Subject to the Alaska LNG Parties executing a new commercial agreement for ramping up Pre-FEED work, the Alaska LNG Parties will continue that work through completion,

provided Enabling Legislation acceptable to the Parties is passed and other support referenced in Article 10 is maintained or progressed. The Pre-FEED work is expected to ramp up in the second quarter of 2014, and is anticipated to take between 18 and 24 months to complete, with a determination on proceeding to the FEED phase expected to occur within approximately 36 months after ramp up of Pre-FEED. During Pre-FEED, the Alaska LNG Parties will continue to provide regular Alaska LNG Project updates to the Administration, the Alaska Legislature and the public.

4.3 Upon completion of Pre-FEED deliverables for the Alaska LNG Project, the Alaska LNG Parties will decide whether to proceed with FEED for the Alaska LNG Project. Each Alaska LNG Party will make that decision in its sole discretion.

4.4 A decision by the Alaska LNG Parties to advance the Alaska LNG Project to FEED is subject to, among other things:

- a. Enabling Legislation and other laws and regulations of the State to advance the Alaska LNG Project, including necessary fiscal and commercial terms as set forth in this HOA;
- b. Approval by the management or approving authority of the Parties, as applicable;
- c. Determination of Alaska LNG Project component sizing, gas quality specifications, and expansion terms; and
- d. Execution of contracts as contemplated by Section 7.4, as well as gas treatment, transportation, and liquefaction services agreements, and the execution of the FEED Agreement.

4.5 During the Pre-FEED phase, each of the Producer Parties and the State would initiate preliminary, individual LNG or gas sales or shipping efforts. During the FEED phase, each of those Parties would seek to execute individual LNG (or gas) sales and shipping agreements.

4.6 During the Pre-FEED phase, the Parties would work to develop mutually agreeable gas offtake and balancing agreements to facilitate gas offtake by each of the Parties with regard to their rights to capacity in the Alaska LNG Project.

ARTICLE 5: STATE PARTICIPATION IN THE PROJECT

5.1 The Administration has determined that State participation in the Alaska LNG Project could yield significant overall benefits for the State, including:

- a. Protecting the State's mineral interests and maximizing the value of its resources;
- b. Improving alignment of interests between the State and the Producer Parties;

- c. Transparency for the Administration (when acting in its proprietary capacity in regards to the State Gas Share, and with relevant confidentiality protections) regarding the Alaska LNG Project;
- d. Access and pro-expansion principles for the Alaska LNG Project;
- e. Creating an opportunity for delivering gas to Alaskans;
- f. An opportunity for additional State revenues; and
- g. Reducing valuation and other potential disputes between the Producer Parties and the State.

5.2 The Producer Parties believe that State participation in key aspects of the Alaska LNG Project, including its investment and sharing of other costs, in balance with a share of gas from the Alaska LNG Project, is a significant enabler of a successful project of that size and complexity. Accordingly, the Producer Parties support State participation in the Alaska LNG Project.

5.3 Subject to the passage of Enabling Legislation and execution of project-enabling contracts, including satisfactory arrangements for disposition of the State's share of LNG, the State would participate in the Alaska LNG Project at a participating interest share in the Alaska LNG Project components consistent with the State Gas Share in those components. The Parties anticipate the State's participating interest share in each component would be approximately 20% to 25%.

5.4 The Administration intends to enter into project implementation agreements with one or more parties to hold the State's participating interest in the Alaska LNG Project, which could include TADI and AGDC, recognizing that the Administration has entered a memorandum of understanding ("MOU") with TADI and certain of its Affiliates. The Administration, with the concurrence of TADI and certain of its Affiliates, plans on publicly releasing the MOU contemporaneously with the public release of this HOA.

5.5 During the Pre-FEED phase, the Producer Parties, TADI, and AGDC (including representatives of the Administration when those representatives are acting in a proprietary capacity in regard to the State Gas Share, and with relevant confidentiality protections) would negotiate in good faith to enter into the agreements for FEED for the Alaska LNG Project. To support those negotiations, the Alaska LNG Parties would provide for reasonable disclosure of information related to the State's participating interest in the Alaska LNG Project to representatives of the Administration when those representatives are acting in a proprietary capacity in regard to the State Gas Share, and with relevant confidentiality protections.

5.6 The Alaska LNG Parties support the principle of providing access to information related to the components of the Alaska LNG Project in which that Alaska LNG Party has an ownership interest or, prior to ownership being established, a participating interest. With respect to AGDC, access to information would include access for those representatives of the Administration associated with AGDC when those representatives are acting in a proprietary capacity in regard to the State Gas Share, and with relevant confidentiality protections. Disclosure of such

information would be in accordance with applicable law, subject to relevant confidentiality protections and sufficient to allow each Alaska LNG Party to meet its reasonable business needs, including obligations to customers, in respect of the Alaska LNG Project. The Alaska LNG Parties would negotiate in good faith to implement these principles in subsequent project implementation agreements.

ARTICLE 6: REGULATORY FRAMEWORK, ACCESS AND EXPANSION

6.1 The Parties have discussed a tailored regulatory framework for the Alaska LNG Project under Section 3 of the Natural Gas Act, 15 U.S.C. § 717b (“NGA Section 3”), and recognize the availability of this framework to meet the needs of all Parties.

6.2 During Pre-FEED, the Alaska LNG Project will be advanced under NGA Section 3.

6.3 Access and Pro-Expansion Principles.

- a. The Parties will advance development of a commercial structure that is consistent with the regulatory framework.
- b. AGDC and TADI shares of capacity in the Alaska LNG Project components would be owned and operated, in whole or in part, on terms that would provide access for third-parties, for both in-state and export volumes. These access terms would be developed by the State, AGDC and TADI and would utilize contract carriage principles.
- c. Each Producer Party’s individual capacity in the Alaska LNG Project components would be owned and operated on a proprietary basis.
- d. The Parties would jointly develop acceptable terms regarding firewalls and FERC adjudication, where appropriate.
- e. Expansion terms consistent with the “Pro-Expansion Principles” set forth in Appendix A would also be agreed by the Parties.

6.4 Prior to entering FEED, the following will be pursued in interactions with the FERC:

- a. The Parties will support, including holding discussions (as permitted by FERC rules) with the FERC staff regarding the application and implementation of NGA Section 3 to the Alaska LNG Project.
- b. Based on those discussions, the Parties will meet to consider the joint filing of a petition for declaratory order with FERC to confirm these principles.

Each Party must be satisfied with the commercial terms and regulatory framework prior to the execution of the FEED Agreement for the Alaska LNG Project.

6.5 To assist in addressing in-state gas demand, the Alaska LNG Project would include at least five in-state offtake points ("Offtake Point(s)"), with the specific locations determined by the Administration in consultation with AGDC. Any Party may deliver gas to an Offtake Point. Any facilities taking gas from an Offtake Point, including facilities associated with odorization, reduction of gas pressure, or control of gas heating value or gas quality, are not part of the Alaska LNG Project and would need to be funded, installed and maintained by third parties.

6.6 Third-party gas to be delivered into any component of the Alaska LNG Project must meet the gas quality specifications of the applicable Alaska LNG Project component, and must not adversely affect the cost of service, technical aspects or LNG quality from the Alaska LNG Project facilities.

ARTICLE 7: GENERAL ENABLING LEGISLATION

7.1 Alignment among parties is critical to the success of a project of the scope and magnitude necessary to develop Alaska gas resources. General legislation to allow State participation and gas share in any such project is critical for the progression and implementation of a project. Depending on the scope, size and other factors associated with a particular project, the level of State participation may vary. For projects that qualify under the general law, a mechanism to provide project-enabling terms would be needed.

7.2 To facilitate Alaska gas development and help advance the Alaska LNG Project and other qualifying projects, the Administration will submit proposed general legislation to the Alaska Legislature in the 2014 regular legislative session to:

- a. Establish terms for State participation and State gas share consistent with Articles 5, 8 and 9;
- b. Provide for a confidential process, subject to subsequent legislative ratification, to develop terms for project-enabling contracts; and
- c. Allow for inclusion of contract terms which could include and address: State participation; a State share of gas (royalty in kind and gas in lieu of production taxes); property taxes; upstream costs and lease expenditures; in-state gas deliveries; ownership interests; operating agreements; gas treatment, transportation, and liquefaction services agreements; State LNG or gas sales contracts; contract duration and durability; periodic project reporting; Alaska hire; Alaska contracting; and other terms necessary to advance projects to commercialize Alaska's natural gas resources.

7.3 During the term of the HOA, and to the extent permitted by law, each Party agrees to include and support the provisions of Articles 5 through 12, inclusive, in any future legislation or contractual arrangements that could apply to the Alaska LNG Project.

7.4 Depending on the enactment of Enabling Legislation acceptable to the Parties, the Administration and the Alaska LNG Parties would use commercially reasonable efforts to negotiate project-enabling contracts consistent with that legislation and this HOA.

7.5 The Administration will submit to the Alaska Legislature, and the Parties will support, to the extent permitted by law, legislation in a 2015 legislative session to ratify any Alaska LNG Project-enabling contracts developed by the Parties under the process authorized in the 2014 legislation and address any other matters the Parties mutually agree are necessary for advancement of the Alaska LNG Project.

7.6 The Administration recognizes that projects proposed under the general law will have different needs, reflecting the complexity and magnitude of the investments required for the project, and that the corresponding duration of any such project contracts may vary.

ARTICLE 8: ROYALTIES AND PRODUCTION TAXES

8.1 Royalty.

8.1.1 Alaska law, as set forth in AS 38.05.182(a), provides that “royalties on oil and gas shall be taken in kind unless the commissioner determines that the taking in money would be in the best interest of the state.” Thus, absent a finding by the Commissioner of DNR that the taking of its royalty in money (commonly referred to as royalty in value, or “RIV”) for royalties generated as a result of the Alaska LNG Project would be in the best interest of the State, the royalties generated as a result of the Alaska LNG Project must be taken in kind (“RIK”).

8.1.2 The November 2013 “Alaska North Slope Royalty Study” performed by Black & Veatch (“Royalty Study”) at the direction of the Commissioner of DNR identifies several potential issues relating to the State taking RIK for an LNG export project including the State’s current lack of LNG marketing expertise.

8.1.3 Subject to the passage of Enabling Legislation and execution of project-enabling contracts including satisfactory arrangements for disposition of the State’s share of LNG:

8.1.3.1 The State will take as RIK the full royalty percentage permitted under the leases from which gas will be produced into the Alaska LNG Project for the Initial Project Term.

8.1.3.2 At least 36 months prior to the expiration of the Initial Project Term, the State will provide the Producer Parties advance written notice of any intention to elect to receive RIV, which election could only take effect after the Initial Project Term. If the State so elects to receive its royalty share in value at any time after the Initial Project Term, the relevant parties will need to agree on the terms for royalty valuation and corresponding impacts, if any, on the ownership in and capacity access to the Alaska LNG Project components.

8.1.3.3 The State and Producer Parties will modify any sliding scale royalty and net profits share royalty provisions in State leases from which gas will be

produced into the Alaska LNG Project to provide for a fixed percentage royalty and the State will take as RIK as provided in Section 8.1.3.1.

8.2 Gas Production Tax. With regard to gas production taxes, which, assuming Enabling Legislation is enacted, could be taken by the State either in cash or as gas (the latter being referred to herein as "Tax as Gas" or "TAG"), and subject to Section 8.1.3.1 and execution of project-enabling contracts including satisfactory arrangements for disposition of the State's share of LNG:

- 8.2.1 For the Alaska LNG Project contemplated under this HOA, the State will provide each Producer Party with the right to exercise a one time, irrevocable election, with no sunset requirement, to make gross gas production tax payments that are equal to a fixed percentage of that Producer Party's taxable gas. Each Producer Party's fixed percentage gas payments will be made in lieu of the production tax payments due by that Producer Party on gas produced under Alaska law.
- 8.2.2 Upon an election by a Producer Party under Section 8.2.1, the State will receive a fixed percentage of that Producer Party's gas at a fixed rate of its taxable gas, delivered to the State at each delivery point into a Transmission Line. The Parties anticipate that TAG would be approximately 7% to 13%.
- 8.2.3 The TAG would be structured to allow the gas volumes to remain bookable as reserves by the Producer Parties.

8.3 State Gas Share

- 8.3.1 All RIK gas and TAG provided by the Producer Parties and received by the State, (collectively "State Gas Share"), will be delivered with custody and title transferring to the State at the delivery point into a Transmission Line.
- 8.3.2 The State will be responsible for disposition of the State Gas Share beyond the delivery points, including the State share of LNG made from the State Gas Share.
- 8.3.3 Consistent with advice from antitrust counsel, the Producer Parties are willing, in conjunction with a fiscal arrangement for an Alaska LNG Project under which the State has a State Gas Share, to agree that each Producer Party, if asked by the State, would offer to negotiate separately with the State in good faith to enter into an agreement with the State regarding the purchase or other disposition of a portion of the LNG that is made from the State's deliveries of natural gas to the Alaska LNG Project, with each Producer Party negotiating a potential agreement regarding the purchase or other disposition of a portion that equals or exceeds that Producer Party's respective proportionate share of the total of the Producer Party's capacities (i.e., exclusive of the capacity owned or used by the State) in the LNG Plant component of the Alaska LNG Project.

ARTICLE 9: OTHER PROJECT-ENABLING TERMS

9.1 Alignment of the Parties is critical to the success of an LNG export project of this scope and magnitude. Alaska LNG Project fiscal terms are based on the principle of a fair and transparent balance of risk and reward.

9.2 Project-enabling contracts negotiated between the Parties will need to be of sufficient duration to support investment decisions of the Alaska LNG Parties, to permit realization of a competitive economic return, to enable necessary financing, and to support gas and LNG sales agreements ("Initial Project Term").

9.3 The Parties intend that the following fiscal terms, subject to them being commercially acceptable to all Parties, would be included in the project-enabling contracts for the Alaska LNG Project.

9.3.1 Subject to consultation by the Administration with local governments:

- a. Payments in lieu of property tax ("PILT") would be paid by the Alaska LNG Parties on each component of the Alaska LNG Project. For the Alaska LNG Project, the PILTs would be on a unit rate per throughput basis (e.g., cents per thousand cubic feet, etc.) and could be level or escalating dollar payments for the Alaska LNG Project components.
- b. The Parties would establish a series of impact payments to be paid by the Alaska LNG Parties to help offset increased service and other costs borne by the State and local governments during construction of the Alaska LNG Project.

9.3.2 Other terms that the Parties may mutually agree are necessary to support a commercially viable qualified project, including provisions to make the contractual terms predictable and durable.

ARTICLE 10: ADDITIONAL STATE SUPPORT FOR THE ALASKA LNG PROJECT

10.1 The Administration acknowledges that State support for the Alaska LNG Project is needed in a number of areas to progress a successful Alaska LNG Project. These include, but are not limited to, support for:

- a. Use of eminent domain rights to facilitate implementation of the Alaska LNG Project design, permitting, financing, funding approval, construction and operation of the Alaska LNG Project, including drafting, introducing and supporting legislation where necessary;
- b. Any DOE export license application and any related DOE regulatory process for the Alaska LNG Project;

- c. Appropriations and permitting for the construction of necessary in-state infrastructure (e.g., roads, bridges), including drafting, introducing and supporting legislation;
- d. Other local, State and federal permitting requirements for the Alaska LNG Project;
- e. A healthy, long-term oil business; and
- f. Other areas, including drafting, introducing and enacting legislation in the 2015 legislative session to clarify State regulatory authority, if and to the extent required to effect the Alaska LNG Project regulation provided in Article 6 (e.g., amendment of the Alaska Right-of-Way Leasing Act to address common carrier pipeline and other requirements, if required).

ARTICLE 11: ALASKA HIRE AND CONTENT

- 11.1 For the Alaska LNG Project, the Alaska LNG Parties will, within the constraints of law:
- a. Employ Alaska residents and contract with Alaska businesses to the extent they are qualified, available, ready, willing, and cost competitive;
 - b. Use, as far as is practicable, job centers and associated services operated by the State Department of Labor and Workforce Development;
 - c. Participate with the State Department of Labor and Workforce Development to update the training plan for an LNG export project including marine operations;
 - d. Advertise for available positions locally and use, as far as practicable, Alaska job service organizations to notify the Alaska public; and
 - e. Work with the State Department of Labor and Workforce Development and other organizations to provide training.
- 11.2 Prior to construction, the Alaska LNG Parties commit to negotiate in good faith project labor agreements for the Alaska LNG Project.

ARTICLE 12: OTHER UNDERSTANDINGS

- 12.1 The Parties recognize that this HOA does not address all of the matters that must be dealt with or all of the terms and conditions needed to finalize project-enabling contracts among the Parties concerning a potential project. The Parties intend to work together and use commercially reasonable efforts to reach agreement on additional terms and conditions acceptable to all of the Parties.
- 12.2 In addition, the Parties will reasonably support cooperation between the Alaska LNG Project and the ASAP project on a technical and engineering basis so the State's options to connect the ANS gas resource to Alaskans are efficiently progressed.

ARTICLE 13: MISCELLANEOUS

13.1. Term and Termination

- a. This HOA will become effective as of the Effective Date.
- b. This HOA terminates December 31, 2015, unless extended by mutual agreement of the Parties.

13.2. Amendment and Modification

No amendment, modification, supplement or variation of this HOA will be effective unless in writing and signed by or on behalf of each Party.

13.3. Survival

The provisions of Articles 1 (Definitions) and 13 (Miscellaneous) will continue in full force and effect notwithstanding termination of this HOA.

13.4. No Liability or Damages

- 13.4.1. Nothing in this HOA requires any Party to reach or execute any legally binding or enforceable agreement(s) or to refrain from engaging in any business whatsoever, nor does any Party have any liability in connection with the subject matter of this HOA.
- 13.4.2. No Party is liable to any other Party or its Affiliates, officers, employees or agents, for any direct, indirect, special, incidental, consequential or punitive damages or otherwise liable for any loss of actual or potential profits, loss of production or business interruption arising out of or in any way connected with this HOA, including any breach of the terms of this HOA.

13.5. Governing Law

The laws of the State of Alaska, without giving effect to its conflicts of laws principles, will govern all questions concerning the construction, validity and interpretation of this HOA.

13.6. Transfer and Joinder

If an Alaska LNG Party, or its Affiliate, makes a Transfer during the term of this HOA, then the transferee ("Joining Party") may join as a Party to this HOA by executing a written instrument acceptable to the Parties. A Joining Party is considered both an Alaska LNG Party and a Party under this HOA.

13.7. Counterparts

This HOA may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of the HOA.

IN WITNESS WHEREOF, the Parties caused this HOA to be executed by their duly authorized representatives on the date below their respective signatures but effective on the Effective Date.

State of Alaska Department of Natural Resources

By: [Signature]
Printed Name: Joe Balash
Title: Commissioner
Date: 1/14/14

State of Alaska Department of Revenue

By: [Signature]
Printed Name: Angela M Rodell
Title: Commissioner
Date: 1/14/2014

Alaska Gasline Development Corporation

By: [Signature]
Printed Name: DANIEL FAUSKE
Title: PRESIDENT
Date: 1-14-14

TransCanada Alaska Development Inc.

By: _____
Printed Name: _____
Title: _____
Date: _____

By: _____
Printed Name: _____
Title: _____
Date: _____

IN WITNESS WHEREOF, the Parties caused this HOA to be executed by their duly authorized representatives on the date below their respective signatures but effective on the Effective Date.

State of Alaska Department of Natural Resources

By: _____

Printed Name: _____

Title: _____

Date: _____

State of Alaska Department of Revenue

By: _____

Printed Name: _____

Title: _____

Date: _____

Alaska Gasline Development Corporation

By: _____

Printed Name: _____

Title: _____

Date: _____

TransCanada Alaska Development Inc.

By: *Anthony Palmer*

Printed Name: Tony Palmer

Title: President

Date: January 14, 2014

By: *Annie Belecki*

Printed Name: Annie C. Belecki

Title: Assistant Secretary

Date: January 14, 2014

Heads of Agreement

January 14, 2014

ExxonMobil Alaska Production Inc.

By: 

Printed Name: R.L. Builes *CB*

Title: President

Date: 1/13/2014

ConocoPhillips Alaska, Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

BP Exploration (Alaska) Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

Heads of Agreement

January 14, 2014

ExxonMobil Alaska Production Inc.

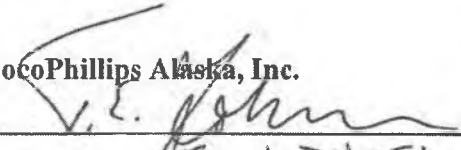
By: _____

Printed Name: _____

Title: _____

Date: _____

ConocoPhillips Alaska, Inc.

By:  _____

^{-B33} Printed Name: Trond-Erik Johansen

Title: PRESIDENT

Date: JANUARY 14, 2014

BP Exploration (Alaska) Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

B33 1/1

ExxonMobil Alaska Production Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

ConocoPhillips Alaska, Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

BP Exploration (Alaska) Inc.

By:  _____

Printed Name: Janet Weiss

Title: President

Date: January 14, 2014

Appendix A
Pro-Expansion Principles

The following principles are for the Alaska LNG Project regulated under NGA Section 3. These principles apply to any component of the Alaska LNG Project.

A.1 Alaska LNG Project Expansion. The potential expansion of any component of the Alaska LNG Project (excluding the modification of an installed Alaska LNG Project liquefaction train, or installation of a new liquefaction train) would be addressed in the agreements to be developed during Pre-FEED, reflecting the following principles.

- A.1.1 Following start-up of the Alaska LNG Project, any Alaska LNG Party may initiate the process for an expansion of any component of the Alaska LNG Project in which that Alaska LNG Party has an interest, unless that expansion would:
- a. Materially and adversely affect or alter the Alaska LNG Project facilities or operations, including technical aspects, or scheduling or quality of deliveries from the Alaska LNG Project facilities;
 - b. Diminish service to the existing shippers or users of the Alaska LNG Project;
 - c. Cause the Alaska LNG Project to be in violation of any applicable environmental or safety laws or regulation; or
 - d. Cause a violation of the Alaska LNG Project right-of-way agreements or any other contractual obligations with respect to the Alaska LNG Project facilities.

Subject to Section A.2 regarding modification of an existing LNG Plant liquefaction train and Section A.3 regarding installation of new LNG Plant liquefaction trains, if an Alaska LNG Project expansion is proposed, all Alaska LNG Parties with an interest in the Alaska LNG Project component being expanded will have the right, but not any obligation, to participate in the proposed expansion (“Expansion Party”). Any Expansion Party may request additional volumes thereby increasing the capacity of the proposed expansion. If, however, as a result of the review of the design and cost of the proposed expansion, all the Expansion Parties determine that they wish to reduce the size of the proposed expansion, then they may do so. An Alaska LNG Party’s ownership interest in the post-expansion Alaska LNG Project component would be equivalent to the proportion of its capacity to the aggregate capacity on the post-expansion Alaska LNG Project component.

Expansions can proceed if they meet the criteria in Section A.1.1 above.

- A.1.2 The Expansion Parties will pay all costs related to the expansion and will have access to and share the incremental capacity developed by the expansion, provided terms related to impacts on fuel use for an expansion would be addressed during Pre-FEED by the Parties. Those Alaska LNG Parties that do not elect to participate

in the proposed expansion (“Non-Expansion Parties”), will be kept whole and will not bear any costs related to the expansion, will not have access to or share in the incremental capacity developed by the expansion, and will not bear any risks or adverse impacts of the expansion or that may result from the expansion, including construction, operation, commercial viability of the capacity expansion or level of capacity utilization.

- A.1.3 Both the Expansion Parties and the Non-Expansion Parties will share in the benefits of an expansion of an Alaska LNG Project component (other than access to or sharing of the expansion capacity). For example, if incremental capital costs of expansion on a unit of capacity basis are lower than the average pre-expansion capital costs per unit of capacity, the capital cost would be equalized, which could include some reallocation of past costs. In addition, both Expansion Parties and Non-Expansion Parties would share proportionately in any reduction in unit operating costs.

A.2 Modification of Installed Liquefaction Trains. The principle for any modification (e.g., debottlenecking) of the installed LNG Plant liquefaction trains is that any proposal for the modification would be subject to agreement of the Alaska LNG Parties with an interest in the LNG Plant liquefaction trains, as would be set forth in the LNG Plant operating agreement(s) among those Alaska LNG Parties.

A.3 New Liquefaction Train Installation Principles. The potential installation of a new liquefaction train would be addressed in the agreements to be developed during Pre-FEED, reflecting the following principles.

- A.3.1 Following start-up of the Alaska LNG Project, any Alaska LNG Party with an interest in the LNG Plant may initiate the process to install a new LNG Plant liquefaction train, unless that installation would:

- a. Materially and adversely affect or alter the Alaska LNG Project facilities or operations, including technical aspects, or scheduling or quality of deliveries from the Alaska LNG Project facilities;
- b. Diminish service to the existing shippers or users of the Alaska LNG Project;
- c. Cause the Alaska LNG Project to be in violation of any applicable environmental or safety laws or regulations; or
- d. Cause a violation of the Alaska LNG Project right-of-way agreements or any other contractual obligations with respect to the Alaska LNG Project facilities.

- A.3.2 All Alaska LNG Parties with an interest in the LNG Plant will have the right, but not any obligation, to participate in a proposed liquefaction train installation at the LNG Plant location. Any Alaska LNG Party electing to participate in the new installation may request additional volumes, thereby increasing the capacity of the

proposed liquefaction train installation. If, however, as a result of the review of the design and cost of the new proposed installation, all of the Alaska LNG Parties that have elected to participate in the new liquefaction train installation determine that they wish to reduce the size of the new proposed installation, then they may do so. Each Alaska LNG Party that participates in a new proposed liquefaction train installation would have an ownership interest in that new liquefaction train equivalent to its equity interest in that new liquefaction train.

Installation of a new liquefaction train can proceed if it meets the criteria in Section A.3.1. above.

A.3.3 Any use, including expansion, of existing LNG Plant property, utilities, storage and marine terminal in conjunction with a new liquefaction train installation will be subject to the expansion principles set forth in Section A.1 above.

A.4 Alaska LNG Project Gas Quality. Notwithstanding anything to the contrary, all gas entering any component of the Alaska LNG Project must meet the gas quality specification applicable to that Alaska LNG Project component.

EXHIBIT I

***Exhibit I-A
CEO Letter***

CEO Letter to Governor Parnell dated March 30, 2012

ExxonMobil

ConocoPhillips



March 30, 2012

Governor Sean Parnell
550 West 7th Avenue, Suite 1700
Anchorage, Alaska 99501

Dear Governor Parnell,

Our three corporations, collectively and individually, value our relationship with Alaska and believe that its citizens across the state, as well as our shareholders around the world, share a common interest in responsible resource development. We write today to inform you of our progress in working together on the next generation of North Slope resource development.

Alaska's vast North Slope holds over 35 trillion cubic feet of discovered natural gas. To date, this gas has been used to enhance North Slope oil production, adding several billion barrels to Prudhoe and Kuparuk recoveries. However, under the right business climate, the full commercial potential of this world-class resource can be unlocked. North Slope gas commercialization will bring new job opportunities, increased state revenues, reliable in-state energy supplies and new exploration opportunities, which will further the development of North Slope oil and gas. This will be key toward reaching your goal of one million barrels of oil per day through the Trans-Alaska Pipeline System.

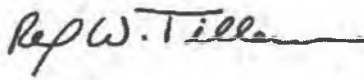
Serious discussions between our companies have taken place over the past several months, along with the Alaska Pipeline Project (APP) parties who are supporting the AGIA License. We have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework. As a result of the rapidly evolving global market, large-scale liquefied natural gas (LNG) exports from south-central Alaska will be assessed as an alternative to gas line exports through Alberta. In addition to broadening market access, a south-central Alaska LNG approach could more closely align with in-state energy demand and needs. We are now working together on the gas commercialization project concept selection, which would include an associated timeline and an assessment of major project components including in-state pipeline routes and capacities, global LNG trends, and LNG tidewater site locations, among others.

Commercializing Alaska natural gas resources will not be easy. There are many challenges and issues that must be resolved, and we cannot do it alone. Unprecedented commitments of capital for gas development will require competitive and stable fiscal terms with the State of Alaska first be established. Appropriately structured, stable fiscal arrangements have opened new opportunities around the world, and will play a pivotal role in making Alaska competitive in the global market and unlocking the economic potential of North Slope resources.

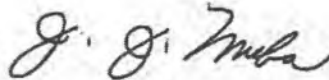
Point Thomson is an excellent example of a challenged, world-class resource. With approximately 25% of known North Slope natural gas, Point Thomson development is an important element in consideration of North Slope gas commercialization. However, economic models must span decades into an uncertain future to estimate economic returns. Your Administration has taken the lead in forging a Point Thomson settlement that will bring long-term resources, revenues and jobs to help Alaska's economy. With settlement now finalized, our companies are moving forward, as participating co-venturers, with the initial development phase at Point Thomson with confidence that North Slope gas development will ultimately bring the Point Thomson resource to market.

We agree the next generation of North Slope resource development is achievable, working together with the APP parties, as well as with the State of Alaska. Thank you for your leadership and your confidence in us to take on these challenges. We join you in a vision of prosperity and promise. There is much work to do and opportunities yet to discover.

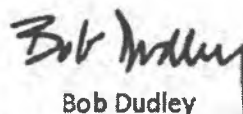
Sincerely,



Rex Tillerson



Jim Mulva



Bob Dudley

Exhibit I-B
Alaska LNG Project Update Letter

Alaska LNG Project Sponsor Letter to Governor Parnell dated October 1, 2012

- Project Update

ExxonMobil

ConocoPhillips



TransCanada

October 1, 2012

Governor Sean Parnell
550 West 7th Avenue, Suite 1790
Anchorage, Alaska 99501

Dear Governor Parnell:

On March 30, 2012, ExxonMobil, ConocoPhillips and BP submitted a letter informing you of progress in working together on the next generation of North Slope resource development. Since that time, the three producer companies and TransCanada, through its participation in the Alaska Pipeline Project (APP), have maintained momentum and executed important early work to select leading concepts for a potential project. We are writing to update you on the progress that has been made to date.

We established an integrated team, depicted on Attachment 1, committing significant resources and the efforts of over 200 professionals to date to progress this work. This allowed us to combine our respective talents and experience to advance a collective understanding of what would be required for liquefied natural gas (LNG) exports from Southcentral Alaska. Our team has advanced extensive work to refine and understand the opportunities and challenges associated with North Slope natural gas development.

Our companies bring together specific expertise in Arctic operations, pipeline design and construction, and in LNG plant design and operation. Since our joint work began at the end of March, we have built upon more than \$700 million in past work by our collective companies, including the joint Alaska Gas Producer Pipeline Team effort in 2001-02, the Denali Project, and APP (including the State's contribution through AGIA). As a result, our work on an LNG development project has been advanced to a new level of understanding. Specifically, the focus of our work includes:

- Developing a design basis for the pipeline, including areas of continuous and discontinuous permafrost
- Investigating multiple ways to remove and dispose of CO₂ and other contaminants
- Assessing use of existing and addition of new Prudhoe Bay field facilities
- Mapping multiple pipeline routing variations
- Assessing multiple pipeline sizes
- Providing for at least five in-state gas off-take points
- Completing preliminary geohazard and marine analysis of 22 LNG site locations
- Developing a design basis for the required LNG tanker fleet
- Evaluating multiple LNG process design alternatives
- Confirming a range of gas blends from the Prudhoe Bay and Point Thomson fields can generate a marketable LNG product

We have narrowed the broad range of alternative development concepts and assessed major project components, including the gas pipeline, gas treatment to remove CO₂ and other impurities, natural gas liquefaction, LNG storage, and marine terminal facilities as described on Attachment 2. Individually,

each of these components would represent a world-class project. Combined, they result in a mega-project of unprecedented scale and challenge; up to 1.7 million tons of steel, a peak construction workforce of up to 15,000, a permanent workforce of over 1,000 in Alaska, and an estimated total cost in today's dollars of \$45 to \$65+ billion.

Additional accomplishments include TransCanada's recently completed non-binding solicitation of interest in accordance with AGIA. TransCanada has publicly reported interest from potential shippers and major players from a broad range of industry sectors and geographic locations. Additionally, TransCanada, on behalf of the APP parties, has advised that a cooperative framework has also been established with the Alaska Gasline Development Corporation for information exchange.

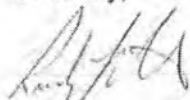
We are encouraged by the synergies and efficiencies identified by our integrated team. While good progress has been made, significant environmental, regulatory, engineering and commercial work remains to reach upcoming decisions to bring North Slope gas to market. A diagram indicating work plans and key decision points is provided on Attachment 3. This attachment describes ranges and durations for engineering and technical work. However, these durations could be extended by external factors including resolution of fiscal terms, regulatory and permitting delays, and legal challenges, among others. As the concept selection technical work reaches closure, additional commercial agreements as well as support from the State of Alaska will be required in order to progress this world-class opportunity.

This opportunity is challenged by its cost, scale, long project lead times, and reliance upon interdependent oil and gas operations with declining production. The facilities currently used for producing oil need to be available over the long-term for producing the associated gas for an LNG project. For these reasons, a healthy, long-term oil business, underpinned by a competitive fiscal framework and LNG project fiscal terms that also address AGIA issues, is required to monetize North Slope natural gas resources. The producers look forward to working with the State to secure fiscal terms necessary to support the unprecedented commitments required for a project of this scope and magnitude and bring the benefits of North Slope gas development to Alaska.

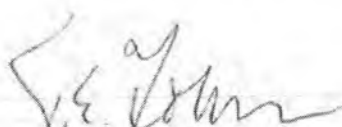
Our next steps are to complete the concept selection phase and work with the State to make meaningful progress on the items detailed above. This work is critical as we consider decisions to progress the next phases of an LNG development project.

Alaska's North Slope natural gas resources must compete in the global energy markets in order to deliver state revenues, in-state energy supplies, new job opportunities and other economic benefits to Alaskans. While North Slope gas commercialization is challenging, working together, we can maintain the momentum toward our shared vision for Alaska. We will continue to keep you advised of our progress and stand committed to work with the State to responsibly develop its considerable resources.

Sincerely,




Randy Broiles
ExxonMobil
Production Company



Trond-Erik Johansen
ConocoPhillips Alaska, Inc.



John Mingé
BP Exploration Alaska



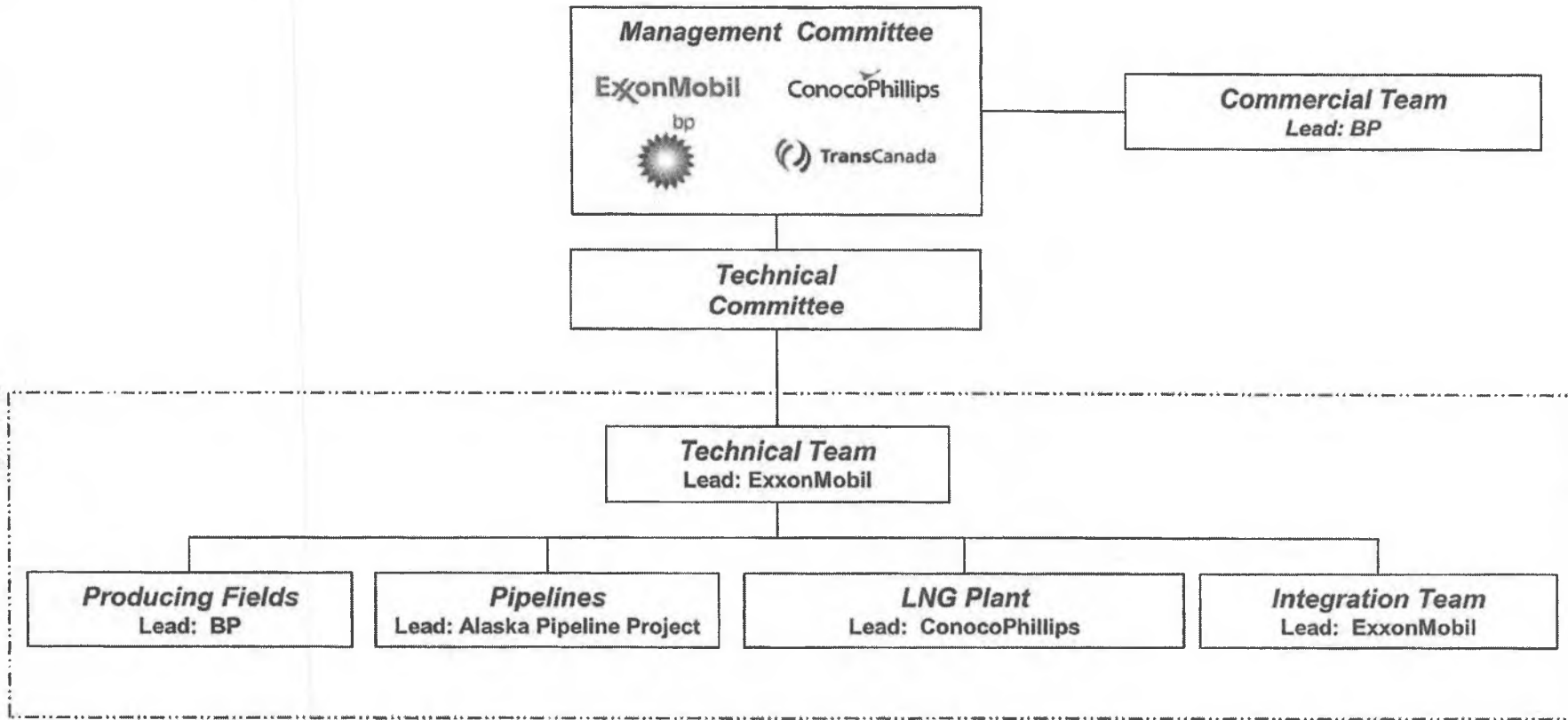
Tony Palmer
TransCanada

Attachments

Attachment 1

Southcentral Alaska LNG – Integrated Team

Page 30



Multimillion Dollar, Four-Company Effort – 125+ Employees, 100+ Contractors

- Joint work commenced March 31, 2012 after completion of the Pt. Thomson Settlement / joint work agreements
- Cooperative effort among the leading North Slope producers and a leading North American pipeline company
- Identified potentially viable LNG project options to monetize ANS natural gas
- Used company strengths, shared information / expertise; built upon past efforts, sought out new ideas

Attachment 2

Alaska Southcentral LNG – Project Concept Description

Liquefaction Plant

- Capacity: 15 – 18 million tonnes per annum (MTA)
3 trains (5-6 MTA / train)
- Potential areas: 22 sites assessed in Cook Inlet, Prince William Sound and other Southcentral sites
- Footprint: 400 - 500 acres
- Peak Workforce: 3,500 - 5,000 people
- Required Steel: 100,000-150,000 tons



Producing Fields

- ~35 TCF discovered North Slope resource
- Additional exploration potential
- Anchored by Prudhoe Bay and Pt. Thomson with ~20 years supply available
- Use of existing and new North Slope facilities
- Confirmed range of gas blends from PBU/PTU can generate marketable LNG product
- Peak Workforce: 500 – 1,500 people



Storage / Loading

- LNG Storage Tanks, Terminal
- Dock; 1 - 2 Jetties
- Design based on 15– 20 tankers
- Peak Workforce: 1,000-1,500 people



Gas Treating

- Located at North Slope or Southcentral LNG site
- Remove CO₂ and other gases and dispose / use
- Footprint: 150 - 250 acres
- Peak Workforce: 500 - 2,000 people
- Required Steel: 250,000 - 300,000 tons
- Among largest in world

Pipeline

- Large diameter: 42"- 48" operating at >2,000 psi
- Capacity: 3 - 3.5 billion cubic feet per day
- Length: ~800 miles (similar to TAPS)
- Peak Workforce: 3,500 - 5,000 people
- Required Steel: 600,000 - 1,200,000 tons
- State off-take: ~5 points, 300-350 million cubic feet per day, based on demand



Estimated Total Cost: \$45 – \$65+ Billion

Peak Construction Workforce: 9,000 – 15,000 jobs

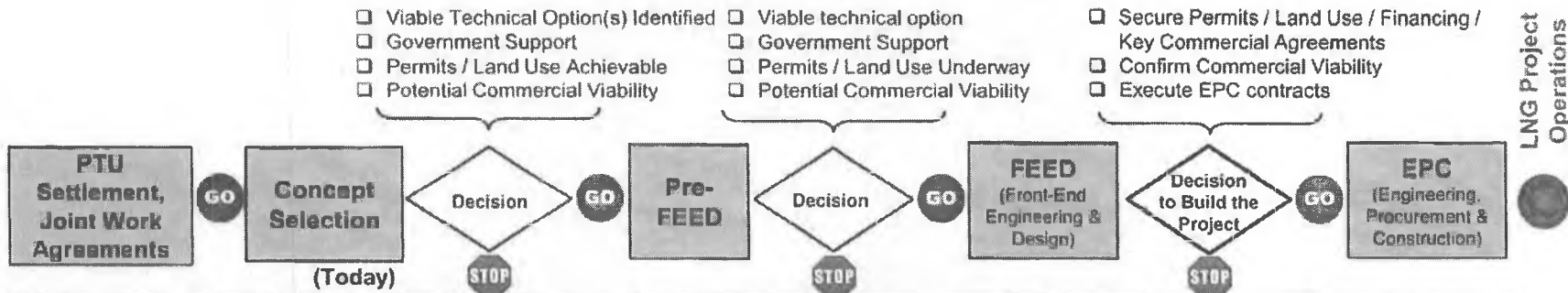
Operations Workforce: ~1000 jobs in Alaska

Descriptions and costs are preliminary in nature and subject to change. Cost range excludes inflation.

Attachment 3

Southcentral Alaska LNG – Work Plans / Key Decision Points

Requirements to Take Next Step:



LNG Project Operations

Peak Staffing:	~200	400 - 500	500 - 1,500	9,000 - 15,000
Cost (\$):	Tens of Millions	Hundreds of Millions	Billions	Tens of Billions
Est. Engineering / Technical Duration*:	12 - 18 Months		2 - 3 Years	5 - 6 Years

Activities

Evaluate:	Progress:	Complete:	Execute:
<ul style="list-style-type: none"> Range of technically viable options for major project components Business Structure In-state gas / export LNG demand 	<ul style="list-style-type: none"> Preliminary engineering to refine concept Business structure Financing plan 	<ul style="list-style-type: none"> Front-end engineering & design Major contract preparation Business structure Financing arrangements 	<ul style="list-style-type: none"> Final engineering Financing Procurement Fabricate / Logistics / Construct Prepare for Operations
Solicit Interest of Others		Solicit Interest of Others	
Establish Government Support and Advance Regulatory Issues: <ul style="list-style-type: none"> Competitive oil tax environment; predictable / durable LNG project fiscal terms; AGIA Issues Assure ability to secure regulatory approvals / permits / land use Environmental activities / Technical data collection Stakeholder engagement File DOE Export License 		Advance Gov't / Reg. Issues: <ul style="list-style-type: none"> Key permit / land use approvals Stakeholder engagement Secure DOE Export License 	
	Start individual gas / LNG sales / shipping efforts	Execute individual gas / LNG sales / shipping agreements	Implement business structure & agreements
Screen commercial viability	Assess commercial viability	Confirm commercial viability	Commission / start-up

* NOTE: Duration of various phases may be extended by protracted resolution of fiscal terms, permitting and regulatory delays, legal challenges, changes in commodity market outlook, time to secure long-term LNG contracts, labor shortages, material & equipment availability, weather, etc.

Exhibit I-C
Alaska LNG Project Concept Selection Letter

Alaska LNG Sponsor Letter to Governor Parnell dated February 15, 2013

- Concept Selection



February 15, 2013

Governor Sean Parnell
550 West 7th Avenue, Suite 1790
Anchorage, Alaska 99501

Dear Governor Parnell,

On October 1, 2012 we updated you on the progress ExxonMobil, ConocoPhillips, BP and TransCanada had made to advance North Slope natural gas development. At that time, we described our plans for progressing concept selection. Today, we are pleased to inform you we have completed the concept selection phase.

Attached is a summary of the major project components, including the gas pipeline, gas treatment facilities and the liquefaction, storage and terminal facilities. The project design also includes five off-take points along the pipeline route to ensure Alaskans access to a cleaner-burning and dependable energy source. Capacity ranges reflect the expected seasonal variability. The conceptual design reflects the integrated teamwork of over 300 people on behalf of our companies.

Our companies are now working toward the next decision points. As outlined in our letter of October 1, 2012, a competitive, predictable and durable oil and gas fiscal environment will be required for a project of this unprecedented scale, complexity and cost, to compete in global energy markets.

A successful Alaska LNG project would result in thousands of jobs and the opportunity for decades of domestically-produced natural gas for homes and businesses in Alaska. We remain committed to responsibly developing the State's considerable resources and will keep you advised of our progress. We also have plans to update the Legislature at a Lunch and Learn on February 19.

Sincerely,

Randy Broiles
ExxonMobil Production
Company

Trond-Erik Johansen
ConocoPhillips Alaska, Inc.

Janet Weiss
BP Exploration Alaska

Tony Palmer
TransCanada

Attachment

Proposed Alaska LNG Project Concept

Pipeline	Diameter: 42"
	Design Rate ¹ : 3 – 3.5 billion cubic feet
	Length: ~800 miles (primarily underground)
	Compressor Stations: up to 8
Gas Treatment Plant	Location: North Slope, near Prudhoe Bay
	Footprint: 150 – 250 acres
Liquefaction Plant	Capacity ¹ : 15 – 18 million tons per annum (MTA)
	Facility: 3 trains
	Footprint: 400 – 600 acres
Storage and Loading	LNG Storage Tanks: 2 tanks @ 160,000 cubic meters per tank
	Terminal: 1 loading jetty with 2 berths
State Off-takes	Off-takes: 5 points along pipeline route
	Design Rate: 250 – 500 million standard cubic feet per day, based on demand
Capital Investment	Estimate ² : \$45 – \$65 USD-Billion

¹ Capacity range reflects seasonal variability

² Does not include inflation

MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING (the “MOU”) is made effective and entered into this 12th day of December, 2013 (the “Effective Date”), by **TRANSCANADA ALASKA COMPANY, LLC** (“TC Alaska”), a Delaware limited liability company, **FOOTHILLS PIPE LINES LTD.** (“Foothills” and together with TC Alaska, the “Licensee”), a Canadian corporation, in their capacity as the Licensee under AGIA, **TRANSCANADA ALASKA DEVELOPMENT INC.** (“TADI”), a Delaware corporation, and **THE STATE OF ALASKA** (the “State”) acting through the Alaska Commissioner of Natural Resources and the Alaska Commissioner of Revenue (“Commissioners”) pursuant to their authority under Alaska Gasline Inducement Act (“AGIA”), AS 43.90.010 *et seq.*;

Recitals

1. The Alaska Legislature enacted AGIA in 2007 to encourage expedited construction of a natural gas pipeline that facilitates commercialization of North Slope oil and gas resources in the state to promote exploration and development of North Slope oil and gas resources in the state, to maximize benefits to the people of the state from the development of oil and gas resources in the state, and to encourage oil and gas lessees and other persons to commit to ship natural gas from the North Slope to a gas pipeline system for transportation to markets in this state or elsewhere.

2. On December 5, 2008, the Commissioners issued the AGIA license to Licensees. The Licensees, and subsequently with an affiliate of ExxonMobil, commenced to jointly develop the AGIA pipeline project in Alaska and Alberta as the Alaska Pipeline Project (“APP”). Over the following three years, the Licensee pursued the APP in compliance with AGIA requirements to timely conduct an initial binding open season and engage in the pre-filing process to prepare its project application to Federal Energy Regulatory Commission (“FERC”) for a certificate of public convenience and necessity.

3. In October 2011, in response to changed circumstances in world gas markets, including a substantial increase in U.S. shale gas reserves and lower natural gas prices in the U.S., significantly higher natural gas prices in Asia and other world markets, and the projection that the U.S. will become a net exporter of natural gas, Governor Parnell requested the Licensee to work cooperatively with the Alaska North Slope oil producers (ExxonMobil, BP and ConocoPhillips, jointly “ANS Producers”) to evaluate the economic feasibility of a liquefied natural gas (“LNG”) alternative.

4. In response to the Governor’s request, the Licensees requested a project plan amendment (“PPA”) to the AGIA license to facilitate participation by the APP with the ANS Producers in a concept selection assessment of an LNG alternative specifically relating to gas pipeline facilities to deliver natural gas from the Alaska North Slope to the tidewater of south-central Alaska for in-state use and export. The Commissioners approved the Licensee’s PPA authorizing the Licensee to participate in a concept selection process for the Alaska LNG Project with the ANS Producers. The Commissioners approved additional PPAs to facilitate the Licensee’s continued participation with the ANS Producers in completion of the concept selection phase for the Alaska LNG Project.

5. The Licensee, through its affiliate, TADI, and the ANS Producers have selected a concept for the Alaska LNG Project and are preparing for the pre-FEED phase of the Alaska LNG Project.

6. The Commissioners have determined that in order to facilitate the financing and expedite the development and construction of the Alaska LNG Project it is desirable for the State to participate with the Licensee and the ANS Producers in the Alaska LNG Project. State participation in the Alaska

LNG Project is expected to yield significant benefits, including the alignment of interests, greater transparency for the State on the commercial terms of the project, and the reduction of disputes. As part of its participation in the Alaska LNG Project, the State would enter into certain commercial agreements with the Licensee, TADI and the ANS Producers, subject to legislative authorization for this purpose.

7. The Commissioners have determined that the State will benefit by entering into commercial arrangements with TADI for participation in the Alaska LNG Project. The Licensee's TADI's and its Affiliates' extensive pipeline experience and knowledge of northern pipeline conditions is an asset to the State's participation. The information gained and the assets developed by the Licensee and its Affiliates in developing the APP project under AGIA will significantly contribute to the development and construction of the Alaska LNG Project, and promote the State's objectives of facilitating construction of a natural gas pipeline that promotes exploration and development of oil and gas resources on the North Slope and maximizes benefits to the people of the State from the development of oil and gas resources.

8. The Commissioners have determined that it is in the State's interest to continue its relationship with the Licensee and its Affiliates as an experienced pipeline developer and to transition from the AGIA license to a commercial relationship between the State and TADI through TADI (an Affiliate of the Licensee) in relation to the Alaska LNG Project. To maintain project momentum and promote continued cooperation between the AGIA Licensee and the ANS Producers, the Commissioners, exercising their authority under AS 43.90.210, have approved the Licensee's request for PPA-1B for the Licensee's continued participation with the ANS Producers in preparation for the pre-FEED phase of the Alaska LNG Project and to prepare for the transition mentioned above. (Exhibit "A")

9. The Commissioners have engaged in discussions with the Licensee, TADI and the ANS Producers to determine commercial arrangements that would be feasible and desirable for the State to participate in the Alaska LNG Project. The Commissioners, TADI and the Licensee have determined that certain commercial arrangements are necessary in order for the State to participate with TADI to facilitate the Alaska LNG Project. The terms of those commercial arrangements are provided in the term sheets at Exhibit B and Exhibit C to this MOU. The Commissioners, TADI and the Licensee acknowledge that the terms provided in Exhibits B and C have no force or effect until the effective date of the Enabling Legislation (defined below) that authorizes the State to negotiate and execute the commercial agreements that are set out in the terms of the Exhibits to this MOU. The terms of commercial agreements that the State has discussed with ANS Producers to facilitate the State's participation in the Alaska LNG Project, are provided in separate documents and are not part of this MOU.

10. The Commissioners, TADI, and the Licensee agree that execution of the Transition Agreements (as defined below) will complete the transition of the relationship between the State, TADI, and the Licensee from AGIA to a commercial arrangement. Subject to Enabling Legislation, upon execution of the Transition Agreements, and finalization of commercial relations with ANS Producers for the Alaska LNG Project:

- a. TADI or its Affiliate would hold an ownership interest in the midstream portion of the Alaska LNG Project;
- b. The State would hold an option to acquire an equity interest in the TADI or the TADI Affiliate that will hold TADI's ownership interest in the Alaska LNG Project as identified in the Term Sheet at Exhibit B; and
- c. TADI or its Affiliate would provide gas processing and transportation services on the Alaska LNG Project for the State's share of gas as identified in the Term Sheet at Exhibit C.

11. The Commissioners have committed that after Enabling Legislation becomes effective and execution of the commercial agreements committing the ANS Producers to initiate the pre-FEED phase of the Alaska LNG Project, the Commissioners will initiate the process of making a determination for purposes of AS 43.90.240(a). Because it is not economically feasible that two large-scale pipeline projects will be developed concurrently to transport Alaska North Slope natural gas to market, the Commissioners have committed to consider the commercial agreements executed by and between the State, TADI and the ANS Producers for development of the Alaska LNG Project as material evidence that the Licensee's AGIA licensed project is uneconomic as provided in AS 43.90.240(a).

12. The Licensee has committed that upon the occurrence of the Trigger Event and the execution of the Transition Agreements, the Licensee will agree that the project licensed under the AGIA License is uneconomic within the meaning of AS 43.90.240(a).

13. The purpose of this MOU is to set out the Parties' agreement regarding the negotiation and execution of the Transition Agreements upon the occurrence of the Trigger Event, specifically –

- a. the Alaska LNG Project Equity Option Agreement; and
- b. the Alaska LNG Midstream Services Agreement.

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, each Party to this MOU hereby agrees as set forth below.

ARTICLE 1 DEFINED TERMS

1.1 Defined Terms

The following definitions shall, for all purposes, unless otherwise clearly indicated to the contrary, apply to the capitalized terms used herein:

- (a) “**Affiliate**” means in relation to a Party any company, corporation, partnership or other legal entity (in this definition, each such entity and each Party are sometimes referred to as a “**Company**”) which is:
- (i) directly or indirectly, owned or controlled by such Party;
 - (ii) directly or indirectly owns or controls such Party; or
 - (iii) directly or indirectly, owned or controlled by a Company that also, directly or indirectly, controls such Party.

For the purpose of this definition, a Company is directly owned or controlled by another Company that owns or controls shares or other interests carrying in the aggregate more than 50 percent of the voting rights exercisable at a general, shareholders, or members meeting of the first-mentioned Company, or the right to appoint or dismiss a majority of the directors thereof, or the power to direct or cause the direction of the management or policies through the ownership of securities, by contract or otherwise. A Company is indirectly owned or controlled by a Company or Companies (the “parent Company or Companies”) if a series of Companies can be specified, beginning with the parent Company or Companies and ending with the particular Company, so related that each Company of the series, except the parent Company or Companies, is directly controlled by one or more of the Companies in the series.

For the purpose of this definition, the definition of a State Affiliate includes the State of Alaska acting in its proprietary capacity, any State authority or independent public corporation of the State ("IPC"), any subsidiary corporations created by an IPC ("SIPC"), and the State governmental entity members of any such IPC and SIPC.

- (b) "AGIA" means the Alaska Gasline Inducement Act, AS 43.90, as well as the regulations promulgated thereunder.
- (c) "AGIA License" means the license dated December 5, 2008, as amended by project plan amendments approved on January 29, 2010, May 2, 2012, June 11, 2013 and December 12, 2013.
- (d) "AGIA Project Plan Amendment1B" means the project plan amendment under the AGIA License approved by the Commissioners pursuant to AS 43.90.210 on December 12, 2013, (attached hereto as Exhibit "A").
- (e) "Alaska LNG Midstream Services Agreement" means a Precedent Agreement (or similar agreement), and a Firm Transportation Services Agreement entered into between TADI and the State containing the terms set out in Exhibit "C".
- (f) "Alaska LNG Project" means collectively, the PBU Gas Transmission Line, the PTU Gas Transmission Line, the Gas Pipeline, the Gas Treatment Plant, the LNG Plant, and the Marine Terminal. For the purposes of this definition:
 - (i) "PBU Gas Transmission Line" means a natural gas transmission line from the outlet flange of the Prudhoe Bay Unit Central Gas Facility to the inlet flange of the GTP;
 - (ii) "PTU Gas Transmission Line" means a natural gas transmission line from the outlet flange of the Point Thomson Unit production facility to the inlet flange of the GTP;
 - (iii) "Gas Treatment Plant" or "GTP" means those facilities and related activities required to receive natural gas from the PBU Gas Transmission Line, the PTU Gas Transmission Line, and/or other facilities, treat the natural gas to pipeline specifications, dispose of or deliver by-products, deliver liquid products for further transportation, and deliver treated natural gas for transportation through the Gas Pipeline;
 - (iv) "Gas Pipeline" means the main natural gas pipeline from the outlet flange of the GTP on the Alaska North Slope to the inlet flange of the LNG Plant located in South Central Alaska, which may have off-take points along the pipeline for deliveries of gas within the State of Alaska (Gas Pipeline refers to the main gas pipeline and does not include any gas lines downstream of any off-take point between the GTP and the LNG Plant);
 - (v) "LNG Plant" means the facility, including the structures, equipment, underlying land rights and all other associated systems, for pre-processing and liquefaction of natural gas, and storage, and off-loading of liquefied natural gas; and "Marine Terminal" means the terminal and those facilities required to receive LNG from the boundary of the LNG Plant for marine transportation, including auxiliary vessels used in the operation of the terminal.
- (g) "Alaska LNG Project Equity Option Agreement" means an agreement to be entered into between TADI and the State containing the terms set out in Exhibit "B".

- (h) **“ANS Producers”** has the meaning given in paragraph 3 of the recitals.
- (i) **“CSA”** means the Concept Selection Agreement for ANS Gas Development dated March 29, 2012 between TADI and the ANS Producers, as amended from time to time.
- (j) **“Commissioners”** has the meaning given in the preamble of this MOU.
- (k) **“Effective Date”** has the meaning given in the preamble to this MOU.
- (l) **“Enabling Legislation”** means legislation enacted by the Alaska Legislature that has become effective as provided under AS 01.10.070 , and that at a minimum:
 - (i) Authorizes the Commissioners to negotiate and enter into the Transition Agreements, and
 - (ii) Authorizes the Commissioners to negotiate and enter into commercial arrangements with the ANS Producers for the Alaska LNG Project;
 - (iii) Funds the State’s contingent and direct payment obligations for development costs under the Precedent Agreement and Article 4.2 of this MOU.
- (m) **“HOA”** means the Heads of Agreement to be executed between the State, TADI, the ANS Producers and Alaska Gasline Development Corporation.
- (n) **“MOU”** means this memorandum of understanding and the attachments hereto.
- (o) **“Operative Terms”** means the terms to be incorporated in the Transition Agreements set out in Exhibits “B” and “C”, as same may be modified as a result of the application of Article 2.1(e).
- (p) **“Parties”** means TransCanada Alaska Company, LLC., Foothills Pipe Lines Ltd., TransCanada Alaska Development Inc., and the State of Alaska.
- (q) **“Pre-FEED JVA”** means the Alaska LNG Project Pre-FEED Venture Agreement to be executed, after Enabling Legislation becomes effective, by the ANS Producers, TADI and Alaska Gasline Development Corporation on terms acceptable to the parties, as may be amended from time to time.
- (r) **“Precedent Agreement”** means the precedent agreement referred to in Alaska LNG Midstream Services Agreement Term Sheet attached hereto as Exhibit “C”.
- (s) **“Transition Agreements”** mean the Alaska LNG Project Equity Option Agreement and the Alaska LNG Midstream Services Agreement.
- (t) **“Trigger Event”** means the effective date of Enabling Legislation that the Licensee, TADI and the State determine to be acceptable. For purposes of determining whether the Enabling Legislation is acceptable, the Parties will evaluate whether the Enabling Legislation provides appropriate and sufficient authority to the State;
 - (i) to negotiate and execute the Precedent Agreement and the Alaska LNG Project Equity Option Agreement;
 - (ii) to negotiate the Firm Transportation Services Agreement; and

- (iii) to fund the State's contingent and direct payment obligations for development costs under the Precedent Agreement and Article 4.2 of this MOU.

1.2 Exhibits

The following exhibits are attached to and form part of this MOU:

Exhibit "A"	AGIA Project Plan Amendment #1B
Exhibit "B"	Alaska LNG Project Equity Option Agreement Term Sheet
Exhibit "C"	Alaska LNG Midstream Services Agreement Term Sheet

ARTICLE 2 TRANSITION AGREEMENTS

2.1 Negotiation of Transition Agreements

(a) The Parties and the ANS Producers have agreed that it is necessary and a condition subsequent for this MOU for the Legislature to enact Enabling Legislation. The State undertakes to seek Enabling Legislation.

(b) The Parties agree that they shall promptly proceed in good faith to negotiate the Transition Agreements, to be finalized and executed after the Trigger Event.

(c) The Parties acknowledge that the Operative Terms (as defined in Exhibits "B" and "C") set forth the understanding of the Parties as to the commercial principles set forth therein and, subject to Articles 2.1 (d) and (e) below, shall form the basis for negotiation of the Transition Agreements. The Parties acknowledge that the Operative Terms set forth in Exhibits "B" and "C" have been agreed by the Parties and that subject to Articles 2.1 (d) and (e) below, the provisions of the Transition Agreements shall be consistent with the commercial principles set out in the Operative Terms. Subject to Articles 2.1 (d) and (e) below, no Party shall negotiate any term in the Transition Agreements inconsistent with the Operative Terms. However, the Parties acknowledge and agree that Exhibits "B" and "C" do not contain all of the terms and conditions that would be included in the legally binding Transition Agreements between the Parties.

(d) The Parties agree to support the approval of the Operative Terms in the Enabling Legislation, but acknowledge that the Enabling Legislation may include authorizations or conditions that vary from or conflict with the Operative Terms. In such event, and if Parties agree to accept the Enabling Legislation, then the Transition Agreements will reflect the Enabling Legislation terms and conditions notwithstanding the Parties' acknowledgement in Article 2.1(c) above.

(e) The Parties acknowledge that insofar as the terms of the Heads of Agreement ("HOA"), the Pre-Feed JVA, or any future Alaska LNG agreement to which the SOA or an entity of the SOA (including AGDC) is a party or which the State has approved are at variance with the Operative Terms, the Operative Terms shall be deemed to be amended to the extent necessary to conform to the HOA, the Pre-Feed JVA, or other such agreements, as the case may be, notwithstanding the Parties' acknowledgements in Article 2.1(c) above.

**ARTICLE 3
TIMELINES**

3.1 Timeline Commitment

(a) TADI and the State shall use reasonable commercial efforts to finalize, execute and deliver the Alaska LNG Project Equity Option Agreement and the Alaska LNG Midstream Services Agreement as soon as commercially reasonable after the Trigger Event, not to exceed ninety (90) days after the Trigger Event, unless extended with the joint approval of the Parties.

(b) It shall be a condition precedent to the effectiveness of each Transition Agreement that each other Transition Agreement be fully executed and delivered to the applicable Parties.

3.2 Notice of Enabling Legislation. Within 30 days after the effective date of the Enabling Legislation each Party shall notify the other Parties in writing if the Enabling Legislation is not acceptable to it. If a Party fails to so notify the other Parties, then that Party shall be deemed to have given notice that the Enabling Legislation is acceptable.

**ARTICLE 4
TERM, TERMINATION AND REIMBURSEMENT**

4.1 Term and Termination

This MOU shall commence on the Effective Date hereof and shall terminate upon the earliest of:

- (a) execution and delivery of all of the Transition Agreements,
- (b) upon written notice from any Party pursuant to Section 3.2 that the Enabling Legislation is not acceptable;
- (c) upon written notice from one Party to the others if the Alaska LNG Project Equity Option Agreement has not been executed and delivered in accordance with Article 3;
- (d) upon written notice from one Party to the others if the Alaska LNG Midstream Services Agreement has not been executed and delivered in accordance with Article 3; or
- (e) one hundred twenty (120) days after the Trigger Event, unless extended with the joint approval of the Parties,
- (f) upon the last date that Enabling Legislation could be enacted in 2014 by the Legislature, but has not been enacted, or if enacted in 2014 and vetoed, the last date the veto could be overridden; or
- (g) July 31, 2014, unless extended with the joint approval of the Parties.

4.2 Development Cost Reimbursement

Provided the Enabling Legislation becomes effective:

(a) If this MOU is terminated for any reason other than pursuant to Section 4.1(a), State shall reimburse TADI for all the post-December 31, 2013 development costs plus an amount equal to the associated AFUDC, at a rate of 7.1%, net of AGIA reimbursement received and retained by the Licensees under AGIA Project Plan Amendment 1B, that have been incurred or committed to by TADI or its

Affiliates under the CSA and the Pre-FEED JVA, including but not limited to TADI's share of contract cancellation penalties and continued funding obligations under such agreements, through the date of termination.

(b) State obligation to reimburse TADI under this Section 4.12 shall be TADI's exclusive remedy in law and equity for such termination.

4.3 Survival. This Article 4 shall survive termination of the MOU.

ARTICLE 5 RELATIONSHIP OF THE PARTIES

5.1 Relationship of the Parties. Neither this MOU nor any other documentation or communication between the Parties shall constitute or create a joint venture, partnership, legal entity, or other similar business combination or arrangement between the Parties. Each Party shall act only on an individual and several basis. No Party shall have the right to act as an agent for or a servant or employee of the other Parties, to make commitments or assume obligations for and on behalf of the other Parties, or to bind the other Parties for any purpose whatsoever.

ARTICLE 6 NOTICES

6.1 Notices. Any and all notices between the Parties given under or in relation to this MOU shall be in writing and shall be deemed to have been given if personally delivered, delivered and confirmed by telecopier or like instantaneous transmission device, delivered by a reputable overnight delivery service, or sent by certified mail (postage prepaid, return receipt requested), addressed as follows:

If to the State:

Joe Balash
Commissioner, Department of Natural Resources
550 W. 7th #1400
Anchorage, AK 99501
Phone: 907-269-8431
Facsimile: 907-269-8918
joe.balash@alaska.gov

Angela Rodell
Commissioner, Department of Revenue
P.O. Box 110400
Juneau, AK 99811-0400
Phone: 907-465-2300
Facsimile: 907-465-2389
angela.rodell@alaska.gov

If to Foothills, TADI or TC Alaska

Anthony Palmer
Vice President, Major Projects Development
TransCanada PipeLines Ltd.
450-1st Street, S.W.
Calgary, AB T2P 5H1
Phone: 403-920-2035
Facsimile: 403-920-2318
tony_palmer@transcanada.com

With a copy to:

c/o TransCanada
450-1st Street, S.W.
Calgary, AB T2P 5H1
Attn: Corporate Secretary
Facsimile: 403-920-2327

Any Party may at any time or from time to time designate, by written notice to the other Parties, another address in lieu of the address specified above.

ARTICLE 7 GOVERNING LAW AND EFFECT OF MOU

7.1 Governing Law and Jurisdiction. This MOU shall be governed by and construed in accordance with the laws of the Alaska, not including Alaska's choice of law provisions, and the federal laws applicable therein. The Parties do hereby irrevocably and unconditionally submit to the exclusive jurisdiction of the courts of the State of Alaska in connection with any disputes or other matters arising out of or in connection with this MOU.

ARTICLE 8 MISCELLANEOUS

8.1 Assignment. Except in the case of an assignment by a Party to an Affiliate in which event the assigning Party shall remain liable, no Party shall have the right to assign this MOU or any interest in this MOU without the prior written consent of the other Party, which consent may be withheld in the other Party's sole, absolute and unfettered discretion.

8.2 Severability. If any provision of this MOU or the application thereof shall be found by any court of competent jurisdiction to be invalid, illegal, or unenforceable, to any extent and for any reason, and if, after good faith efforts to negotiate replacement provisions, the Parties agree that this MOU should not be voided, it shall be adjusted rather than voided in order to achieve the intent of the Parties. If the Parties agree that this MOU should not be voided, and the intent of the Parties can be achieved, then the remainder of this MOU and the application of such remainder shall not be affected thereby, and shall be enforced to the greatest extent permitted by law. Otherwise, this MOU shall terminate.

8.3 Non-Waiver. No failure or delay by any Party in exercising any right, power, or privilege granted hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power, or privilege hereunder.

8.4 Entire Agreement. This MOU constitutes the entire agreement between the Parties relating to the subject matter hereof, and it supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, between the Parties with respect to the subject matter hereof.

8.5 Amendments. This MOU may not be modified or amended, in whole or in part, except by a supplemental written agreement signed by all Parties.

8.6 Construction. The Parties have participated jointly in the negotiation and drafting of this MOU. In the event an ambiguity or question of intent or interpretation arises, this MOU shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this MOU.

8.7 Counterparts; Multiple Originals. This MOU may be signed and delivered in counterparts with the same effect as if both Parties had signed and delivered the same copy, and when each Party has signed and delivered a counterpart, all counterparts together constitute one Agreement. Delivery of a copy of this Agreement by facsimile or other similar electronic means of communication is good and sufficient delivery.

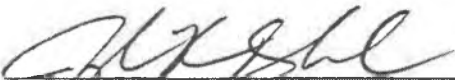
8.8 No Damages/Dispute Resolution. Except with regard to Section 4.2, no Party shall be liable to any other Party for damages of any kind or nature as a result of a breach or default of its obligations under this MOU. In the event of a breach, other than a breach of Section 4.2, the sole remedy available to a Party is the filing of an action for specific performance.

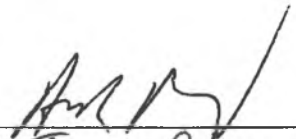
8.9 Article and Section Headings. The Article and Section headings used in this MOU have been inserted only for convenience to facilitate reference and shall not be determinative in construing the meaning, effect, or application, of any Article, Section, or provision hereof.

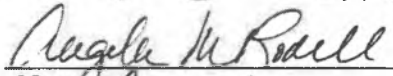
IN WITNESS WHEREOF, the Parties have signed this MOU as of the Effective Date.

THE STATE OF ALASKA

**TRANSCANADA ALASKA COMPANY,
LLC**

By: 
Name: COMMISSIONER - DNR
Title: JOE BALASH

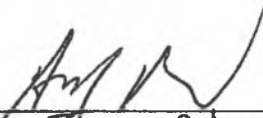
By: 
Name: Tony Palmer
Title: President

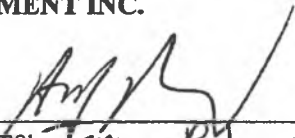
By: 
Name: Commissioner - Revenue
Title: Angela Rodell

By: _____
Name:
Title:

FOOTHILLS PIPE LINES LTD.

**TRANSCANADA ALASKA
DEVELOPMENT INC.**

By: 
Name: Tony Palmer
Title: President.

By: 
Name: Tony Palmer
Title: President

By: _____
Name:
Title:

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Parties have signed this MOU as of the Effective Date.


THE STATE OF ALASKA

TRANSCANADA ALASKA COMPANY,
LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

By: _____
Name:
Title:

By: 
Name: David Kohlenberg
Title: Vice President.

FOOTHILLS PIPE LINES LTD.

TRANSCANADA ALASKA
DEVELOPMENT INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

By: 
Name: RON COOK
Title: VICE PRESIDENT - TAXATION

By: 
Name: RON COOK
Title: VICE PRESIDENT - TAXATION

LEGAL	
CONTENT	



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Joe Balash, Commissioner

Department of Revenue

Angela Rodell, Commissioner

December 12, 2013

Mr. Tony Palmer
Vice President, Major Projects Development
TransCanada Pipelines Limited
450 1st Street S.W.
Calgary, Alberta, T2P-5H1 Canada

Re: Approval of AGIA Licensees' December 9, 2013 Request for Project Plan Amendments

Dear Mr. Palmer:

We are in receipt of the December 9, 2013 request by TransCanada Alaska Company, LLC ("TC Alaska") and Foothills Pipe Lines Ltd. (jointly, the "Licensees" or "TransCanada") for approval of project plan amendments ("PPA Request #1B") under section 210 of the Alaska Gasline Inducement Act.¹ As discussed herein, we grant approval of PPA Request #1B to the extent necessary to perform additional work from approximately January 1, 2014, through the end of June, 2014, as further described in the work plan, time line and budget set forth in Appendix A of your application ("2014 Work").

By way of background, in the past two years Governor Parnell has laid out important benchmarks in his State of the State addresses that have sought to maintain and accelerate progress on Alaska gas commercialization and to ensure commensurate commitment by the Licensees and the Alaska North Slope Producers (ExxonMobil, BP and ConocoPhillips, jointly "ANS Producers") in commercializing North Slope gas for the benefit of Alaskans. In his 2012 State of the State address Governor Parnell established an important benchmark by calling on the ANS Producers and the AGIA Licensees to align under an AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska. In March 2012, the ANS Producers and AGIA Licensees met this benchmark.²

¹ AS 43.90, *et seq.* ("AGIA"). Under section 210 of AGIA, the Commissioners may approve a proposal by the AGIA Licensees to change their project plan if, among other things:

[T]he amendment or modification is necessary because of changed circumstances outside the licensee's control and not reasonably foreseeable before the license was issued. An amendment or modification approved under this section must be consistent with the requirements of AS 43.90.130 and, except for an amendment or modification required because of an order or requirement of a regulatory agency with jurisdiction over the project or by the Alaska Oil and Gas Conservation Commission, may not substantially diminish the value of the project to the state or the project's likelihood of success.

² In his 2012 State of the State address, the Governor, among other things, also called on the relevant parties to reach a settlement in the state's interests on the long-standing Point Thomson dispute and litigation, and to harden numbers and an associated work schedule on an Alaskan LNG project. As we stated in PPA #1A, these

Specifically, in a March 30, 2012 letter in response to Governor Parnell, the chief executive officers of the ANS Producers announced that they and TransCanada “have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework.” The ANS Producers and TransCanada also stated that they “are now working together” with a focus on “large-scale liquefied natural gas (LNG) exports from south-central Alaska . . . as an alternative to gas line exports through Alberta.”

On May 2, 2012, in the “PPA 1 Approval”, we approved two project plan amendments in furtherance of the alignment of the ANS Producers and the AGIA Licensees. Our PPA 1 Approval permitted the inclusion in the project plan of a revised work plan, time line and associated budget to facilitate participation by the Licensees and the Alaska Pipeline Project (“APP”) in an alternative that entailed a gas pipeline and related midstream facilities to deliver ANS natural gas to an LNG terminal located in South-Central Alaska. (This alternative was referred to as the “SCLNG” project, but is now referred to as the “AKLNG” project.) In addition, in the PPA 1 Approval we extended by two years to October 31, 2014, the date by which Licensees were to submit to the FERC an application for a certificate of public convenience and necessity. Additionally, we made the PPA 1 Approval subject to a number of conditions. As more fully set forth in the PPA 1 Approval, the Licensees were required (1) to conduct a solicitation of interest in support of the LNG alternative, (2) to consult with the Alaska Gasline Development Corporation (“AGDC”) in the interest of prudently avoiding unnecessary and duplicative expenditure of state funds, and (3) to complete an inventory of work product related to the Alaska-Alberta Project.

Subsequently, on June 11, 2013 we issued the PPA 1A Approval, which noted that the Licensees had made significant progress toward meeting the PPA 1 Approval conditions. Our PPA 1A Approval addressed two project plan amendments. First, we approved the performance of field work on the midstream component of the project through December 15, 2013. Second, we approved an extension of the FERC filing deadline by one year to October 31, 2015.

The Licensees now seek what is in effect a limited extension of the project plan amendments that we approved in the PPA 1A Approval. Specifically, in PPA Request #1B, the Licensees state (at page 2) that the “APP Parties and the ANS Producers have selected a SCLNG concept, and are planning ongoing work to support a potential SCLNG [project], including preliminary Pre-FEED studies and planning and 2014 field survey planning work” for the midstream pipeline facilities (the “2014 Work”). The Licensees anticipate this 2014 Work will span from approximately January 1, 2014 to the end of June, 2014. The Licensees also state that while the 2014 Work is being carried out, it will be necessary for the Licensees to continue limited work on existing elements of the Alaska-Alberta project to preserve rights.

For the reasons explained below, we grant the Licensees’ request to perform the 2014 Work. Further, we approve the work plan, timeline and budget in Appendix A of PPA Request #1B that defines the 2014 Work.

benchmarks were met. Importantly, construction of the multi-billion dollar development at Point Thomson has begun with over 30 Alaska companies and 1,000 Alaskans working on this project.

First, the Licensees' request to perform the 2014 Work is consistent with important project benchmarks established by Governor Parnell in his January 16, 2013 State of the State address. There, Governor Parnell called on the ANS Producers and the Licensees to select a concept for the SCLNG project by February 15, 2013. This benchmark was met on February 15, 2013, when the ANS Producers and TransCanada sent a letter to Governor Parnell reporting that they had completed the concept selection phase of the SCLNG project.³ In his State of the State address, Governor Parnell also called on the ANS Producers and Licensee to "ensure a full summer of field season work will commence this year". PPA Request 1A met this benchmark by proposing to perform the 2013 Work, which we approved. The Licensees' PPA Request #1B builds on the 2013 Work by providing for the additional 2014 Work. These are positive developments that help to maintain and accelerate the SCLNG project momentum, and continue the progress made since the Governor's 2012 State of the State address called on the parties to align under an AGIA framework for timely commercialization of North Slope natural gas resources, for use in-state and for markets beyond Alaska.

Second, and as we noted in the PPA 1A Approval, ANS gas commercialization efforts remain in a transition phase with the ANS Producers, the APP Parties, and the Licensees continuing to work together on a single effort. This PPA-1B Approval supplements the PPA 1 and PPA-1A Approvals to amend further the licensed Alaska-Alberta project to include the 2014 Work and advance this transition, pave the way for more intensive work in the future, and keep the project's ultimate costs as low as possible by helping to avoid a delay in the development of the project.⁴ Consistent with this PPA-1B Approval, the Licensees may submit costs incurred as qualified expenditures in connection with the 2014 Work for reimbursement under AGIA for the period covered in the revised work plan, timeline and budget in PPA Request 1B.

Third, and as further explained in the PPA 1 Approval and reiterated in the PPA 1A Approval, we find that changed circumstances continue to exist for purposes of AS 43.90.210.⁵ For example, the current efforts to develop the SCLNG project represent the continued alignment of the Licensees and all three ANS Producers on a gas commercialization effort. This is important progress that is furthered by approval here of the requested project plan amendments.

Lastly, our PPA 1A Approval required that all work product related to the 2013 Work generated by or on behalf of APP or the Licensees be transferred to the Licensees by December 31, 2013. Further, our PPA 1A Approval required the Licensees to inventory and preserve all work product related to the 2013 Work, including both complete and incomplete work, and provide the inventory to the Commissioners. These conditions continue to apply with respect to

³ A copy of the February 15, 2013 Letter, and its attachments appears as Appendix C to PPA Approval 1A.

⁴ PPA 1B does not modify the Alaska-Alberta destination point under the AGIA License.

⁵ As noted in the May 2, 2012 PPA 1 Approval, such changed circumstances include: (1) a substantial increase in U.S. shale gas reserve estimate compared to when the License was issued; (2) continuing significantly higher natural gas prices in Asia and other world markets relative to U.S. prices, reflecting a higher oil to natural gas price ratio; (3) EIA's updated projection that the United States will become a net exporter of natural gas in the future; and (4) the continued interest of the ANS Producers in aligning their work efforts behind an LNG alternative, which was not foreseeable at the time of the AGIA Findings and the subsequent issuance of the License in 2008.

the 2013 Work, provided that the Licensees have until June 30, 2014 to satisfy the foregoing two conditions. With respect to the 2014 Work, the same conditions apply, except that the deadline for the transfer of the work product performed under this PPA 1B Approval is June 30, 2014.

CONCLUSIONS

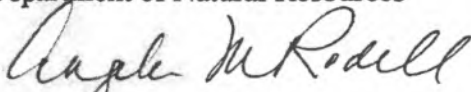
For the reasons discussed above, in the May 2, 2012 approval of PPA Request 1, and in the June 11, 2013 approval of PPA Request 1A, the Commissioners conclude as follows:⁶

1. PPA Request 1B consists of the request to perform the 2014 Work.
2. PPA Request 1B is necessary because of changed circumstances outside the Licensees' control and not reasonably foreseeable before the license was issued.
3. PPA Request 1B is consistent with the requirements of AS 43.90.130.
4. PPA Request 1B does not substantially diminish the value of the project to the state or the project's likelihood of success.
5. PPA Request 1B is approved as provided herein, subject to the conditions discussed herein.⁷

Sincerely,



Joe Balash
Commissioner
Department of Natural Resources



Angela Rodell
Commissioner
Department of Revenue

⁶ To the extent this determination does not address a specific statement or representation made in the PPA Request 1B, it should not be construed as agreement with any such statements or representations.

⁷ TransCanada asserts that PPA Request 1B contains proprietary information that is confidential under AGIA and that the Commissioners' March 15, 2012 determination of confidentiality under AGIA concerning PPA Request 1 supports treating PPA Request 1B on a confidential basis. To the extent that information in PPA Request 1B is proprietary, the Commissioners have determined that it is confidential under AGIA and the Commissioners' March 15, 2012 confidentiality determination.

**EXHIBIT B TO MEMORANDUM OF UNDERSTANDING
BETWEEN TRANSCANADA ALASKA COMPANY, LLC, FOOTHILLS PIPE LINES, LTD,
TRANSCANADA ALASKA DEVELOPMENT, INC.
AND THE STATE OF ALASKA**

ALASKA LNG PROJECT EQUITY OPTION TERM SHEET

This Term Sheet is attached to and made a part of the Memorandum of Understanding between the Parties and is subject to the terms and conditions of the MOU. Capitalized terms in this Term Sheet shall have the same meaning as in the MOU, unless the context suggests otherwise.

For purposes of the MOU, Section 2.1(c), the following sets forth the operative terms of this Equity Option Term Sheet ("Operative Terms"):

1. Upon execution of the Transition Agreements, TADI or its Affiliate would grant the State an exclusive and irrevocable right to acquire ("Option"), either for its own account or through a State Affiliate designated by the State acting through the Commissioners (the "Optionee"), up to 40% (see point 2 below) of the limited partnership interests in one or more limited partnerships (or similar entities; see point 10 below) (the "Limited Partnership") that would hold an equity participation interest (see point 2 below) in the PTU Gas Transmission Line, PBU Gas Transmission Line, GTP, and Gas Pipeline (collectively, the "Midstream Component").
2. The Parties intend that the Limited Partnership's equity participation interest in the Midstream Component would be equal to the greater of (a) the State's percentage share of the natural gas delivered to the Midstream Component by the ANS Producers from the State's total in-kind or in-value interest in the ANS Producer's natural gas production (whether royalty, production tax, or other gas in lieu of payment (collective, the "State's Share"), or (b) 14.0%. The Optionee's ownership interest in the Limited Partnership (maximum of 40%) would be subject to the condition that TADI's "net-net" ownership interest in the Midstream Component, through the Limited Partnership, must not be less than 14.0%.
3. The Limited Partnership Agreement would provide that TADI or its Affiliate would own 100% of the general partner of the Limited Partnership, and such general partner would hold a minimal (less than 1%) interest in the Limited Partnership. The General Partner would make all decisions on behalf of the Limited Partnership, provided that the Equity Option Agreement will provide that certain fundamental decisions (e.g. change to distribution policy, winding-up of Limited Partnership, sale of significant interest of Limited Partnership in AK LNG) could not be made without the approval of the Optionee (before the option is exercised) or the Limited Partner (after the option is exercised). The General Partner would be entitled to recover all of its reasonable direct and indirect costs that are associated with it acting as the general partner.
4. The Option would be exercisable one time only before its expiration. The Option would absolutely expire on the earlier of (i) December 31, 2015) (ii) the date of execution of commercial agreements for the commencement of FEED for the Alaska LNG Project, or (iii) the occurrence of any of the termination events listed in section 9 of the Alaska LNG Midstream Services Agreement Term Sheet (Exhibit C to the MOU), unless otherwise agreed in writing between TC and the Optionee.

5. The Optionee would not be entitled, except in the sole discretion of TADI, to exercise the Option in the event the Optionee or the State is in current default under the Transition Agreements or the PREFEED JVA. The Optionee and State will be provided with notice of and opportunity to cure such default.
6. Conditions on the Optionee exercising the Option would be:
 - a. A true up by the Optionee to the Limited Partnership of contributions, within 30 days of the exercise of the Option, of amounts contributed by the Limited Partnership to the Alaska LNG Project, at cost plus Allowance for Funds Used During Construction ("AFUDC"), at a rate of 7.1% for the purpose of this calculation, from date of contribution by the Limited Partnership until date of payment.
 - b. Commencing on the date of exercise of the Option, Optionee shall be responsible for its share of the Limited Partnership's operating costs and Alaska LNG Project costs and assume its obligations and liabilities as a limited partner pursuant to the Limited Partnership Agreement.
 - c. TADI and the State shall use commercially reasonable efforts to finalize, execute and deliver the Alaska LNG Project Equity Option Agreement, including the agreement establishing the Limited Partnership itself, as soon as commercially reasonable after the Trigger Event, not to exceed 90 days after the Trigger Event, unless extended with the joint approval of the Parties. TC and the SOA agree such agreements are intended to be consistent with the Operative Terms.
7. Conditions on the State transferring its interest in the Limited Partnership would be:
 - a. The State would be prohibited from transferring directly or indirectly (including through a change of control) all or any part of its limited partnership interest in the Limited Partnership to an entity (other than an entity that is a passive investor whose principal business is not natural gas transmission or oil transmission) that owns an interest in or operates one or more natural gas or oil transmission lines in North America; provided that the foregoing prohibition would not apply to restrict transfer by the State to a State Affiliate or a government fund at all times wholly owned by the State, such as the State Department of Revenue Constitutional Budget Reserve Fund (a "Fund").
 - b. Any proposed transfer by the State, including any proposed transfer to a Fund, would be subject to commercially reasonable creditworthiness requirements to be established in the Alaska LNG Project Equity Option Agreement. Any proposed transfer by the State to any person or entity other than (i) a Fund, or (ii) a State Affiliate, and any proposed transfer by a Fund or a State Affiliate to any person or entity, would be subject to a right of first refusal ("ROFR") in favour of TADI. Until Final Investment Decision ("FID"), TADI would waive its ROFR right with respect to a transfer of an interest in the Limited Partnership by the State when it is an integral part of a transfer to the same transferee of an equal or greater % ownership interest in the LNG Plant Component of the Alaska LNG Project.

- c. Any proposed transfer by the State would be subject to applicable transfer requirements and restrictions of the Alaska LNG Project agreements that the Limited Partnership is party to.
8. The Parties acknowledge the confidentiality provisions of the Alaska LNG Project agreements to which the Limited Partnership may become a party may prohibit or restrict disclosure of Project information to the State. The parties agree to use reasonable efforts to allow for disclosure to the State (including on a restricted basis) as required under applicable Alaska law.
9. TADI and the State agree that the Limited Partnership documentation shall, to the extent permitted by applicable law (as set forth in the Alaska LNG Project Equity Option Agreement), expressly disclaim fiduciary duties of the parties. The Limited Partnership documentation shall provide commercially reasonable contractual protections for the limited partners' rights, including the obligations of good faith and fair dealing between the Parties.
10. The structure for the Limited Partnership will utilize a limited liability company or similar structure which is tax-efficient for TADI, unless the State and TADI mutually agree on a different ownership structure. In all cases, respective roles, responsibilities and obligations of TADI and the State as set forth in the Operative Terms will remain applicable to the ownership structure selected.
11. The Parties acknowledge that this Exhibit B to the MOU will become a public document once the MOU to which it is attached is executed by the Parties.
12. The Optionee has no right to assign or transfer all or any portion of the Option, except to a State Affiliate.

**EXHIBIT C TO MEMORANDUM OF UNDERSTANDING
BETWEEN TRANSCANADA ALASKA COMPANY, LLC, FOOTHILLS
PIPE LINES, LTD, TRANSCANADA ALASKA DEVELOPMENT, INC.
AND THE STATE OF ALASKA**

ALASKA LNG MIDSTREAM SERVICES TERM SHEET

This Term Sheet is attached to and made a part of the Memorandum of Understanding between the Parties and is subject to the terms and conditions of the MOU. Capitalized terms in this Term Sheet shall have the same meaning as in the MOU, unless the context suggests otherwise.

For purposes of the MOU, Section 2.1(c), the following sets forth the operative terms of this Midstream Services Term Sheet (“Operative Terms”):

	KEY ITEMS	TERMS & CONDITIONS
	Enabling Legislation	This Term Sheet provides a framework to guide the Parties in the event of the enactment of the Enabling Legislation to negotiate and enter into a Precedent Agreement (“PA”) (or similar agreement), and to negotiate and enter into a Firm Transportation Services Agreement (“FTSA”) (or similar agreement). Capitalized terms shall have the same meaning as the Definitions in the Memorandum of Understanding (“MOU”) to which this is attached, unless the context suggests otherwise.
	Consistency with Commercial Agreements	This Term Sheet, in its entirety, is subject to consistency with the commercial agreements already entered into or to be entered into with the ANS Producers for the Alaska LNG Project including agreements set forth in Section 2.1(e) of the MOU.
1.	Purpose & Objectives	Establish terms and conditions under which Transporter will provide to Shipper (A) GTP processing and (B) transportation services on the PTU Gas Transmission Line, PBU Gas Transmission Line and Gas Pipeline from GTP to delivery points within Alaska and to the LNG Plant in South Central Alaska in the Alaska LNG Project. The PTU Transmission Line, PBU Transmission Line, and Gas Pipeline are collectively defined as the “Pipelines”.
2.	Transporter	“Transporter” means TADI or an Affiliate designated by TADI
3.	Shipper	“Shipper” means State of Alaska or an Affiliate designated by the State of Alaska
4.	Proposed Process of Agreements	<ol style="list-style-type: none"> 1. This Term Sheet is attached and made a part of the MOU, and it is subject to the terms and conditions of the MOU. 2. As provided in Article 2.1 and Article 3.1 of the MOU, the Shipper and Transporter will use commercially reasonable efforts to negotiate and enter into a Precedent Agreement (“PA”) that captures the Operative Terms of this Term Sheet. 3. The Parties intend that the PA will be replaced with a Firm Transportation Services Agreement (“FTSA”). The FTSA will contain terms established in the PA and other customary terms typically found in FTSA for similar services. The FTSA would

		be executed only after execution is approved by the Alaska Legislature and such approval is enacted into law.
5.	Daily Contracted Capacity	FTSA, with two-part reservation/usage rates, for capacity equal to the product of (i) the State Gas Share as defined in the HOA and (ii) the respective design capacity of the PTU Transmission Pipeline, PBU Transmission Pipeline, GTP and the Gas Pipeline.
6.	Key Processing and Transportation Commercial Terms	<ol style="list-style-type: none"> 1. Contract Term <ul style="list-style-type: none"> • Initial Contract Term ("ICT") of 25 years following commercial In-Service Date ("ISD"). ICT to be confirmed by Transporter and the Shipper prior to agreement with ANS Producers for Front End Engineering and Design ("FEED") for the Alaska LNG Project, provided that the ICT will not be less than 20 years. • FTSA Renewal Right means the rights described below under FTSA Renewal Right. If Shipper does not exercise its FTSA Renewal Right to extend the ICT, Transporter will have a Put Option (as described below under Put Option). 2. Toll Structure <ul style="list-style-type: none"> • Levelized revenue requirement based on cost-of-service toll making principles. • Reservation rate, a fixed charge expressed in \$/mmBtu/month, will be designed to capture Depreciation Recovery, Return on Equity ("ROE"), Cost of Debt, Income Taxes, fixed Operations and Maintenance Costs ("O&M"), property taxes and other non-income related taxes. Reservation rate payments will be made by Shipper regardless of actual GTP and Pipelines utilization by Shipper. • Usage rate, a variable charge expressed in \$/mmBtu, will be designed to capture variable O&M Costs. 3. Capitalization Structure <ul style="list-style-type: none"> • 70% debt and 30% equity during development and construction. Commencing on the 2nd anniversary of the ISD, and continuing through the term of the FTSA, the debt/equity ratio will be revised for rate purposes to 75% debt/25% equity. • 70% debt and 30% equity for Expansions and Maintenance Capital. 4. Rate Base <ul style="list-style-type: none"> • Initial Rate Base ("IRB") equal to the sum of prudent Capital Expenditures, ("CAPEX"), Allowance for Funds Used During Construction ("AFUDC"), property taxes paid during construction, and working capital. 5. Maintenance Capital <ul style="list-style-type: none"> • Maintenance capital will be capitalized and added to the Rate Base (in the manner described in "Capitalization Structure" above) and recovered over the then-remaining term of the FTSA 6. Return on Equity ("ROE") for Initial System. <ul style="list-style-type: none"> • Fixed at Final Investment Decision ("FID") at a base rate of 12.0% after tax, plus a Rate Tracker Differential (as defined below).

		<p>7. Cost of Debt for Initial System</p> <ul style="list-style-type: none"> • Fixed at FID at a base rate of 5.0%, plus a Rate Tracker Differential (as defined below). <p>8. Rate Tracker Differential</p> <ul style="list-style-type: none"> • The Rate Tracker Differential is the increase or decrease in the 30-year U.S Treasuries yield at FID relative to such yield at the effective date of the MOU. <p>9. Depreciation Recovery</p> <ul style="list-style-type: none"> • 100% of CAPEX shall be recovered over the ICT through tolls. • CAPEX shall include the following items: <ul style="list-style-type: none"> • Prudently incurred CAPEX (including AFUDC and property taxes) after execution of the JVA pre-FEED Agreement, which shall be subject to review and audit by Shipper at its expense, in accordance with the principles set forth under "Review and Audit of CAPEX and O&M" below. • Prudently incurred CAPEX prior to the execution of the Pre-FEED JVA that is directly relevant to and utilized in advancing the AK LNG Project minus any amounts received by Transporter or its Affiliates from the State through AGIA reimbursement. • Transporter's Affiliate's share of costs incurred on the Alaska portion of the AGIA Project after December 5, 2008 and prior to execution of the Pre-FEED JVA (that have not otherwise been included in CAPEX through the operation of paragraph ii above) to the extent such costs do not exceed \$70 million minus any amounts received and retained by Transporter or its Affiliates from the State through AGIA reimbursement or from any State of Alaska entity for use of the data and assets associated with such costs. • No costs associated with the ANNGTC project may be included in CAPEX. • For toll design purposes, AFUDC will commence accrual upon approval by FERC of the project's request to initiate the pre-filing process. <p>10. Operations and Maintenance Costs</p> <ul style="list-style-type: none"> • Prudently incurred O&M costs and taxes other than income taxes (such as property taxes not otherwise included in rate base, fuel taxes, etc.) are annual flow-through costs to the account of the Shipper. O&M, and annual changes, shall be subject to annual review and audit by Shipper at its expense, provided that the audit is in accordance with the principles set forth under "Review and Audit of CAPEX and O&M" below. • In consultation with Shipper, Transporter will negotiate an appropriate allocation of project indirect costs, including cost of sharing facilities, allocated labor and overhead charges with the ANS Producers. With respect to Transporter owner's costs, allocation will be in accordance with Transporter allocation policy as approved by the NEB unless otherwise agreed by the
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parties.

- Variances in actual costs will be trued-up in the determination of the following year revenue requirement.

11. Income Taxes

- Calculated and collected on a normalized basis.
- Expenses associated with new taxes and changes to tax rate are flowed-through to the account of Shipper

12. Interruption of Firm Service, including Force Majeure ("FM")

- Shipper continues to make full payment during periods of service interruption.
- For Transporter's capacity on the Pipelines and GTP, all firm shippers (in-state and export LNG) shall have priority over interruptible shippers. In the event transportation service cannot be scheduled to all firm shippers on any day for any reason, capacity shall be scheduled first to deliver to utility customers, and then pro rata among other firm shippers.

13. Make-up Rights

- Make-up rights will be granted for any processing and/or transportation capacity or service offered by Transporter and paid for, but not taken, by Shipper.
- Make-up rights can be exercised pro-rata with other firm shippers' make-up rights whenever Transporter has excess processing and/or transportation capacity beyond the amount that it requires for satisfying its firm shippers' capacity requirement.
- Any unused Make-up Rights will expire at end of the contract term, including any extensions or renewals.

14. Provision of Third Party Services

- For third party GTP processing and Pipelines transportation services that do not involve investment of incremental capital, 90 percent of all net income (gross revenues minus incremental costs) received by Transporter from sources other than the FTSA, including but not limited to interruptible ("IT"), overrun, backhaul, or park and loan services shall be credited to the account of Shipper (to reflect the undertaking of Shipper to pay for 100% of the initial system Rate Base);
- The minimum rate for IT service shall be no less than the 100 percent load factor equivalent of the firm rate paid by Shipper
- Shipper shall only pay variable costs for IT, overrun, and backhaul services that do not involve incremental capacity as a result of expansions.
- Subject to meeting the Creditworthiness Requirements, Shipper shall have the right to temporarily release unused capacity to third-parties at a rate to be negotiated between Shipper and the temporary replacement shipper. A release of capacity through temporary assignment/release does not release Shipper from its obligations under the FTSA.

15. Fuel Gas, Line Pack, Lost and Unaccounted for Gas

- Provided by Shipper as in-kind gas contribution; or purchased under a charged fuel rate at Shipper option, in which case the

		<p>charged fuel expense will be included as a separate charge.</p> <ul style="list-style-type: none"> • No allocation of fuel shall be allocated to backhaul services • Fuel utilization to be allocated among all shippers based on actual monthly throughput. <p>16. Return of Extracted Gas to Shipper</p> <ul style="list-style-type: none"> • Extracted acid gas (CO₂, H₂S and other impurities) will be returned to Shipper for disposal or further processing at the outlet of the GTP <p>17. In-State Gas Uses</p> <ul style="list-style-type: none"> • Minimum 5 in-state off-take points for non-LNG consumption • Three tariff zones <ul style="list-style-type: none"> • Zone 1 – from North Slope to Nenana • Zone 2 – deliveries to Big Lake (South Central) • Zone 3 – deliveries to the LNG plant for LNG exports • Rates to be designed in consultation with Shipper to reflect a cost allocation principle based on weighted average volumetric-mile between deliveries to each zone <p>18. GTP Processing and Pipeline Transportation Services</p> <ul style="list-style-type: none"> • Processing services at the GTP and transportation services on the Pipelines will be offered separately to accommodate different needs of shippers <p>19. FTSA Renewal Right</p> <ul style="list-style-type: none"> • Shipper shall have the option, exercisable not later than 2 years prior to the end of the ICT (the “Renewal Date”) to renew the FTSA with Transporter for all or part of its Daily Contracted Capacity after the expiration of the ICT on an annual basis at a negotiated rate based on (i) a cost-of-service calculation computed on the net book value of Transporter equity interest in the underlying facilities used to provide GTP processing and pipeline transportation services to Shipper, with the rate recalculated to spread remaining Rate Base over the extended term of the FTSA, and (ii) the same toll setting terms such as “Capitalization Structure”, O&M, and “Income Taxes” set forth above, except that the rate applicable for the extension shall be based on a “Cost of Debt” and an ROE to be negotiated based on conditions existing at the time, and (iii) the contracted capacity as renewed by Shipper; provided, however, that the costs and capacity related to any expansion facilities priced incrementally shall be excluded from such computation. In the event that the net book value of the facilities has been or will be substantially depreciated as of the expiry of the ICT, parties shall consider in good faith reasonable compensation for Transporter to continue its role as service provider. <p>20. Buy-Back Right</p> <ul style="list-style-type: none"> • If as of the Renewal Date, Shipper has not exercised its right to renew the FTSA Shipper shall have a one-time option, exercisable by notice to Transporter within 60 days of the Renewal Date (the “Buy-Back Notice Date”), to buy from Transporter as of the end of the ICT its equity interest in Alaska LNG Project at a purchase price equal to the net book value of
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Transporter equity interest in the underlying facilities used to provide GTP processing and pipeline transportation services as of the end of ICT. Any associated assignment shall be made on an "as is, where is" basis, without representation or warranty of any kind by Transporter.

21. Put Option

- If: (i) as of the Renewal Date, Shipper has not exercised its right to renew the FTSA by five or more years, and (ii) as of the Buy-Back Notice Date Shipper has not exercised the Buy-Back Right, Transporter shall have the option, exercisable by notice to Shipper within 90 days of the Buy-Back Notice Date, to put to Shipper its equity interest in Alaska LNG Project at a purchase price equal to the net book value of Transporter equity interest in the facilities used to provide GTP processing and pipeline transportation services as of the end of ICT, with closing subject to legislative enactment. Any associated assignment shall be made on an "as is, where is" basis, without representation or warranty of any kind by Transporter.

22. Review and Audit of Pipelines and GTP CAPEX and O&M

- Shipper and Transporter agree to develop a protocol and process (the "Audit Protocol") for Shipper to access certain Alaska LNG Project information to facilitate Shipper review and audit of costs and expenses (capital and operating), which will have to be consistent with the HOA and subsequent agreements with the ANS Producers for the Alaska LNG Project. The Audit Protocol will be appended to the PA and FTSA, and include at minimum, the following items:
 - the audit shall be conducted by an independent auditing firm selected pursuant to State procurement code based on minimum qualifications to be agreed upon by the Shipper and Transporter for such procurement; and
 - the audit rights shall be exercised through such independent auditing firm, who shall be required to abide by confidentiality restrictions to be agreed between Transporter and Shipper.
- The principles in the Audit Protocol for reviewing and auditing the Pipelines and GTP CAPEX and O&M are as follows:
 - Any costs incurred shall be deemed to be prudently incurred if they are pursuant to (1) an approved Work Program and Budget for capital expenditures (WP&B) for the Alaska LNG Project that was submitted to and approved by Shipper or any associated entity of the Shipper in advance, (2) an Alaska LNG Project Operating Budget that was submitted to and approved by Shipper or any associated entity of the Shipper in advance, (3) the emergency HSE provisions of any underlying agreement, or (4) the approval of the Shipper or any associated entity of the Shipper. In the event the Shipper or any associated entity of the Shipper does not respond to any request for approval, as set out in (1), (2),

		<p>or (4) above, within ten (10) business days (or such shorter period as set out in the agreements or resolutions for the Alaska LNG Project) the Shipper will be deemed to have approved the costs incurred. If the Shipper does respond but does not approve, the Transporter shall raise the concern and vote not to approve as part of the approval process under the applicable Alaska LNG Project agreements, and so long as the Transporter does so such costs shall be deemed prudent if they are approved despite the Transporter's vote to disapprove under the applicable Alaska LNG Project agreement.</p> <ul style="list-style-type: none"> • For the avoidance of doubt, (a) personnel charge out rates, including annual adjustments, as provided in the relevant Alaska LNG Project agreement shall not be subject to review and audit, and (b) any expenditures in excess of budgeted amounts that are in accordance with the limitations in the applicable Alaska LNG Project agreements that do not require further management committee approvals (currently set at 105% of budget) shall be deemed to be prudently incurred. <p>23. Assignment</p> <ul style="list-style-type: none"> • Shipper may assign its rights and obligations under the FTSA to an Affiliate or third party with Transporter's consent (not to be unreasonably withheld), provided the transferee assumes in writing such rights and obligations on terms and conditions satisfactory to Transporter, including the creditworthiness standards set forth in paragraph 10 below.
7.	Pipelines and GTP Expansions	<ul style="list-style-type: none"> • In consultation with Shipper, Transporter will expand the GTP and Pipelines when requested by creditworthy shippers on terms that are acceptable to Transporter. Transporter will act reasonably in negotiating expansion terms with the expansion shipper. The capitalization structure for expansion shall be consistent with that set forth above. The ROE for expansion shall be reflective of the risk of such expansion and the cost of capital environment existing at the time. In the event Transporter fails to reach agreement with the expansion shipper, Shipper or its transferee/assignee (including State Affiliates and independent third parties not affiliated with the State or any State Affiliate) has the right to offer expansion terms, in its sole discretion, to such shipper and undertake the expansion as a direct participant in Alaska LNG Project and consistent with the principles established in this section. • Upon request by potential expansion shipper, Transporter will provide to the potential expansion shipper and Shipper estimated rates which the potential expansion shipper would have to pay for receiving Pipelines transportation and/or GTP processing services. Shipper and Transporter agree that no regulatory agency can mandate an expansion or set expansion terms unless required by applicable law. • Expansions must be in reasonable engineering increments and on commercially reasonable terms, including but not limited to full

		<p>recovery of expansion CAPEX over the expansion term</p> <ul style="list-style-type: none"> • Expansions for In-State Uses and Export LNG <ul style="list-style-type: none"> ○ Expansions to be undertaken on a sole risk basis ○ Expansion tolls and fuel assessments will be determined based on a methodology such as incremental and/or rolled in, as determined by the Shipper. The methodology will be established prior to entering into FEED.
8.	Development Cost Reimbursement	<ul style="list-style-type: none"> • If Shipper or Transporter exercises its right to terminate pursuant to any of the Termination Events set forth below, the Shipper shall pay Transporter for all the development costs incurred by Transporter after December 31, 2013 under the Pre-FEED JVA or FEED Agreement with the ANS Producers, including but not limited to contract cancellation penalties and continued funding obligations under such agreements, through the date of termination. The Shipper's payment of development costs shall be net of all AGIA payments received and retained by the AGIA Licensee relating to Transporter's share of development costs for activities authorized under AGIA Project Plan Amendment 1B. • Shipper will further pay Transporter an amount equal to the associated AFUDC, at a rate of 7.1% for the purpose of this calculation, on such development costs if (i) such termination is exercised by Shipper or (ii) Transporter exercises the termination due to the failure of the Alaska Legislature to ratify the MOU, or the subsequent FTSA, or Shipper's failure to meet the Creditworthiness Requirements at any time. • Shipper's obligation to reimburse Transporter for such costs shall be Transporter's exclusive remedy in law and equity for such termination.
9.	Termination Event	<p>Shipper's Rights To Terminate (Shipper Termination Event):</p> <ul style="list-style-type: none"> • Prior to FEED: <ul style="list-style-type: none"> • Any time provided a 90-day notice is given to Transporter. • From start of FEED through FID: <ul style="list-style-type: none"> • Within 60 days from the date one or more ANS Producers or Transporter withdraws from the Alaska LNG Project • At any time if Shipper (or the ANS Producers, if the SOA elects RIV) is unable to sign agreements to sell all of its royalty or tax gas on terms acceptable to Shipper. • At FID, for any reason. <p>Transporter Rights To Terminate (Transporter Termination Event):</p> <ul style="list-style-type: none"> • Legislature fails to provide statutory authority to DNR/DOR to enter into PAs by June 30, 2014. • Shipper fails to execute the PA within the specified time. • Shipper fails to execute the FTSA by December 31, 2015. • Shipper fails to maintain the standard of Creditworthiness Requirements. Transporter shall provide notice to Shipper of a failure to meet such standards, and Shipper shall have a reasonable period to cure.

		<ul style="list-style-type: none"> • At FID, if all Transporter corporate/Board approvals have not been obtained. • Within 3 months from FID, if debt financing has not been secured on terms and conditions satisfactory to Transporter in its sole discretion <p>Either Transporter or Shipper may terminate:</p> <ul style="list-style-type: none"> • If term(s) of the FEED Agreement or Definitive Agreements is/are not acceptable to Shipper or Transporter • Within 90 days from the date of issuance of any final regulatory authorizations, certificates, or permits that includes material unacceptable condition(s) or requirement(s) to Transporter or Shipper • At FID, if not all right-of-ways, easement and land leases have been secured <p>Conveyance of Transporter Alaska LNG Project Interest to Shipper:</p> <ul style="list-style-type: none"> • Upon a Termination Event and payment to Transporter of the Development Costs, and the associated AFUDC, as applicable, Transporter shall assign all of its interest in the Pre-FEED JVA or the FEED Agreement, including all of its equity stake in the AKLNG Project, to the Shipper promptly without additional consideration. Any such assignment shall be made on an “as is, where is” basis, without representation or warranty of any kind by Transporter. • Within a period of 5 years of SOA exercising its termination right, if SOA participates in a pipeline project to commercialize North Slope gas that is substantially similar to the Alaska LNG Project, SOA shall offer to Transporter an option to participate in the GTP and Pipelines of such project on terms and conditions consistent with those set forth in this Term Sheet, except the cost of debt and ROE to be negotiated based on conditions existing at the time. The SOA shall not be obligated to offer the foregoing option to the Transporter if: <ul style="list-style-type: none"> i. the Transporter is in material default of the PA or FTSA at the time of the termination, and ii. the material default was capable of being remedied, and iii. Transporter was offered a reasonable time period to remedy the material default and failed to do so.
10.	Creditworthiness Requirements	<ul style="list-style-type: none"> • Shipper must meet and maintain the following creditworthiness standards through the term of the PA and FTSA. <ol style="list-style-type: none"> 1. A minimum of A- credit rating issued by Standard & Poor’s or equivalent, and 2. Provide documentation satisfactory to Transporter that Shipper obligations under the PA or FTSA are supported with the full faith and credit of the State of Alaska (as a sovereign) or other dedicated revenue source acceptable to Transporter. • As an alternate to (1) and (2) above, Shipper could provide

		<p>collateral, in the form of cash or letter of credit in form and substance reasonably satisfactory to Transporter, of amount sufficient to cover Shipper's proportional share of (i) projected capital costs during development and construction, or (ii) payment obligations under the FTSA over the remaining term of the FTSA.</p> <ul style="list-style-type: none"> • Shipper continues to be liable for all obligations, including maintaining the creditworthiness standards, under the PA or FTSA if its capacity commitment is transferred to another party on a temporary basis such as through temporary release or assignment. This applies similarly to permanent assignment unless the assignee meets the appropriate creditworthiness standards. <ol style="list-style-type: none"> 1. For any assignee who is an Affiliate of the State, the creditworthiness standards will be the same as Shipper. 2. For any assignee who is not an Affiliate of the State, the creditworthiness standards will be: <ul style="list-style-type: none"> • A minimum of A- credit rating issued by Standard & Poor's or equivalent, and • A minimum Tangible Net Worth equal to its share of the projected capital cost for the period prior to In-Service Date ("ISD") and its share of the Rate Base for the period following the ISD.
11.	No Discriminatory Action by Shipper	Transition Agreements to contain commercial protection for discriminatory changes in law or other discriminatory actions to the extent permitted by applicable law.
12.	Dispute Resolution	FERC to be the arbiter of disputes under the PA and FTSA, provided FERC has jurisdiction over (i) the Pipelines and GTP components of the AK LNG and (ii) the rates and services provided by the Pipelines and GTP components of the AKLNG. The Parties intend that FERC (or any other applicable regulator having jurisdiction) should provide a ruling consistent with and not outside the scope of the PA or FTSA, as the case may be, when such agreement is read in its entirety.
13.	Term Sheet Not Stand Alone	This Term Sheet is an integral part of the MOU and is not a stand-alone agreement between the Parties or Shipper and Transporter. It sets forth the basis on which the Parties intend to proceed forward as they negotiate the PA, the FTSA, and other applicable or ancillary commercial agreements (collectively, the "Alaska LNG Midstream Services Agreements"). Neither Party shall be legally bound to enter into Alaska LNG Midstream Services Agreements, and entering into such Alaska LNG Midstream Services Agreements shall be at the sole discretion of each Party and subject to all necessary internal approvals of each Party. The Parties each acknowledge that (a) the Term Sheet does not contain all the terms and conditions that would be included in the legally binding Alaska LNG Midstream Services Agreements, and therefore, the Term Sheet does not constitute a binding commitment or offer or acceptance with respect to its terms or the transaction to be consummated; (b) it is the intention of the Parties that the PA and FTSA will be consistent with the commercial principles set out in this TS; and (c) the making of this Term Sheet or attachment of this Term Sheet to the MOU will not create any binding rights or obligations, as it is intended that neither party will have any right or obligations to

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		<p>complete the transactions contemplated in this Term Sheet unless and until the Precedent Agreement is executed and delivered at the sole discretion of each Party. The Alaska LNG Midstream Services Agreements may contain such other provisions as are negotiated by the Parties on reasonable commercial terms and conditions, based on industry practice in other comparable pipeline transportation arrangements.</p>
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