

03/19/14

**PRESENTATION:  
OBSERVATION  
ON HEADS OF  
AGREEMENT**

<TARGET><BILL></BILL><SUBJECT>03-19-14 PRESENTATION  
OBSERVATION ON HEADS OF  
AGREEMENT</SUBJECT><COMM>HF IN 28</COMM></TARGET>

The Department of Natural Resources sent the summary of slides from the Royalty Study presentation in order to provide some context for today's Heads of Agreement discussion.

The following is a link to the entire Royalty Study presentation and a webinar to help walkthrough the entire study.

The full 188-slide royalty study can be found here:

[http://dnr.alaska.gov/commis/priorities/alaska lng/rovalty\\_study.pdf](http://dnr.alaska.gov/commis/priorities/alaska lng/rovalty_study.pdf).

The 2<sup>nd</sup> slide in the summary deck provides a link to where members can access webinars if they're interested in a walkthrough of the entire royalty study (<http://dnr.alaska.gov/commis/priorities/ak lng.htm>

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DIFFERENCE**

**MARCH 19, 2014**

**OBSERVATIONS ON HEADS OF AGREEMENT  
PRESENTATION TO HOUSE FINANCE COMMITTEE  
PREPARED FOR THE STATE OF ALASKA**



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## BLACK & VEATCH PRESENTERS



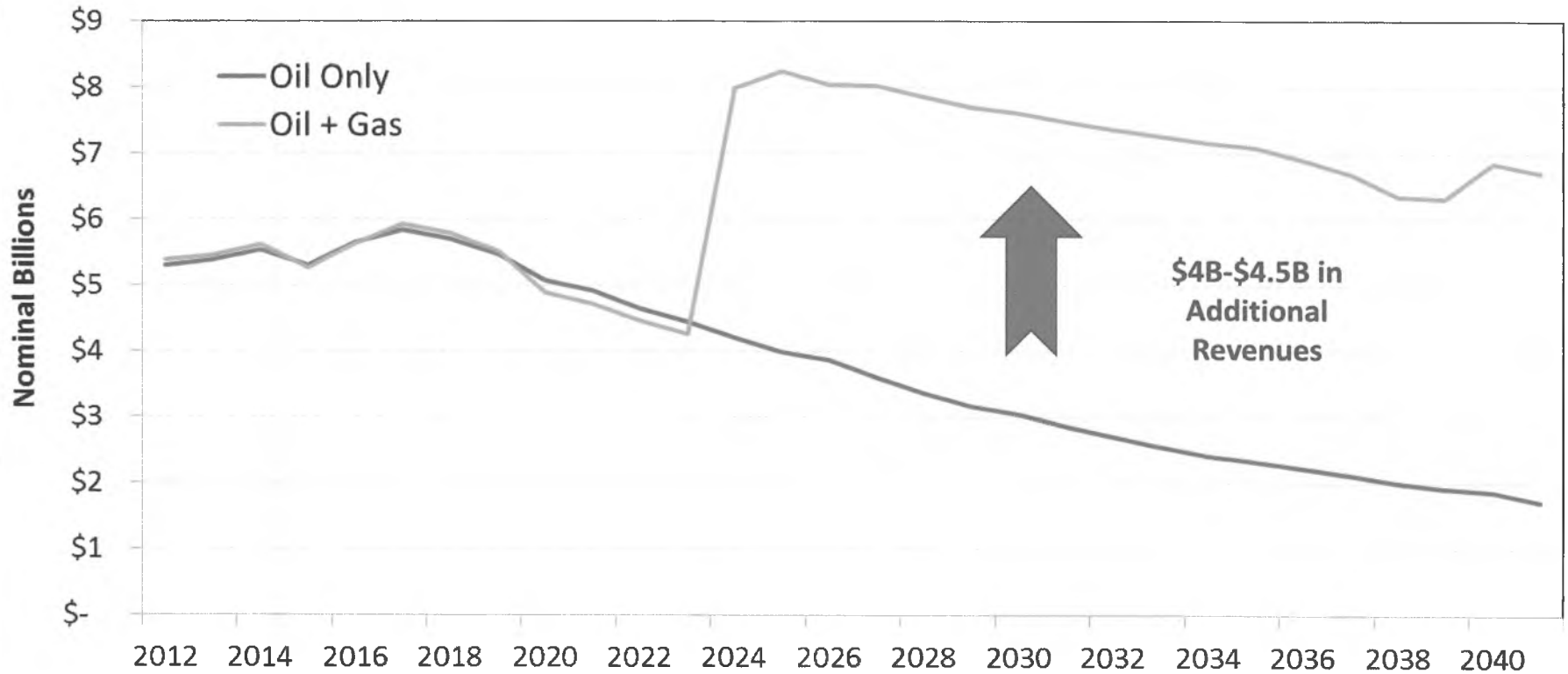
Deepa Poduval is a Principal in Black & Veatch’s Management Consulting Division and is responsible for business strategy and project management. Ms. Poduval focuses on strategic analytical services supporting energy asset valuation and optimization, marketing and business strategy development. She has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



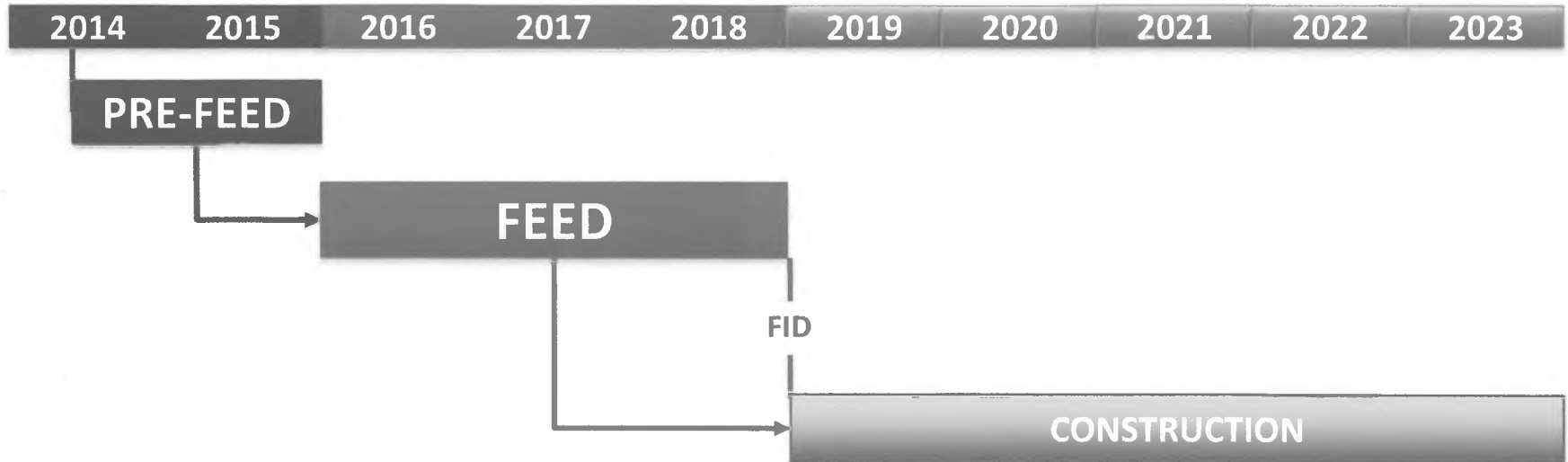
Jason De Stigter is a Senior Consultant with Black & Veatch’s Management Consulting Division and is responsible for business analysis and project management. Mr. De Stigter’s client engagements center on economic, financial, market, and risk analysis of large capital projects. He has extensive experience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

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

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



# PUTTING THE HOA WITHIN THE CONTEXT OF AKLNG TIMELINE



## STATE INVESTMENT

<p><b>\$43 - \$108 million or ~1% of Total Investment</b></p>	<p><b>\$180 - \$450 million or ~2%-3% of Total Investment</b></p>	<p><b>\$7 - \$13 billion or ~95%-97% of Total Investment</b></p>
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HOA lays out principles to advance the project to pre-FEED and enter into commercial agreements

# ROYALTY STUDY HIGHLIGHTS & RECOMMENDATIONS

## STUDY FINDINGS

GLOBAL LNG MARKET IS GROWING & COMPETITIVE

GOVERNMENT TAKE & COST STRUCTURE FOR AKLNG PROJECT ARE HIGH

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

PROJECT STRUCTURE IS LIKELY TO BE PRODUCER-OWNED INTEGRATED

VARIOUS RISKS INHERENT IN PROJECT & STATE PARTICIPATION

## RECOMMENDATIONS

IMPROVE COMMERCIAL ATTRACTIVENESS OF PROJECT

RETAIN VALUE TO STATE

CREATE ALIGNMENT BETWEEN STATE AND PRODUCERS

RECOGNIZE & MANAGE RISKS ACTIVELY

STATE EQUITY PARTICIPATION

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



# HOA – ALIGNMENT THROUGH EQUITY PARTICIPATION

ALIGNMENT



Royalty Gas and Tax as Gas = State Gas Share

State Gas Share = State Equity Share



State Equity Share Impacts State Investment and State Revenues



State Holds Equity Along The Entire Supply Chain

Commitments Made In A Stage-Gated Manner

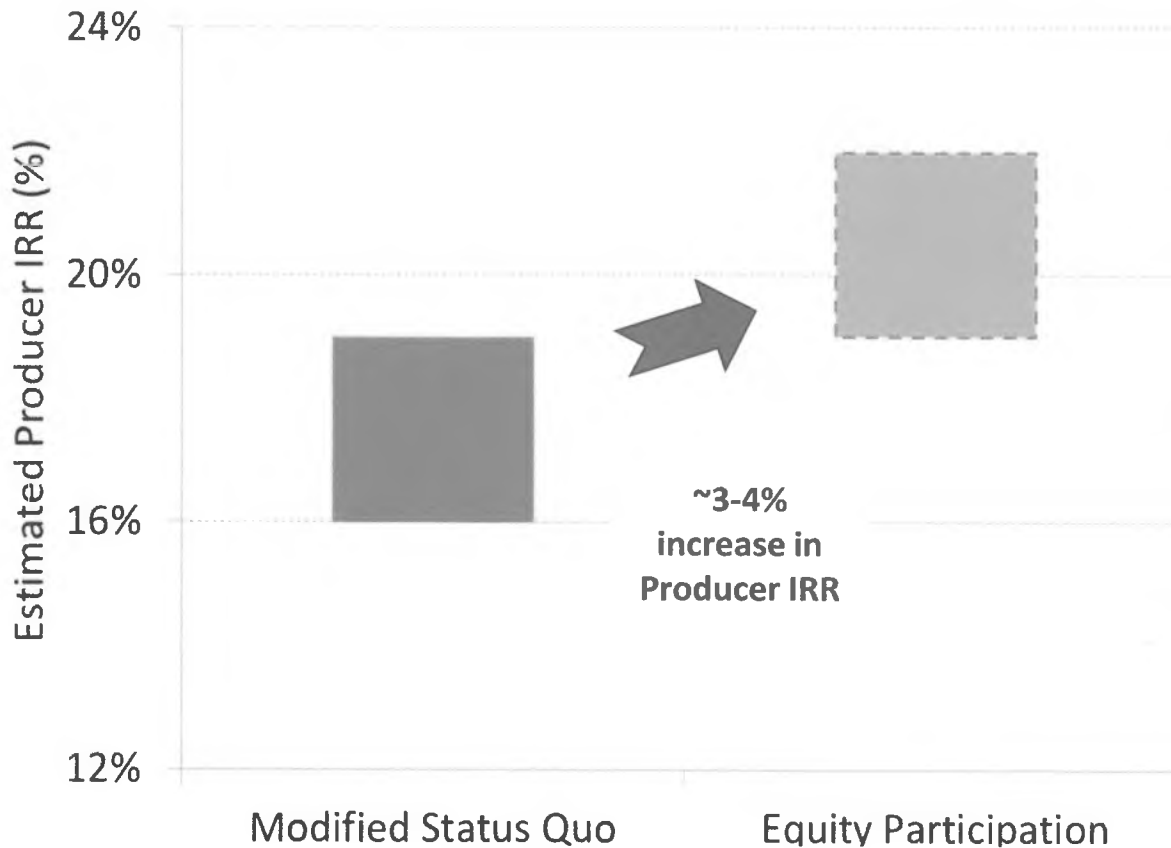
- Current decisions focused on enabling pre-FEED



# IMPROVE COMMERCIAL ATTRACTIVENESS OF AKLNG PROJECT



## Producer IRR



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

\* This analysis assumes a modified status quo wherein the production credits in SB21 are extended to reflect a \$5/BOE credit for gas, similar to the credit extended to new oil production

\* Assumes 25% State equity participation

# PRESERVE VALUE TO STATE FROM ROYALTY & TAXES

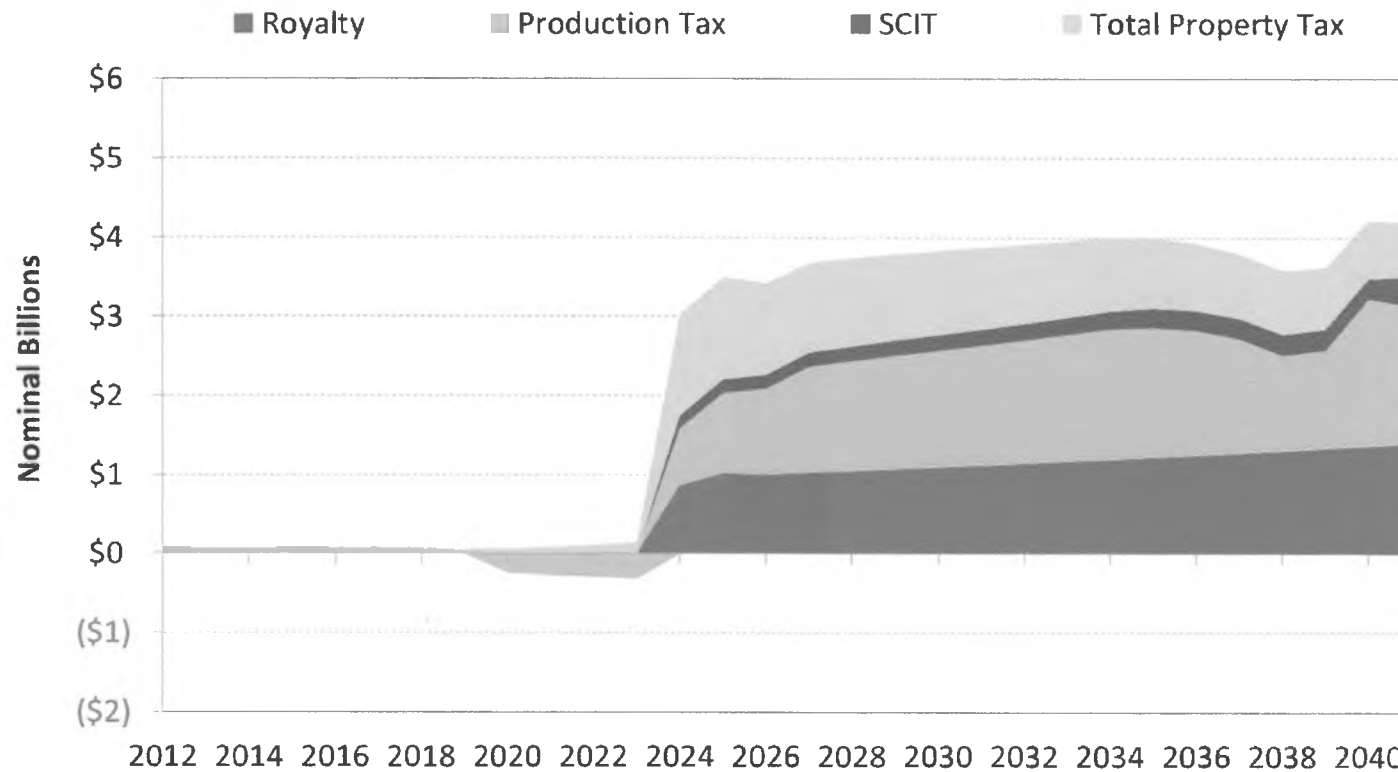


- Obtain value in return for the State's incentives to the project
- Preserve the State's expected revenues from the AKLNG Project relative to an RIV world without State equity participation

# PRESERVE VALUE TO STATE FROM ROYALTY & TAXES



State of Alaska Modified Status Quo Annual Cash Flow



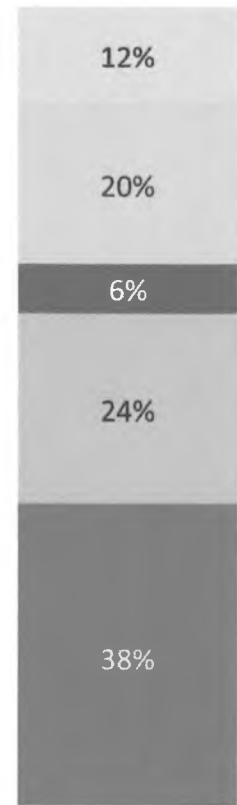
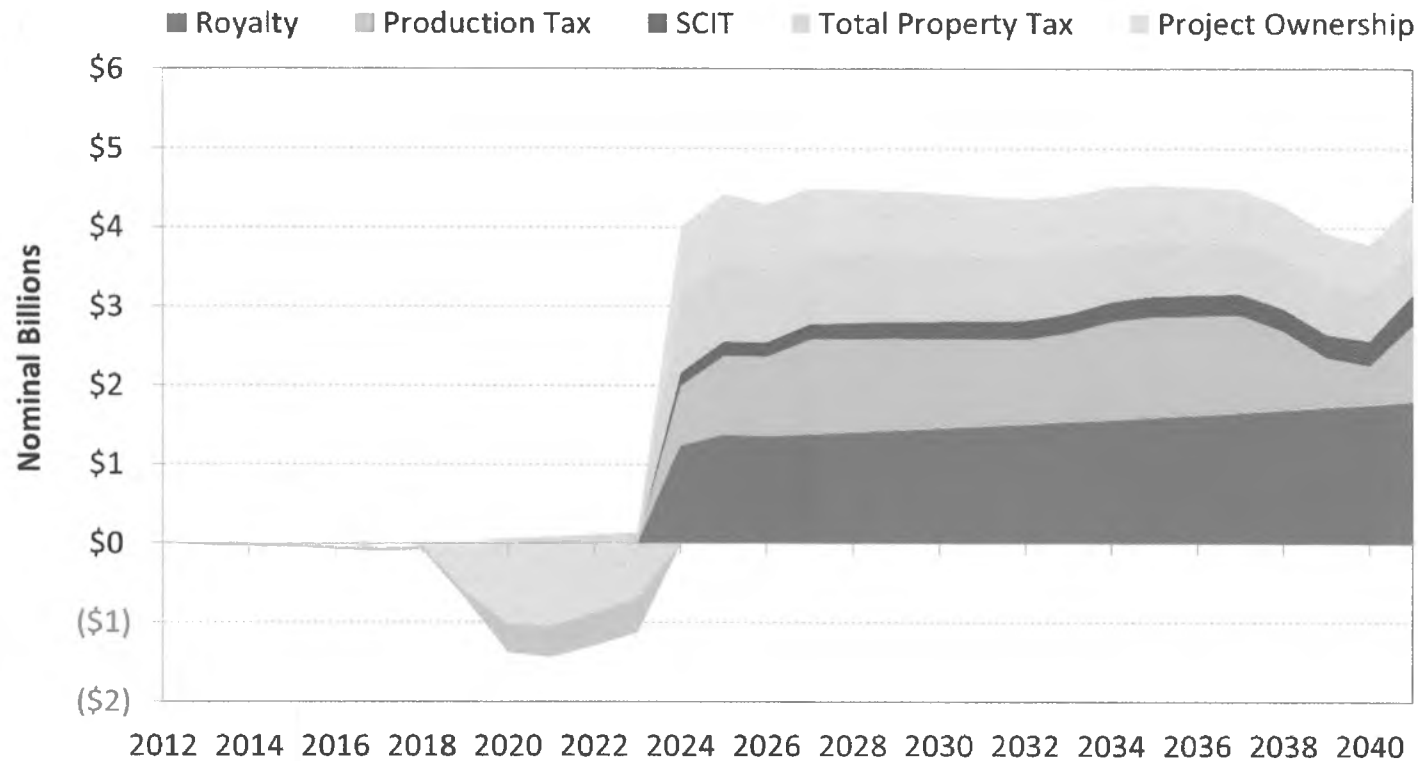
- SCIT = State Corporate Income Tax
- Project Ownership = Return on the equity that the State invests in the AKLNG project

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

# PRESERVE VALUE TO STATE FROM ROYALTY & TAXES



State of Alaska 25% Equity Alternative Annual Cash Flow



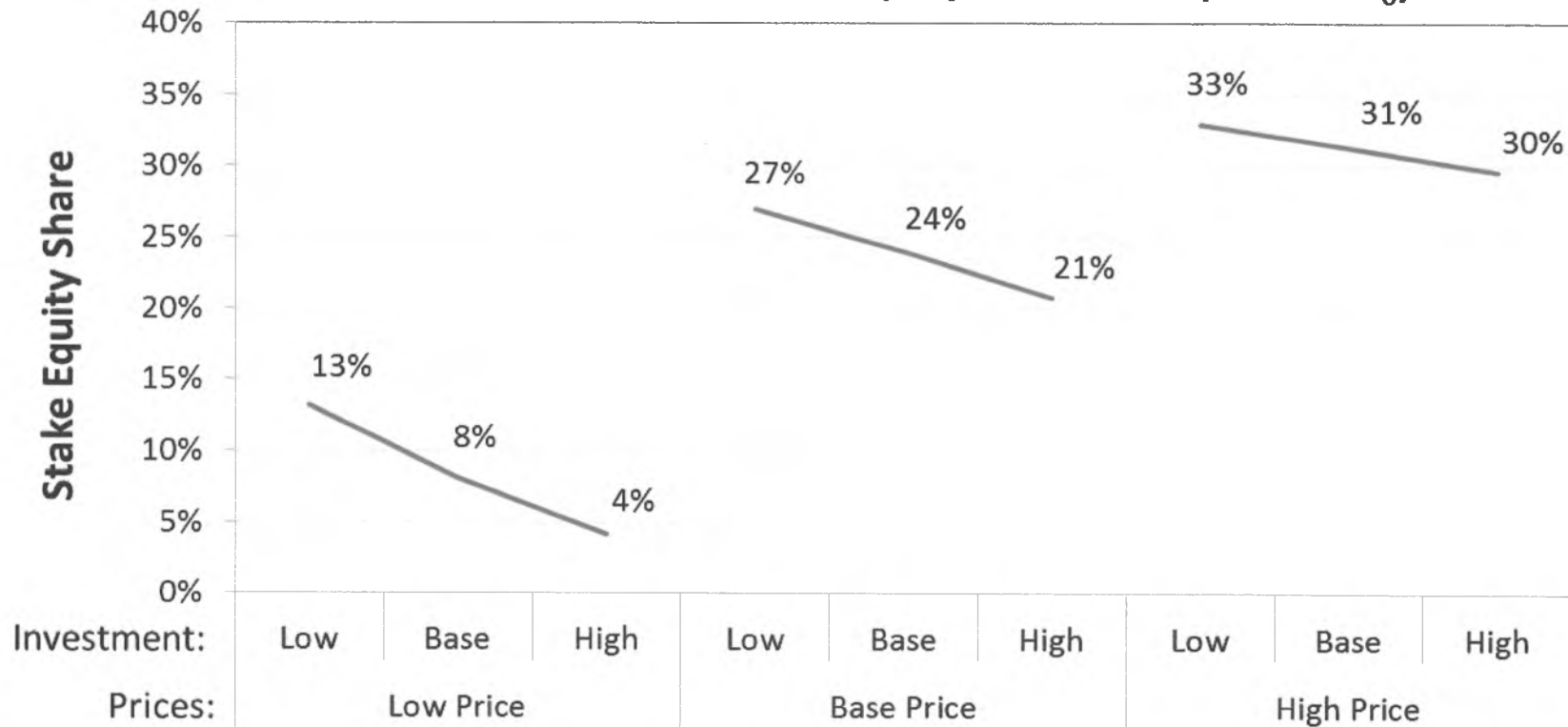
- SCIT = State Corporate Income Tax
- Project Ownership = Return on the equity that the State invests in the AKLNG project

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

# PRESERVE VALUE TO STATE FROM ROYALTY & TAXES

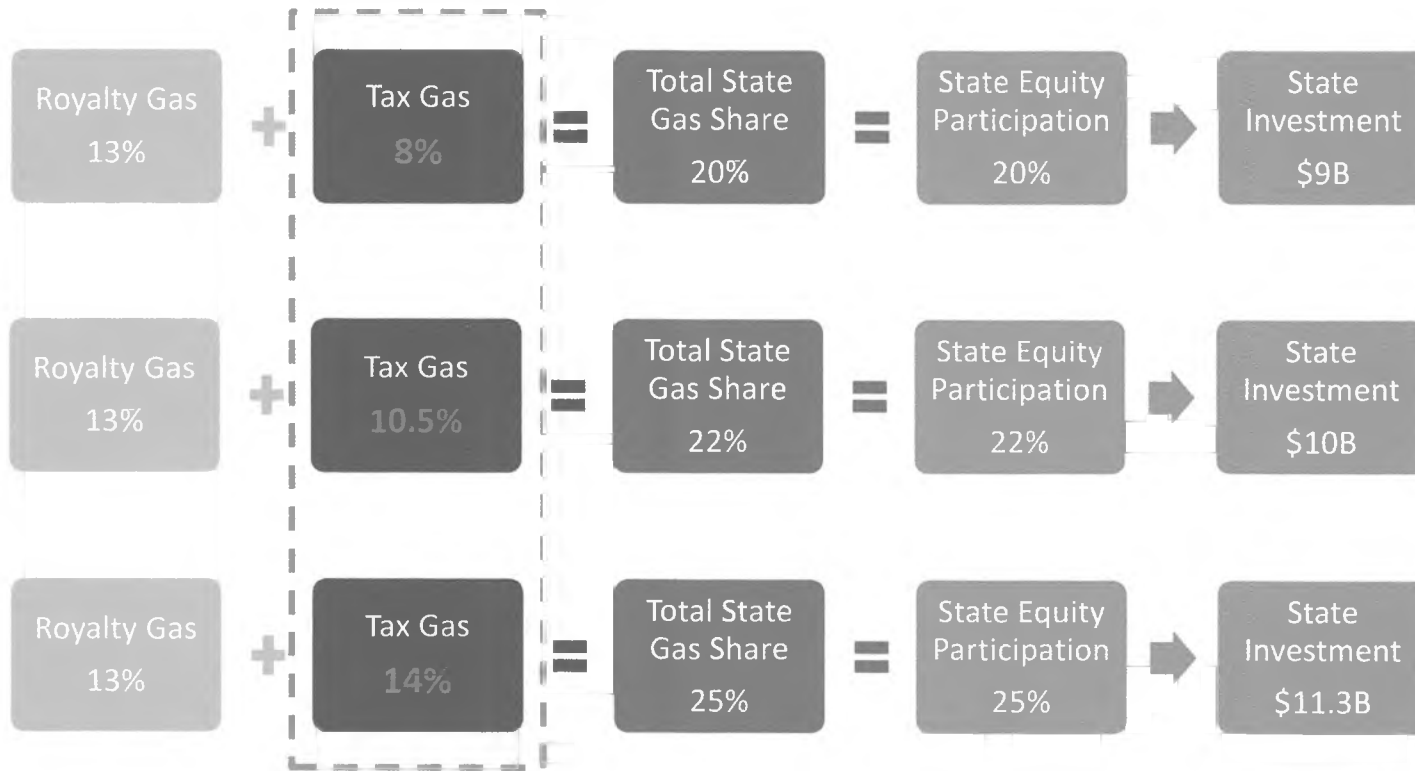


State Equity Investment for Modified Status Quo = Equity Alternative (SOA NPV<sub>0</sub>)



\* This analysis assumes a modified status quo wherein the production credits in SB21 are extended to reflect a \$5/BOE credit for gas, similar to the credit extended to new oil production

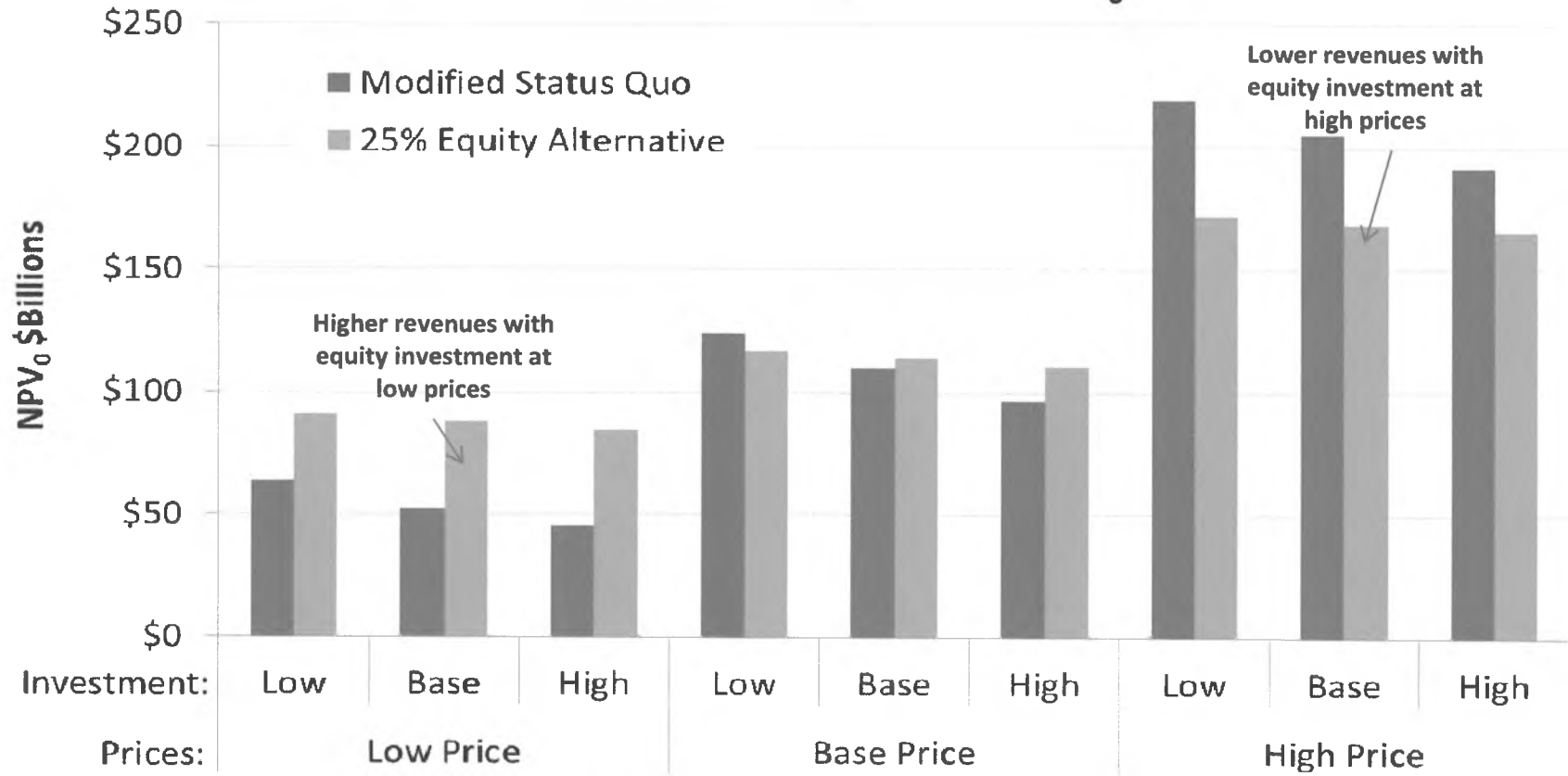
# GROSS TAX RATE SETS THE TOTAL STATE GAS SHARE & EQUITY PARTICIPATION



# MANAGE RISKS – EQUITY INVESTMENT HELPS TO HEDGE PRICE EXPOSURE



State of Alaska Total NPV<sub>0</sub>



\* This analysis assumes a modified status quo wherein the production credits in SB21 are extended to reflect a \$5/BOE credit for gas, similar to the credit extended to new oil production

# MANAGE RISKS – CAPITAL COST EXPOSURE REDUCED THROUGH TC PARTICIPATION

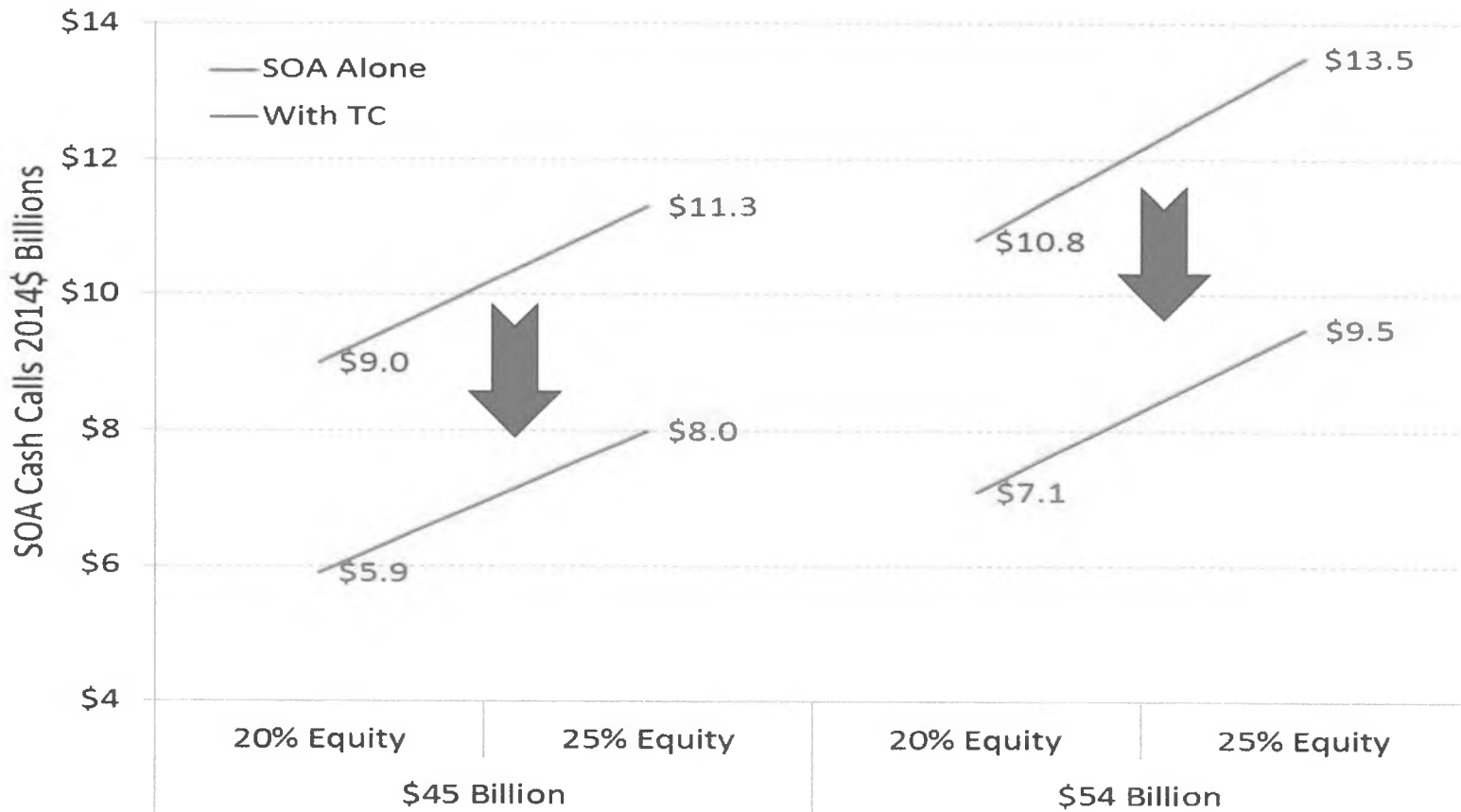


- Highest risk exposure is prior to project start when cash calls are not supported by project revenues
- TransCanada (“TC”) participation allows State to retain 20%-25% of gas share while being responsible for only 13%-18% of the upfront costs
- This is especially important if cost overruns occur on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

# MANAGE RISKS – CAPITAL COST EXPOSURE REDUCED THROUGH TC PARTICIPATION



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



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

## MANAGE RISKS – REDUCE POTENTIAL LOSS OF VALUE THROUGH RIK



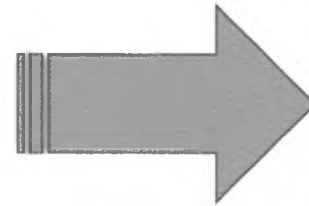
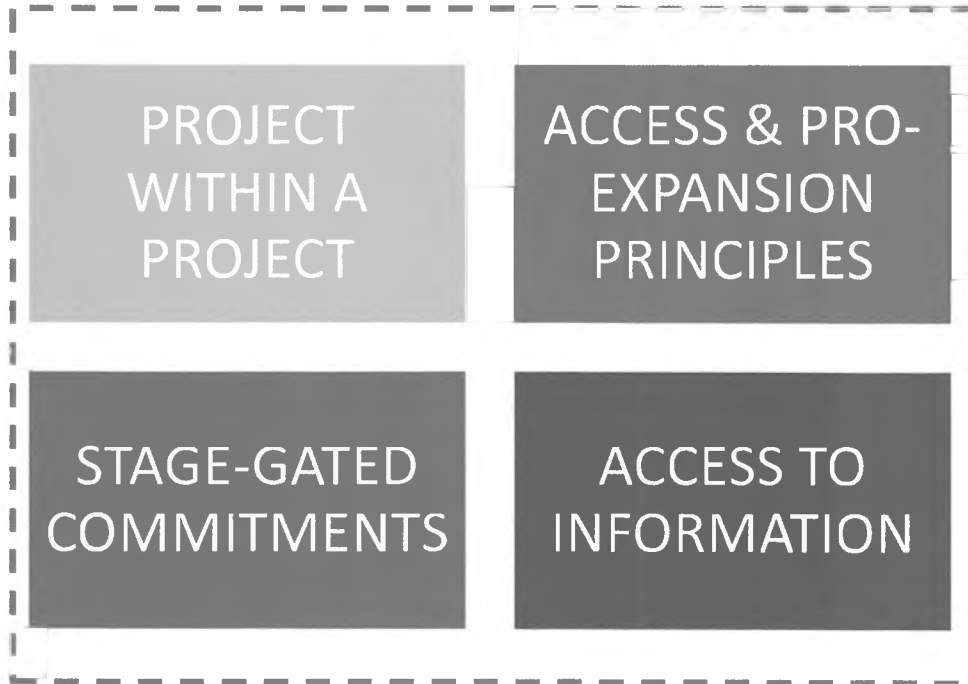
- HOA includes intent of Producers to offer to negotiate separately to market State's share of gas – proportional to each Producer's share of producer capacity
- SOA to only obligated to elect RIK if the Producers make "satisfactory arrangements for disposition of the State's share of LNG"
- SOA would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

# MANAGE RISKS – STRUCTURE OF PARTICIPATION



HOUSE FINANCE COMMITTEE – OBSERVATIONS ON HOA

## HOA ELEMENTS



COMMERCIAL AGREEMENTS

# HOA SCORE CARD RELATIVE TO CRITERIA

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

THANK YOU



## BLACK & VEATCH STATEMENT

This presentation was prepared for the State of Alaska (“Client”) by Black & Veatch Corporation (“Black & Veatch”) and is based in part on information not within the control of Black & Veatch.

In conducting our analysis, Black & Veatch has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. The methodologies we utilize in performing the analysis and making these projections follow generally accepted industry practices. While we believe that such assumptions and methodologies as summarized in this report are reasonable and appropriate for the purpose for which they are used; depending upon conditions, events, and circumstances that actually occur but are unknown at this time, actual results may materially differ from those projected.

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MARCH 19, 2014

## ALASKA NORTH SLOPE ROYALTY STUDY – SELECTED EXTRACT

PREPARED FOR THE STATE OF ALASKA



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# ALASKA NORTH SLOPE ROYALTY STUDY

- These slides are a short and selected extract from the full 188 slide Alaska North Slope Royalty Study
- The full study is available at:
  - [http://dnr.alaska.gov/commis/priorities/ak\\_lng.htm](http://dnr.alaska.gov/commis/priorities/ak_lng.htm)
- Webinars covering each of the four main scope items are available at:
  - LNG Markets
  - Supply Chain Elements
  - Fiscal Framework
  - Risk Allocation & Commercial Structure

## NOTES ON ALASKA NORTH SLOPE ROYALTY STUDY

- The Alaska North Slope Royalty Study was undertaken between June 2013 and November 2013 and, hence, preceded finalization of the Heads of Agreement (“HOA”) between ExxonMobil, ConocoPhillips, BP, TC Alaska, AGDC, and the State Administration as well as the Memorandum of Understanding (“MOU”) between the State Administration and TransCanada.
- While the study informed the State Administration as it negotiated the HOA and the MOU, the study, and this presentation summarizing it, do not analyze the specific terms within these agreements or their impacts on the competitiveness of the AKLNG project.
- Assessment of a project of the scope of AKLNG requires examination of numerous complex variables that cannot be determined with a high degree of certainty. Many reasonable scenarios can be derived where the AKLNG project is economic, and vice versa. While in most cases, a conservative approach was taken when applying forecasts and assumptions, it should be recognized that market and project related variables, that remain as yet unresolved, can modify the economics as presented here.

## BACKGROUND & SCOPE



- The State of Alaska, Department of Natural Resources (DNR) commissioned the Alaska North Slope Royalty Study to document and understand four major commercial elements that could influence the various stakeholders' returns from the AKLNG Project:
  - LNG markets
  - Supply chain elements
  - Fiscal framework – International and Alaska
  - Risk allocation/commercial structure
- The purpose of this study is to provide information that can help the State to protect its royalty interest in the state's gas and examine how the State's fiscal terms with a particular focus on royalty terms can affect the success of the AKLNG project.
- The Study was undertaken by a team that included Black & Veatch and Daniel Johnston, Inc. under the leadership of DNR along with support and consultation by Department of Revenue (DOR). Additionally, inputs and assumptions of AKLNG Project sponsors were considered.

# ROYALTY STUDY FINDINGS & RECOMMENDATIONS

## STUDY FINDINGS

GLOBAL LNG MARKET IS GROWING & COMPETITIVE

GOVERNMENT TAKE & COST STRUCTURE FOR AKLNG PROJECT ARE HIGH

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

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## LNG MARKETS – SCOPE

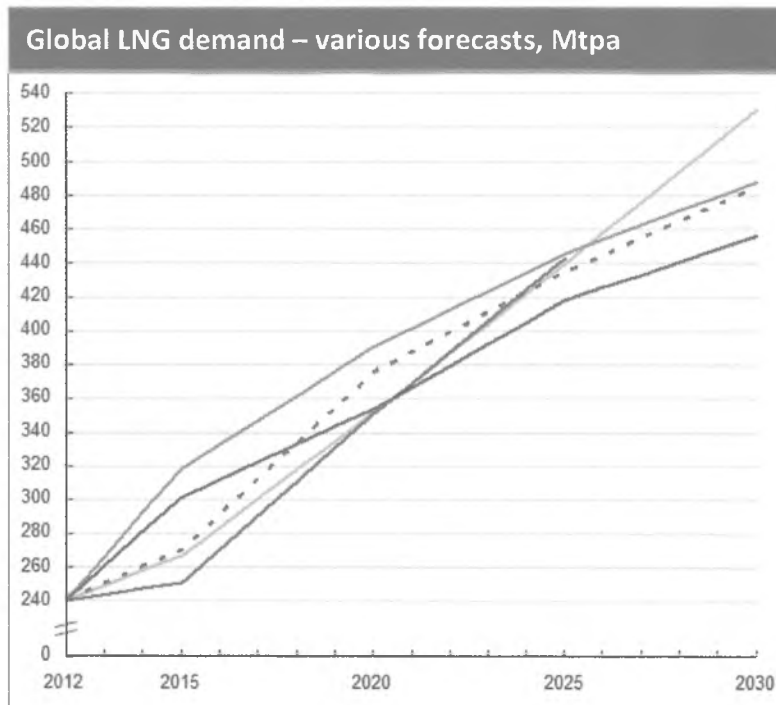


- LNG Markets
- Supply Chain Elements
- Fiscal Framework
- Risk Allocation & Fiscal Structure

- Overview of how LNG is being traded and valued in various markets that are available to AKLNG Project
- Analysis of historical and future global LNG pricing trends
- Discussion of supply and demand projections in the LNG market and implications for AKLNG Project

## LNG MARKETS – KEY FINDINGS

- The LNG market is characterized by highly capital intensive projects underpinned by long-term contractual relationships across the supply chain
- The LNG market is in an illiquid, opaque market consisting of very few participants and is structured on the basis of long-term, 20+ year contracts as opposed to the global oil market which is highly liquid, extremely transparent, comprised of many participants and is structured on the basis of short term trade

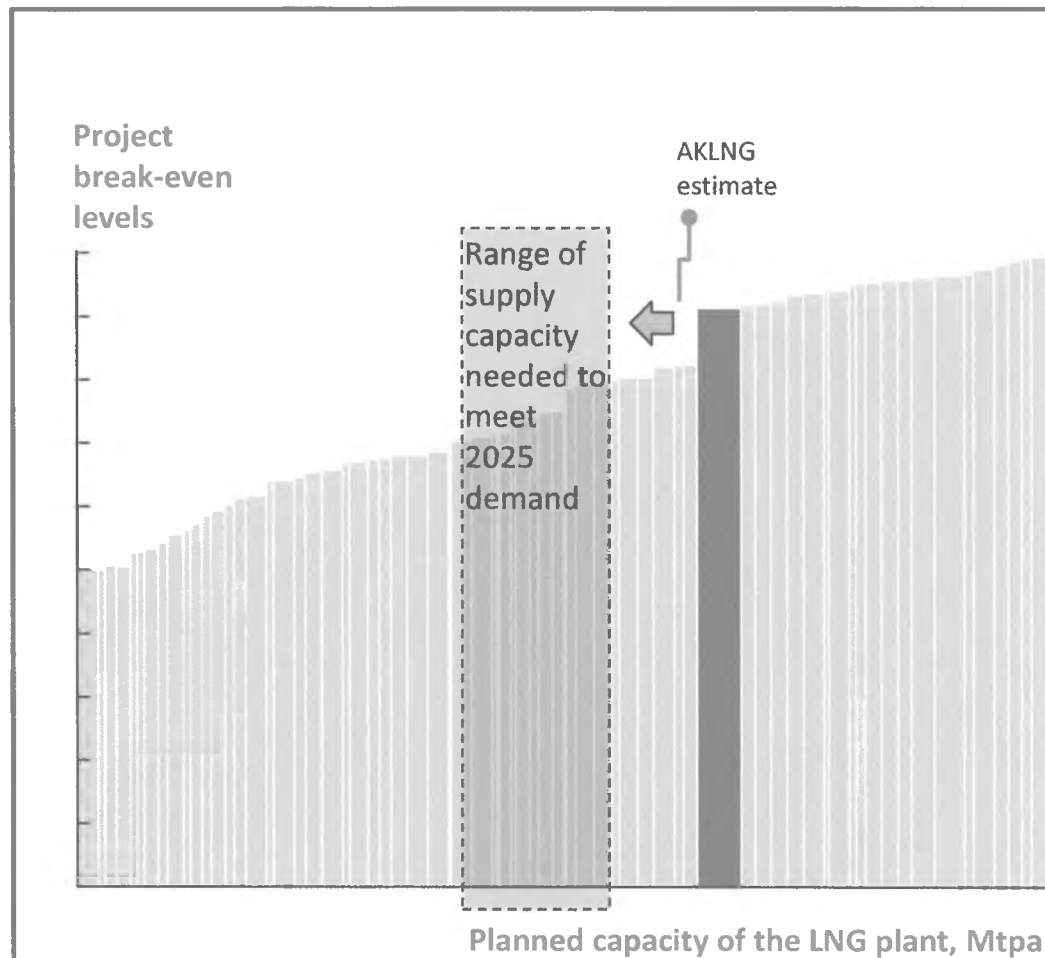


Note: Includes AKLNG, other new projects, and projects under development.

Source: Team Analysis, various demand studies

- Global LNG demand is projected to grow by 50% between 2013 and 2020 and to double by 2030. However potential sources of supply are expanding as well thereby creating significant competition for capturing this growing market
- AKLNG will have to compete successfully for buyers in order to meet its targeted 2024 in-service date
- AKLNG project could be economically feasible with changes to the project's cost structure and the state's fiscal framework

# ON THE GLOBAL SUPPLY CURVE, AKLNG APPEARS TO CURRENTLY BE OUT OF THE MONEY, MODIFICATIONS REQUIRED TO COMPETE



ILLUSTRATIVE CHART, ANALYSIS DONE FOR ALL PROJECTS WITH STARTUP AFTER 2013

## IMPLICATIONS:

- 1 AKLNG is currently out of the money:
  - Alaska break-even price is US\$12.3/MMBtu
  - Projects more economic than Alaska can provide ~340 MTPA new supply, more than required to meet global LNG demand (~250 – 300 MTPA)
- 2 AKLNG faces significant competition
  - There are several projects to the right in supply stack which will compete with AKLNG
- 3 However, the risk levels of competing LNG projects also needs to be considered
  - Due to political, resource and other risks, some in the money projects may be delayed/cancelled, leading to range of needed capacity

<sup>1</sup> NPV=0 @ discounted at Weighted Average Cost of Capital

## SUMMARY: LNG MARKETS

- 1** The LNG market is characterized by capital intensive projects and long-term contracts across the supply chain
- 2** The LNG market is illiquid and opaque, with few players, in contrast with the liquid and transparent oil market
- 3** LNG demand is expected to grow quickly over the short and long-term, but supply sources are also rapidly expanding
- 4** AKLNG appears to be out of the money within the global LNG supply curve under the status quo; cost and /or fiscal modifications could enhance competitiveness



## SUPPLY CHAIN ELEMENTS – SCOPE



- Overview of the current capital cost estimates for the AKLNG Project
- Review of the capital structures that are likely to be applicable to AKLNG Project
- Discussion and assessment of applicable commercial structures for AKLNG Project

- LNG Markets
- Supply Chain Elements
- Fiscal Framework
- Risk Allocation & Fiscal Structure

## BASELINE AKLNG PROJECT COST RISES TO \$45 BILLION (2013\$) COMPARED WITH \$27 BILLION ESTIMATE DURING AGIA

Supply Chain Element	2008 Estimate <sup>1</sup>	2013 Updates	
		State's Estimate	Producers Estimate
<b>GTP</b>	\$5 Billion	\$10 Billion	\$10 - \$15 Billion
<b>Pipeline</b>	\$8 Billion	\$12 Billion	\$10 - \$15 Billion
<b>LNG</b>	\$14 Billion	\$23 Billion	\$17 - \$24 Billion
<b>Total</b>	<b>\$27 Billion</b>	<b>\$45 Billion</b>	<b>\$37 - \$54 Billion</b>

- Capital costs for large energy projects including LNG projects have risen, driven by growing demand and competition for manufacturing capacity, equipment and skilled labor from resource extraction industries
- Capital cost pressures are expected to remain high for the AKLNG project given its complexity and location and the global competition for resources

<sup>1</sup> Capital cost for a 2.7Bcf/d LNG project estimated by the State's Technical Team during AGIA proceedings.

## COMMERCIAL STRUCTURE OF PROJECT INFLUENCES RISK AND CONTROL

- The commercial structure of the LNG project affects the operations and financing costs of the GTP, pipeline, LNG plant, and the shipper
- The AKLNG Project is expected to have an integrated or hybrid-integrated project structure with the same owners across the upstream, midstream and LNG plant
- For large, complex and costly LNG Projects, an integrated structure creates alignment of interests between owners and increases project control and efficiency
- However, concentrated vertical control makes expansions and entry of new participants difficult
- Achieving alignment of interest between the State and Producers is especially key in an integrated structure to be able to influence the factors important to the State - commercial viability of AKLNG project, open access, expandability, and transparency across the supply chain

## SUMMARY: SUPPLY CHAIN ELEMENTS

- 1** Capital costs for AKLNG project are likely to remain uncertain through the development of the project
- 2** Total midstream project cost estimates from the AKLNG project sponsors range from \$37-\$54 billion
- 3** Complex LNG projects typically have an integrated commercial structure to give sponsors maximum control
- 4** AKLNG is expected to have an integrated structure; ensuring alignment of interests between the State and Producers is challenging and critical with a Producer-owned integrated project



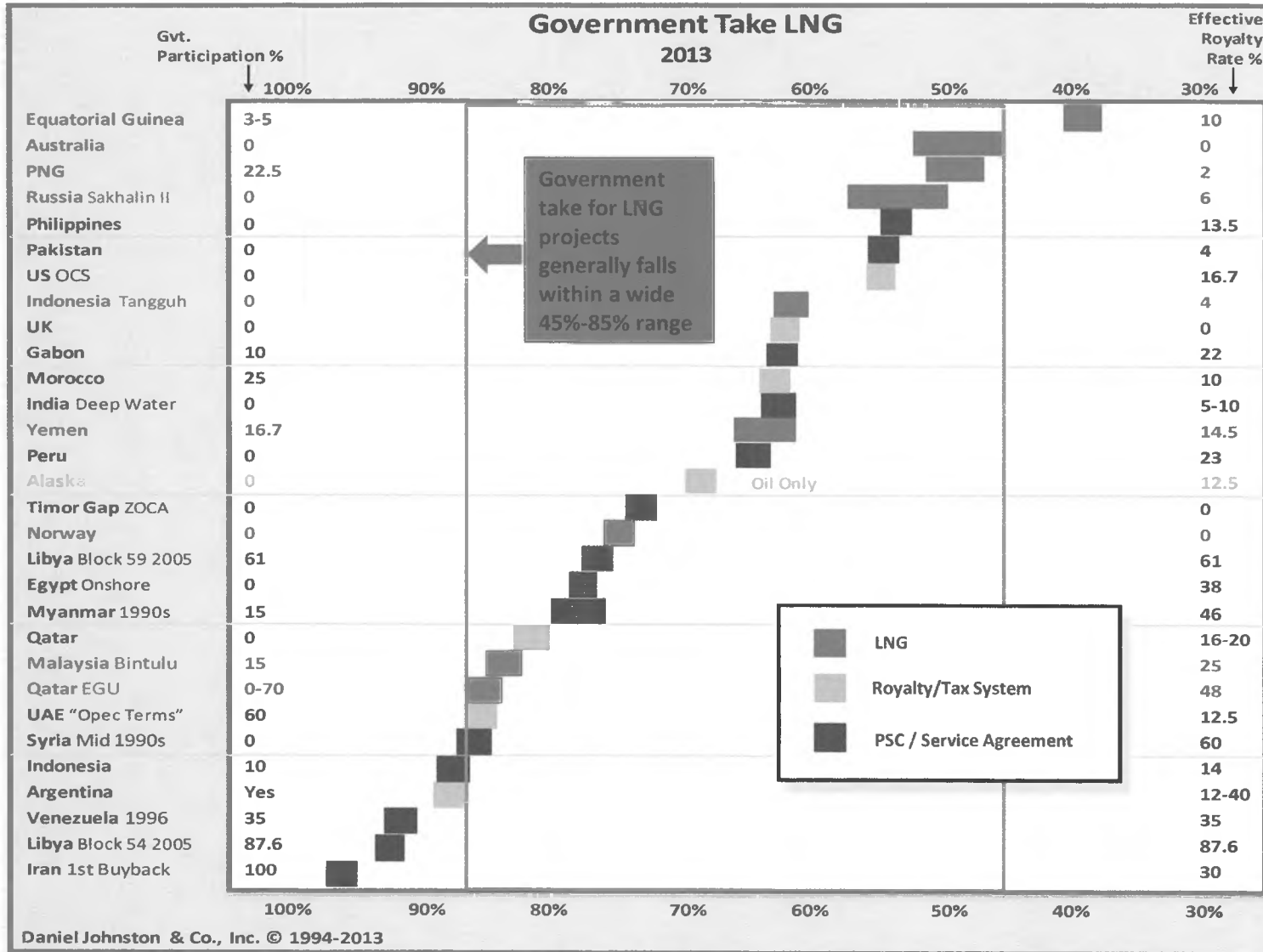
## FISCAL FRAMEWORK – SCOPE



- LNG Markets
- Supply Chain Elements
- Fiscal Framework
- Risk Allocation & Fiscal Structure

- Overview of the fiscal structures relevant to LNG projects worldwide and comparison with AKLNG Project
- Discussion and analysis of incentives that State could provide to help facilitate the AKLNG Project
- Assessment of how Alaska can leverage its royalty ownership position – royalty in kind relative to royalty in value

# GOVERNMENT FISCAL TAKE FOR LNG PROJECTS INDICATES A RANGE BETWEEN 45% AND 85% FOR LNG PROJECTS - AK LNG IS EXPECTED TO FALL AT THE HIGH END OF THIS RANGE



Government take in Alaska is expected to be between 70%-80% under SB21/MAPA fiscal structure with significant Federal Government share

## VARIOUS ALTERNATIVES FOR THE STATE TO INCENTIVIZE THE PROJECT WHILE PROTECTING ITS INTERESTS WERE CONSIDERED

### FISCAL INCENTIVES – REDUCTION IN ROYALTY, PRODUCTION TAX, PROPERTY TAX

- While fiscal incentives help the project's economics, the significant midstream costs limit their impact

### ROYALTY IN KIND

- RIK represents an incentive to Producers and likely improves commercial viability of AKLNG Project
- Significant risks for State that need to be addressed

### DIFFERENT EQUITY PARTICIPATION ALTERNATIVES

- State investing to achieve 100% ownership of the pipeline
- State investing 12.5% in entire project but not modifying royalty and taxes
- State making an equity investment in the project and taking its royalty and tax as gas

## RIK COULD CREATE ADDITIONAL RISK AND COST FOR THE STATE RELATIVE TO RIV

- **Taking its royalty in kind could potentially expose the State to significant risks including:**
  - The State may need to build its own marketing organization to take care of origination, logistics, contract administration, accounting, etc. if it chooses to market the gas
  - State would face challenges in competing with the Producers who have well established LNG marketing expertise and global portfolios
  - State would be subject to counterparty risk in all of the contracts it enters into across the LNG supply chain
  - State would need to make firm capacity commitments along the LNG supply chain, which could total up to \$1 billion per year
    - State could realize negative royalties if the LNG price is too low
  - State would face production volume risk (if production exceeds or falls short of its sales commitments)
- **Producers have the experience of dealing with market uncertainties and would need to help the State address these risks if an RIK path is pursued**

## SUMMARY: ALASKA FISCAL FRAMEWORK

**1** AKLNG project's government take, at 70-80%, is high for a project of this complexity, and estimated IRR of approximately 15% may be insufficient for Producer investment relative to their alternatives

**2** Well designed incentives to lower project costs and modify fiscal structure can help make the AKLNG project competitive in market

**3** The State taking its royalty as RIK could result in a substantial increase in risk & potential loss of value for the State – Producers have more experience managing associated risks



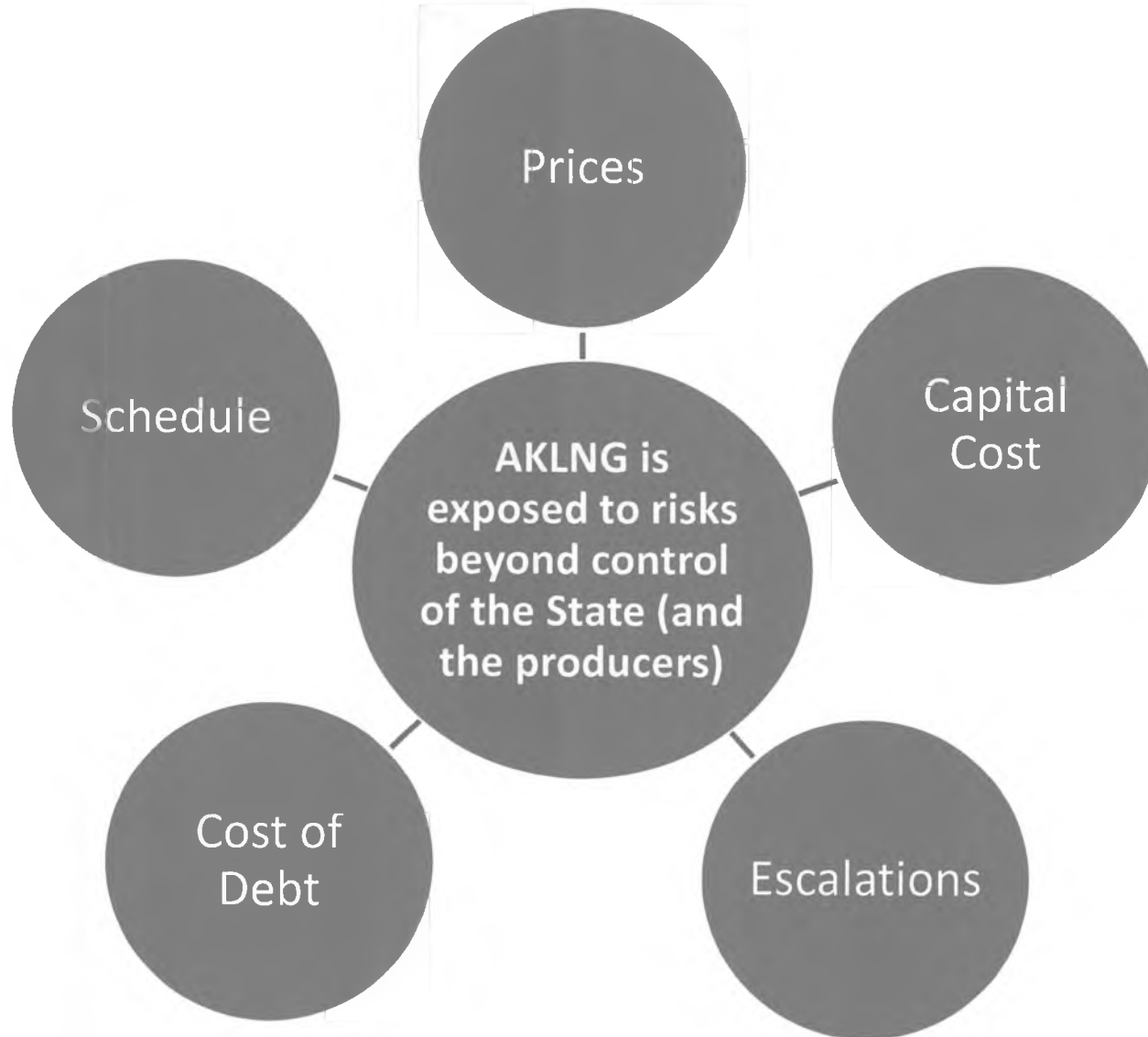
## RISK ALLOCATION & COMMERCIAL STRUCTURE – SCOPE

- LNG Markets
- Supply Chain Elements
- Fiscal Framework
- Risk Allocation & Fiscal Structure

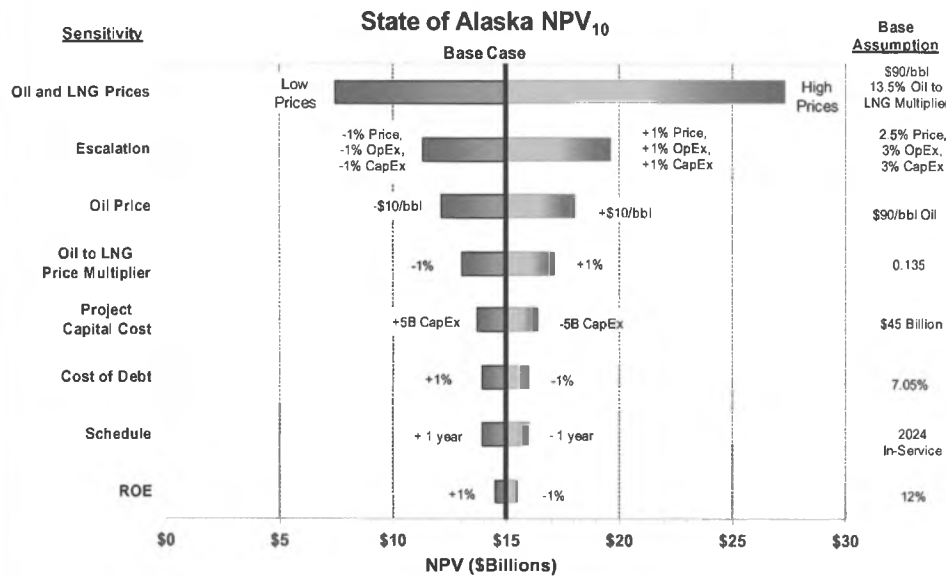


- Overview of key risks that could impact the AKLNG Project stakeholders and risk management
- Assessment of alternatives for financial, equity participation by State in AKLNG Project

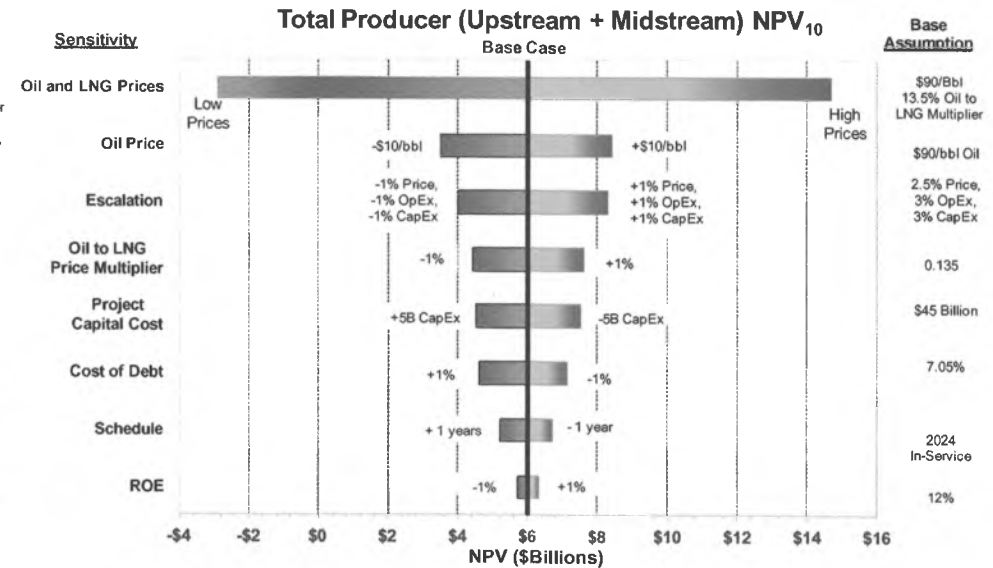
# THERE ARE VARIOUS UNCERTAINTIES RELATED TO THE AKLNG PROJECT THAT COULD IMPACT THE ECONOMIC BENEFITS TO THE DIFFERENT STAKEHOLDERS



# RISK ANALYSIS - PRICE AND CAPITAL COST RELATED UNCERTAINTIES EMERGE AS THE KEY FACTORS DRIVING THE PROJECT ECONOMICS



The State's value from the project could be ~50% lower or ~90% higher than the baseline projections with price changes



Similarly, the Producers' value from the project could go negative or be ~150% higher than the baseline projections with price changes

<sup>1</sup> Base Price = \$90/bbl oil price in \$2013; LNG Price per MMBtu = 0.135\*Oil Price + \$1

High Price = \$120/bbl oil price in \$2013; LNG Price per MMBtu = 0.15\*Oil Price + \$1

Low Price = \$60/bbl oil price in \$2013; Henry Hub Price = \$4/MMBtu in \$2013; LNG Price per MMBtu = HH+\$6

<sup>2</sup> The escalation sensitivity captures a variation in the assumption related to annual change in capital costs, operating costs and oil and gas prices

## RISK ALLOCATION AND MANAGEMENT

### Cases of risk allocation

- Cost and time risks in project execution depend on the nature and extent of project organization apart from market factors
  - Of the recent LNG projects, most have a single operator for upstream, transport and liquefaction
  - Integrated project case has been successful in high cost project execution (Snøhvit case example)

### Cases of risk mitigation

- Market risk management is executed by LNG projects in two ways:
  - Pre-FID commitments: Majority of project volumes are contracted before FID to ensure market. Example: Gorgon, APLNG
  - End user participation: Several projects have equity stake of end buyers providing ensured-market for corresponding equity volumes. Example: Tangguh, Sakhalin II

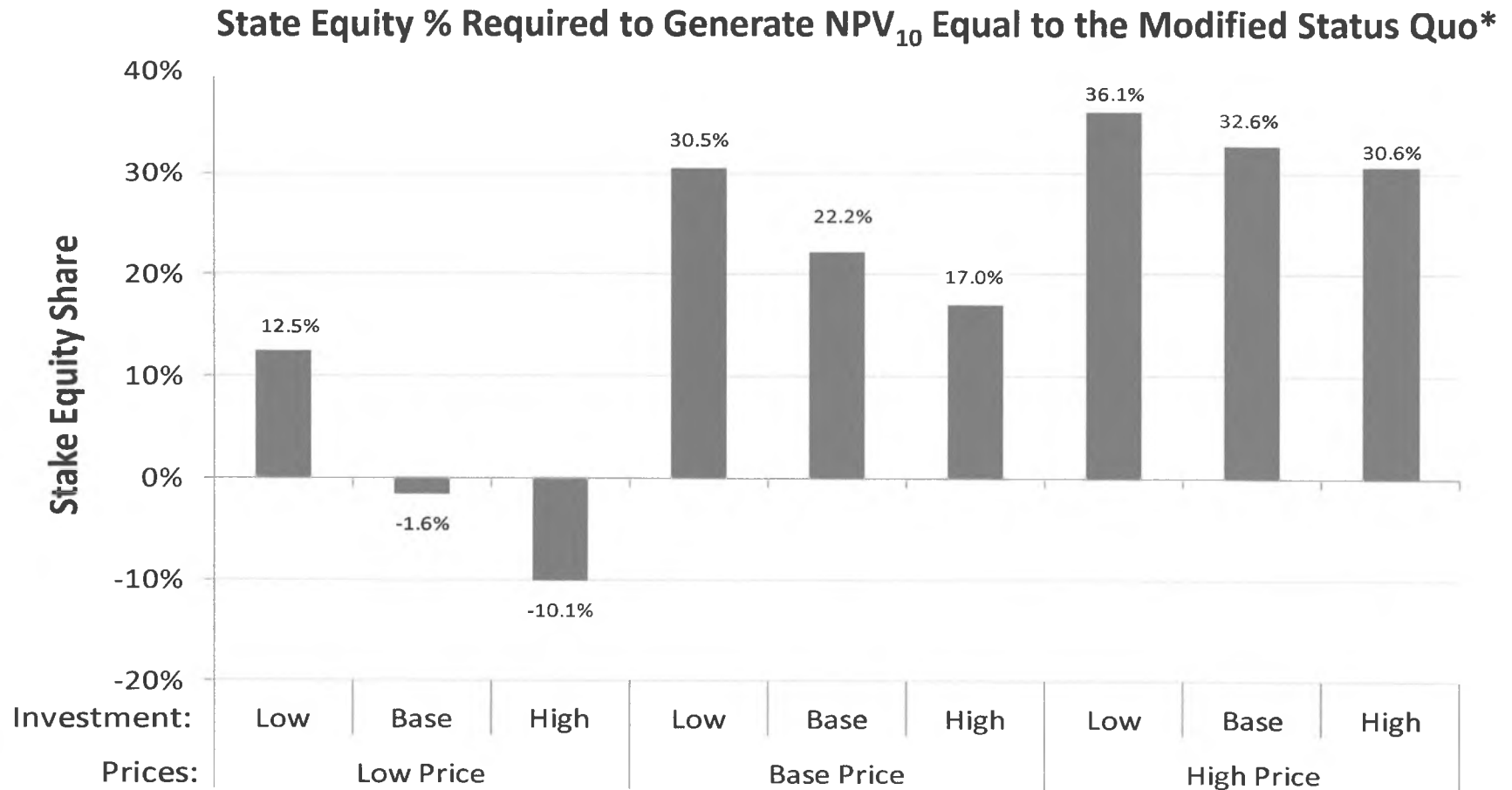
### State participation and implications

- Where the Government participates in LNG projects is usually via NOCs with LNG majors who bring in LNG project experience
- State's equity participation in the project can allow state to capture an upside in prices but exposes it further to a down-side
- Examples: Snøhvit, Yemen LNG, Angola LNG

## EQUITY PARTICIPATION BY THE STATE OF ALASKA COULD HAVE TANGIBLE BENEFITS FOR THE PROJECT AS WELL AS THE STATE

- To the extent that the State transfers value to the Producers through a modification of fiscal terms as an incentive for the AKLNG project, **obtaining an equity interest in the project in exchange for that transfer of value is more beneficial to the State than a simple reduction in fiscal take**
- Greater **alignment of economic interests** between the State and Producers
- State ownership **lowers the upfront capital cost** to Producers creating potential economic uplift
- Allows for **TCPL equity participation** and operation of the pipeline and GTP
- Equity in all phases could facilitate greater **transparency in the AKLNG Project**
- Allows State to influence **access for third parties** in the most critical potential bottlenecks of the project – pipeline and marine terminal
- Equity investment in the supply chain, while allowing SOA a seat at the table, **does not necessarily provide for a vote in the decision making process**
- **Joint Venture Agreement structuring is critical**

# STATE EQUITY PARTICIPATION BETWEEN 20% AND 30% OFFERS NPV<sub>10</sub> AT OR ABOVE THE MODIFIED STATUS QUO LEVELS FOR THE STATE



\* SB21/MAPA fiscal structure as currently applicable does not include production credits for gas. This analysis assumes a modified status quo wherein the production credits are extended to reflect a \$5/BOE credit for gas, similar to the credit extended to new oil production

**The level of State equity investment required to equal total state NPV<sub>10</sub> under status quo varies with market conditions**

## SOA EQUITY INVESTMENT IN AKLNG CREATES RISK EXPOSURES THAT NEED TO BE CONSIDERED AND MANAGED

- **Cost overruns and cash calls above appropriation level**
- **As an equity owner, the State assumes all Force Majeure risk throughout the GTP, pipeline and LNG terminal**
- **State has no control over upstream operations and volumes produced by the Producers**
  - Could have excess or insufficient capacity relative to volumes produced
  - Balancing production volumes and volumes through the supply chain on a short-term and long-term basis
- **If the State assigns its equity position to a third party such as TransCanada and contracts for capacity with this third-party, the State will likely have to provide credit support to the entity that would assume the state's equity share in the midstream through long-term commitments for capacity**
- **State would be responsible for all demand charge obligations throughout the life of the contract regardless of gas supply availability and market conditions**
  - Possible that revenues earned on LNG sales would not offset costs of treating, transport and liquefaction resulting in negative cash flows to the State

## SUMMARY: RISK ALLOCATION & COMMERCIAL STRUCTURE

**1** AKLNG faces various risks that could affect the economic benefits; prices and capital cost are key

**2** Direct equity participation by the State can offer benefits to all parties involved in the project; accompanying risk profile changes should be managed

**3** Various commercial terms related to equity participation will determine whether the State can achieve its transparency and access objectives



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