

AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 155 3287₆₁

The syllogism

- All these benefits will flow from a pipeline project.
- This license is the ^(Doogan ask's) best/only way to start a pipeline project.
(“most likely”)
- Hence all these benefits flow from this License.

Dan Dickenson
If this is not true
then

5 Local Commitments

- 12 - 5 in state take off points
- 13 – Firm transportation with distance sensitive rates even without FT commitments
- 14. Local headquarters
- 15. Local hiring and contracting
- 17. PLA

Are local hire benefits unique to this project? What if anything should be read into this membership?

Commissioners AGIA Training Steering Committee

Members and Staff

Industry Members

Edgar Cowling, Conoco Phillips

Dave Rees, BP

Dave Matthews, HC Price

Tony Delia, Arctic Slope Regional Corporation

Bonnie Jo Savland, Alyeska Pipeline

Unique to TC Project?

- If state got all 20 “must-haves” for \$500 million, how much value do these local commitments probably don’t account for?
- Are Local Gas use projects and LNG export both more promising as incremental add to any project?
- Is the ANGDA principle for “lowest cost gas to Alaskans”: “Ride as far as you can in the big pipe” tied to this project?

What is the enforceable commitment for In-State Rates without FT?

- “TransCanada would offer firm transportation service ...provided that In-State Shippers must execute long-term firm transportation contracts with the Alaska Section for Service.”
- “In the event there is insufficient capacity for the delivery of in-State gas, TransCanada is prepared to expand the Alaska Section to accommodate such deliveries, provided that such expansions are in engineering increments under commercially reasonable terms and conditions.”
- TC AGIA Application, November 30, 2007, (page 2.2-70)

How does TC make its money?

- Transporting gas?
- Return on investment in equipment?
- If it takes less equipment and gas is transported fewer mcf/miles when gas is delivered to Alaska rather than AECO are the State and TC aligned on in-state projects?

AGIA Mechanism

- AGIA provided inducements for
 - a carrier to hold an open season and obtain a license [as a prelude to constructing a line]
 - shippers to agree to underwrite a line in that open season

AGIA Mechanism

- The Carrier Inducements proved sufficient
 - Was the \$500 million a fair trade for value?
 - Did someone give up \$500 or was new value created?
 - Was TC allowed to play with “shipper chips”?
 - Will a “win/win” work against the shipper inducements or make the producer conversation more difficult?
 - What were TCs alternatives?

AGIA Mechanism

- Will the shipper inducements be sufficient?
 - Does making them a one time offer enhance the inducements value?
 - What are the shippers' alternatives?

Part II: The Vote - Beginning or end of Competition?

- Awarding a license encourages another competitor -
- Unless the state treats the awarding of the license as the end of the competition and the crowning of the winner, and
 - (1) doesn't work on producer/state issues that affect both parties on any project; or
 - (2) goes on to favor the licensee over other potential projects like LNG export, producer line or incremental GTL plants just because of license.

Beginning or End of Competition?

- “We are not here to stop them [the producer line].” – DOR Commissioner Galvin, 5.28.08 at Alaska Gasline Determination Public Forum
- “State has considerable interest in steering producer gas to T/C project” – DOR Commissioner Galvin, 5.28.08 at Alaska Gasline Determination Public Forum

Asking Questions of Other Projects

- It is easier to ask detailed questions about detailed projects.
- Enforceable commitment #2 was a detailed description of project.
- What are other projects learning if they start to invest and work toward an open season?

63
A2

How can another 'competitor' "with no credit and no customers" strengthen the prospect for a line?

- The more information gathered the better (State is paying for roughly 80% of work).
- Producers may use non-conforming offers at a T/C open season to forward the conversation.
- If each party brings strengths, a merged project may result. Producers may add value with GTP, T/C may add value in Canada.
- FERC experts believed FERC may act to bring projects with commercial conflicts to resolution. (may be sub optimal for both Carriers but in national (and state?) interest.

Questions as to what happens next?

- What is the right set of carrots and sticks for State to employ to bring the shippers in to finance the project?

Questions as to what happens next?

- Anchor shippers/producers want fiscal stability, State wants enhanced access provisions.
- When do we have the Upstream conversation? If the producers want to wait until their open season, how does state advance the conversation without bidding against itself? Do we ask TransCanada to be the in the middle?

SCOMM

155:4

ALASKA STATE LEGISLATURE

Senator Charlie Huggins, Chair
Senate Special Committee on Energy
State Capitol, Room 119
Juneau, AK 99801
Phone: 465-3878
Fax: 465-3265



Representative John Harris, Chair
House Rules Subcommittee on AGIA
State Capitol, Room 208
Juneau, AK 99801
Phone: 465-4859
Fax: 465-3799

Third Special Session
Twenty-Fifth Legislature

Gymnasium
Terry Miller Building, Juneau Alaska

Friday June 6, 2008
10:00-5:30 p.m.

Joint Meeting AGENDA

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

Administration and TransCanada:

Introduction – **Pat Galvin**, Commissioner, DOR
TC Alaska's AGIA Application Overview – **Tony Palmer**,
Vice President, Alaska Business Development

Overview of Findings – **Pat Galvin**, Commissioner, DOR
Tom Irwin, Commissioner, DNR

The Prize – **Bob Swenson**, Director Div. of Geological
& Geophysical Surveys, DNR

Dave Houseknecht, Geologist, USGS

Jobs, Training and In-State Gas – **Clark Bishop**, Commissioner,
DOL; **Conrad Mulligan**, ARCADIS; **Kurtis Gibson**, Dep.
Director, Division of Oil & Gas, DNR

Testimony: By Invitation

Teleconference

(continue tomorrow)
↓
moved to tomorrow

PAT GALVIN, Commissioner

3rd Sp Session: AGIA License
jt mtg of Senate & House centers
11:00 AM June 6-08

AGIA

Statute & RFA Refresher

**Special Session Opening
June 6, 2008**

Today's Agenda



- AGIA Statute & RFA Refresher
- TC Alaska Application Overview
- Commissioners' Finding and Determination Summary
- "The Prize" – Alaska Arctic Natural Gas Potential
- Jobs, Training, and In-State Gas

Next Four Days



The Alaska Gasline Inducement Act

- Saturday
 - Pipeline Regulation and Commercial Terms
 - Pipeline Expansion
- Sunday
 - How Do You Get the Gas?
- Monday
 - LNG: Economics, Likelihood of Success, & Path Forward
- Tuesday
 - TC Alaska's Project: Economics & Likelihood of Success

AGIA Statute



Three Parts

- AGIA License Application Requirements and Process
 - Applicant must Unconditionally accept the “Must Haves”
 - Application Review Criteria
 - “NPV” and “Likelihood of Success”
 - Sufficiently Maximize Benefits to Alaskans
- Terms of the AGIA License
 - State’s Obligations & Licensee’s Remedies
 - Licensee’s Obligations & State’s Remedies
- Upstream Inducements

The State's Obligations



The Alaska Gasline Inducement Act

AGIA Requires the State to:

- Provide a Matching Contribution of up to \$500 million
- Provide an AGIA project coordinator

The State is NOT required to support and defend the Licensee's application before regulatory bodies, such as FERC.

If The State Wants Out



If the State Provides Financial Benefits to a
Competing Project:

- The State must pay three times the Licensee's expenditures
- Licensee's expenditures do NOT include amounts reimbursed by the State as part of the \$500 million match

(the net cost to TC)

If The Licensee Wants Out



The Alaska Gasline Inducement Act

If the Licensee breaches the License, the State receives:

- Recoupment of all funds paid, with interest
- All work product related to the project acquired by Licensee during the term of the License
- Any other remedies provided by law or equity

Request for Applications (RFA)



- Similar to Role of Regulations
- Clarifies Statutory Language for the Application Process and Terms of License
 - Assumptions to be used in providing cost and tariff estimates in the Application
 - Definition of “Project” – Allow expansions to be at less than 70% debt (pg. 19)
 - Definition of “Project Plan” – What changes will require Commissioner Approval (pg. 42)
 - Includes Contractual Terms of the License

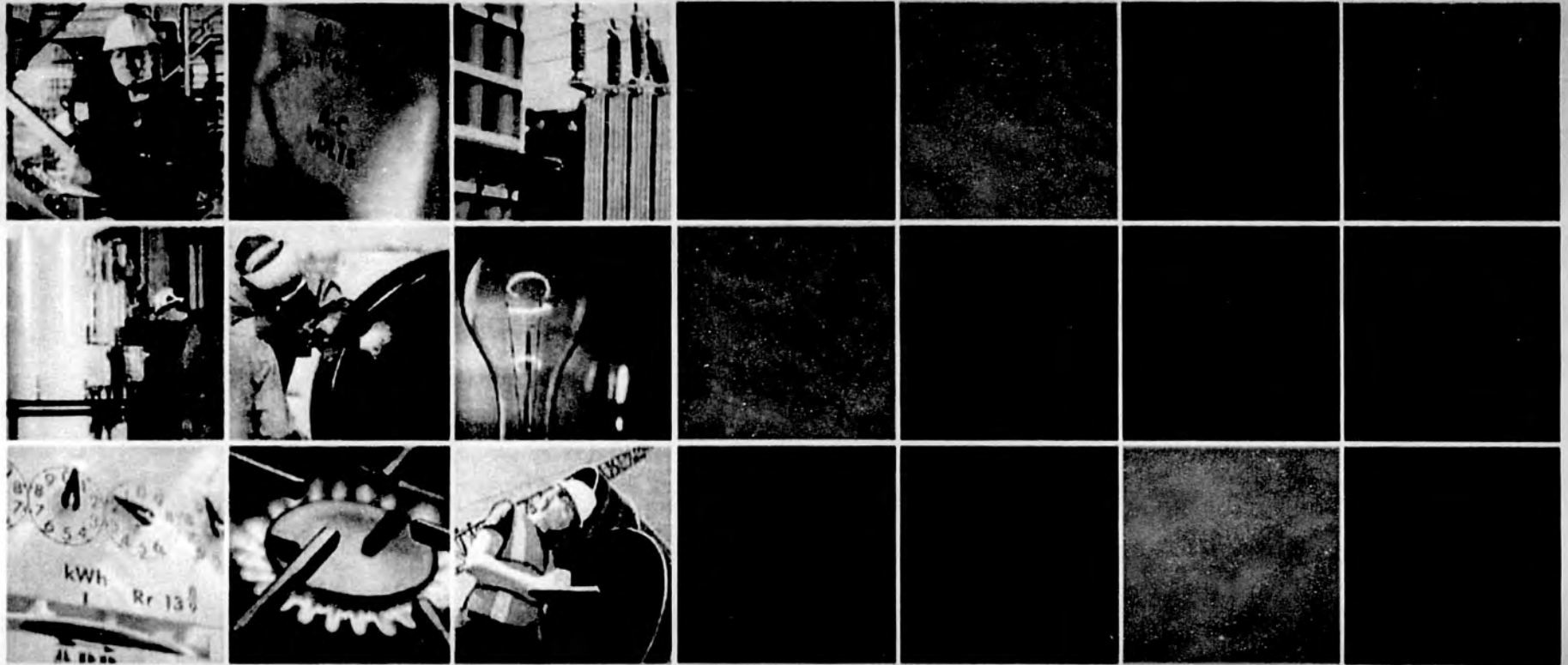
RFA

Contractual Relationship



- “The License constitutes the final contractual agreement between the state and the Licensee.” (RFA pg. 40)
- The License consists of the AGIA statute, the RFA, and the TC Alaska Application including all responses to additional information requests.

3rd Sp. Session on AG/A presented June 6, 7, 2008
Presented By Tony Palmer, TransCanada VP



TransCanada's AGIA Application Presentation to Legislature

June 2008



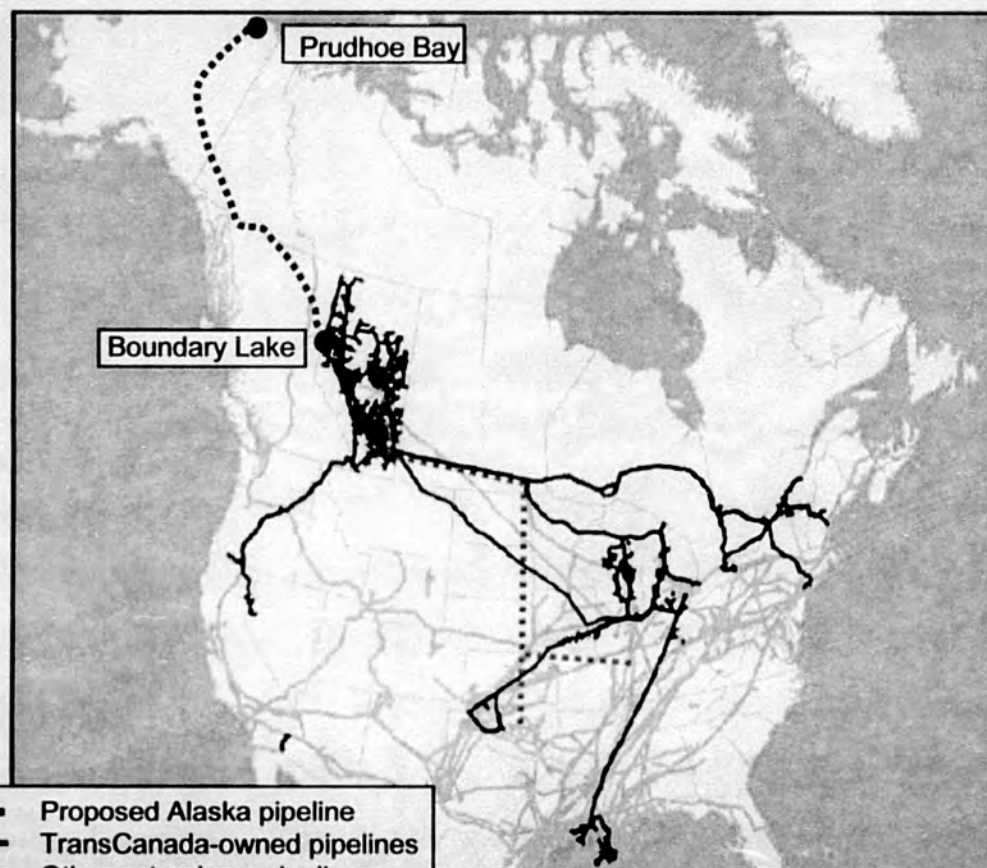
TransCanada
In business to deliver

TransCanada's Objectives – Alaska Project



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

TransCanada's Credentials



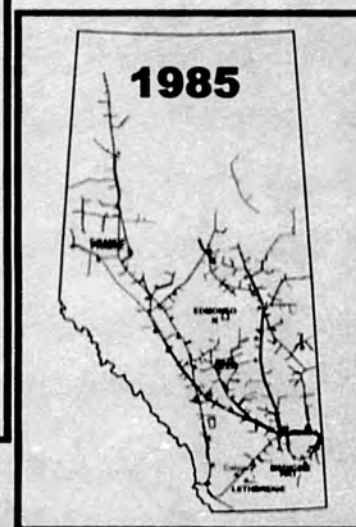
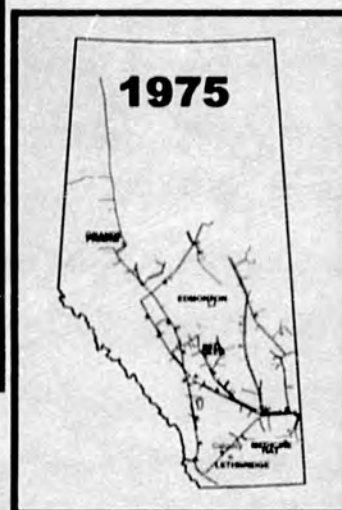
- Proposed Alaska pipeline
- TransCanada-owned pipelines
- Other natural gas pipelines
- Keystone pipeline

TransCanada Total Alaska Pipeline Project

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

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

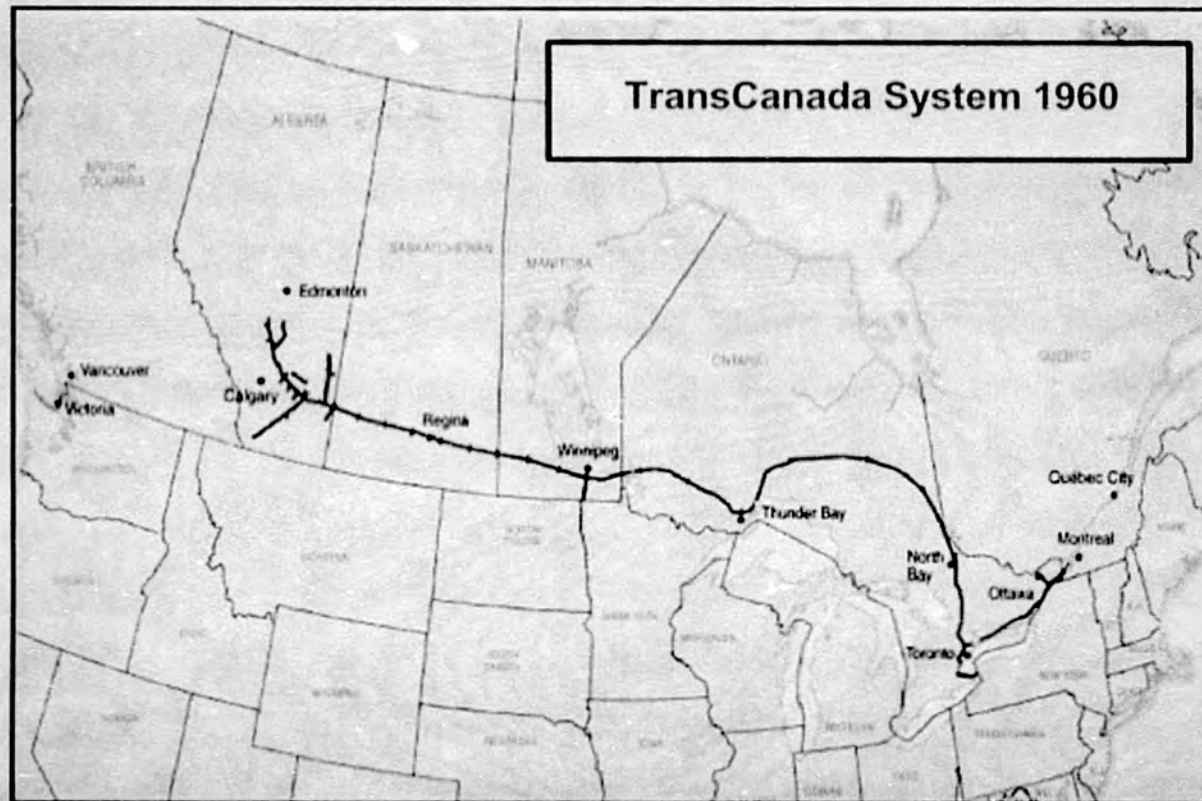
Proven Basin Developer – Alberta Example



Regulatory Structure

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

Proven Basin Developer – Mainline Example 1960

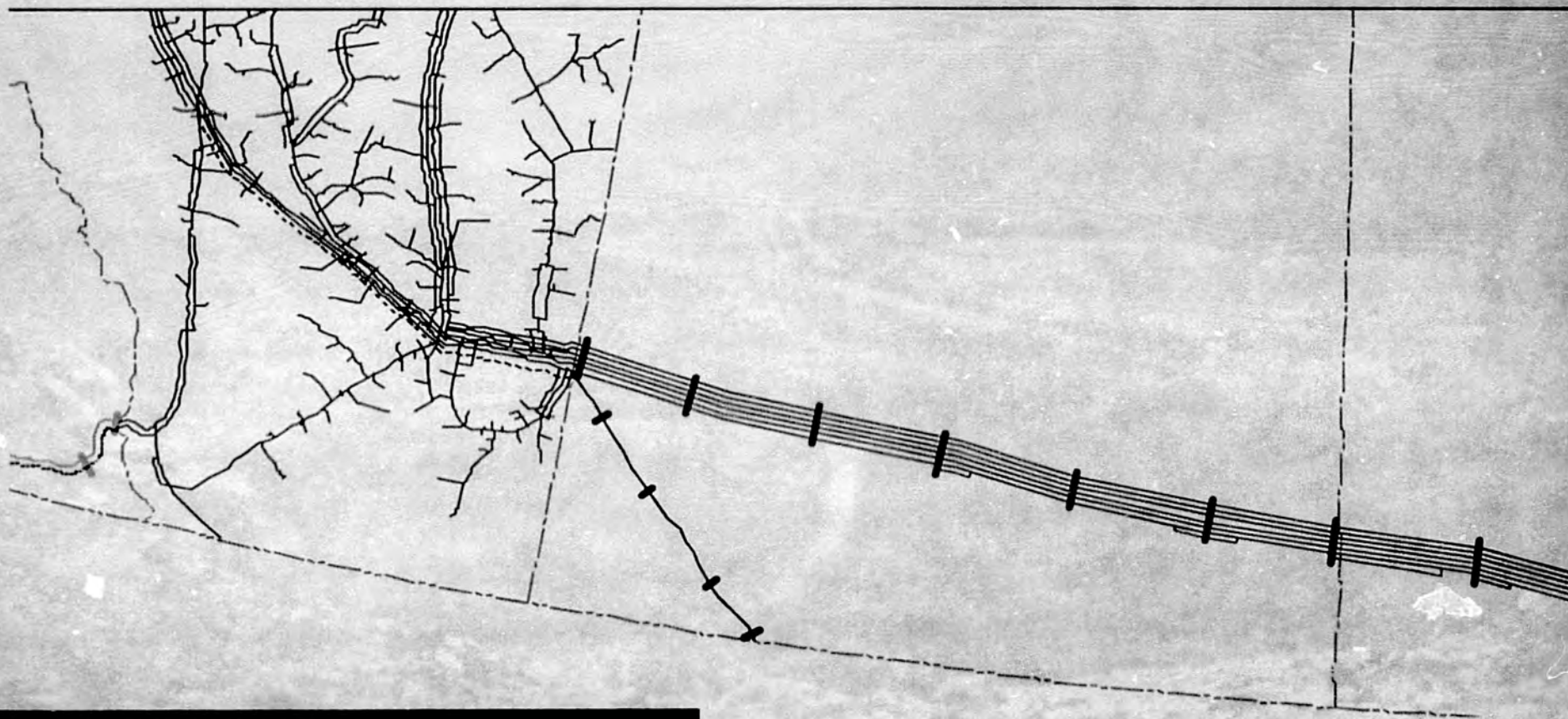


Proven Basin Developer – Mainline Example 2008



Alberta

Saskatchewan



Regulatory Structure

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

AGIA "Must Haves"



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

* Subject to AGIA license by April 2008

AGIA "Must Haves"



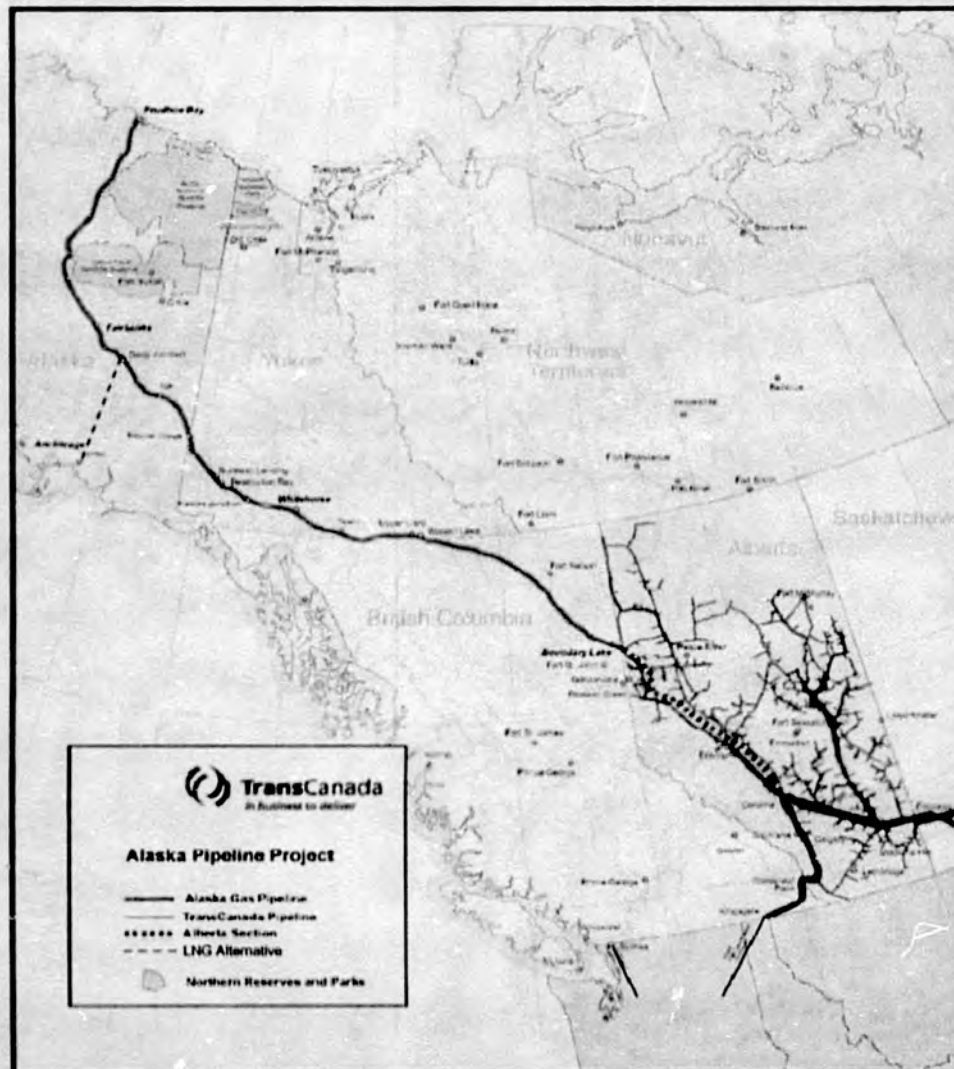
AGIA "Must Haves"	TransCanada's Application	Completeness
10. Project debt ratio minimum	Construction - 70% Operation - 75% (to reduce tolls)	✓
11. Capital cost overrun measures	TransCanada's return reduction (penalty) Potential \$18 B loan guarantee (stable tolls)	✓
12. In-state deliveries	Min. 5 delivery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

TransCanada's Competitive Response to AGIA



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

Alaska Pipeline Project



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

Project Description



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

Project Economics ¹



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

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

Financial Parameters



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

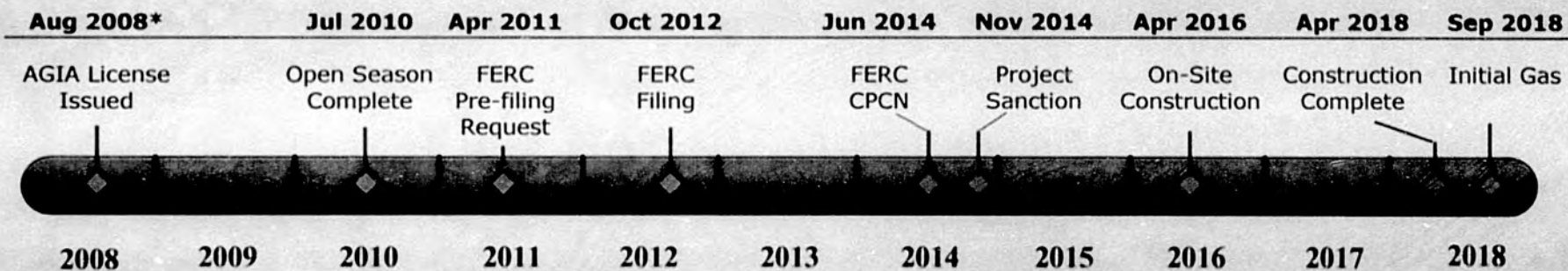
Schedule ¹



- Open Season
 - Concluded 24 months after AGIA License issuance – July 2010
- FERC Application
 - FERC pre-filing by April 2011
 - FERC Certificate application by October 2012
- FERC Approval
 - CPCN by Q2 2014
- In-service
 - September 2018

¹ Subject to AGIA License being issued by August 2008

Project Schedule



* AGIA license assumed to be issued in August 2008

Partnership Opportunity



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

Upstream Fiscal Terms



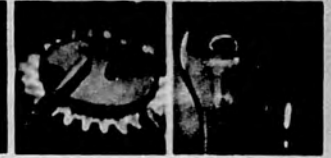
- TransCanada's AGIA obligations are not conditional on a review of Alaska's upstream fiscal terms.
- TransCanada acknowledges that this issue is between the State and natural gas producers.
 - TransCanada requests that the State review upstream fiscal terms for natural gas prior to the initial open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

Other Project Components



- Within Alberta
 - Foothills will construct necessary additional facilities to integrate with TransCanada's existing pipeline system in Alberta and connect to the Prebuild under the NPA
- NGL Extraction
 - TransCanada can accommodate NGL extraction in Alaska or downstream
 - TransCanada's Alberta system is straddled by three NGL complexes owned by third parties
 - Excess capacity expected at those plants sufficient to process Alaskan gas if Shippers so choose

Other Project Components (cont'd)



- Fort Nelson Option
 - TransCanada is exploring options to move its Alberta system receipt point upstream of Boundary Lake to Fort Nelson, BC
 - If successful, this would provide toll savings for Alaska Shippers of \$US 0.13-0.18/MMbtu
- LNG Alternative
 - TransCanada is willing to offer gas treatment and transportation services from Prudhoe Bay to an LNG terminal should insufficient gas be committed through Canada or via a Y-line

Regulatory Structure



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

Alaska – TransCanada Alaska Company, LLC



- Was never a partner in ANNGTC and owes no obligation to ANNGTC or Withdrawn Partners
- New start in Alaska, TransCanada Alaska Company, LLC will develop entirely new assets for the project – no utilization of **any** ANNGTC assets (certificate, Right-of Way, 404 permits, engineering, geotechnical, etc.)
- Additional safeguard - TransCanada's AGIA application commits to never including any potential ANNGTC liability in AGIA project tolls.

ANNGTC



- ANNGTC is a partnership certificated by the FERC some thirty years ago under ANGTA to construct the Alaskan section of a North Slope pipeline project
- Prior to the AGIA deadline for submitting applications, the ANNGTC partnership considered whether it could, or should, submit an application for the AGIA License
- ANNGTC concluded that the uncertainties created by its historical contingent liabilities precluded it from making a viable proposal
- Accordingly, ANNGTC did not make an AGIA application, and has played no role in the AGIA application filed by the TransCanada AGIA co-applicants
- No TransCanada entity is prohibited from pursuing a different project
 - No non-compete clause in ANNGTC partnership agreement
 - No implied duty to refrain from competing

ANNGTC (cont'd)



- Withdrawn Partners forfeited any right to be treated as a partner when they withdrew from ANNGTC
 - They have no right to anything unless ANNGTC builds the pipeline, which it cannot do
 - Entitled only to contractual right to payment
 - If and when ANNGTC builds the pipeline, and
 - If payment would not pose undue hardship on ANNGTC
- Partnership Agreement specifically provides that no other remedy is available.
- The two remaining ANNGTC partners intend to formally dissolve the ANNGTC partnership and dispose of all of its assets because it is no longer a viable enterprise.

ANNGTC - Summary



- TransCanada's AGIA Application has nothing to do with ANNGTC, its long history or its contingent obligations to Withdrawn Partners
- No claim has ever been made or even threatened by Withdrawn Partners
- Additional safeguard – TransCanada's AGIA Application commits to never including any potential ANNGTC liability in AGIA project tolls
- Any claims against third parties would also fail because third parties played no role in the TransCanada Partners' decision that the ANNGTC Partnership is no longer viable

Canada - Foothills Pipe Lines Ltd.



- Foothills Pipe Lines Ltd. was certificated under Canada's Northern Pipeline Act for the section of pipeline in Canada
- Foothills is an entirely separate entity from ANNGTC
- No Withdrawn Partner issues in Canada
- Foothills has no potential future contingent liability
- ANNGTC does not hold any authorizations under the Northern Pipeline Act or otherwise for any facilities in Canada
- Foothills Pipe Lines Ltd. does not hold any authorizations for facilities in the U.S. under ANGTA

Canada - Advantages of the NPA – Timing



- **Certificate of public convenience and necessity has been issued** by statute (section 21 of the NPA)
 - Public interest determination has been made
 - Process for meeting current environmental standards and approving design plans will include input by appropriate stakeholders and First Nations but **will not revisit the go/no go decision**
- **Single window, expeditious regime**
 - Cabinet is authorized to transfer the powers of any department or agency of the Gov't of Canada to the Minister responsible for the NP Agency
 - Minister is entitled to second employees from any dept or agency (including the NEB) to the NP Agency

Canada - Advantages of the NPA – History of Implementation



- The NPA has a history of implementation that will provide the precedents required to move forward on the APP.
- The NPA was used as the regulatory vehicle for the following:
 - Construction of the Pre-Build (approximately 25% of the Canadian portion of the APP)
 - Construction of 5 Expansions of the Pre-Build
 - Other – acquisition of Duke's Interest in Foothills (as recently as 2003-2004)

Canada - Advantages of the NPA - Flexibility



- **NPA is not prescriptive as to volume or design**
 - Sec. 3 (Treaty): "The initial capacity of the Pipeline will be sufficient to meet, when required, the contractual requirements of United States shippers and of Canadian shippers."
 - Sec. 10 (Treaty) indicates that the line size may be 48-54 inches in diameter "or any other combination of pressure and diameter which would achieve safety, reliability and economic efficiency...the decision relating to pipeline specifications remains the responsibility of the appropriate regulatory authorities".
 - NPA is not prescriptive as to timing
 - No sunset date in legislation

Canada - Advantages of the NPA – Flexibility (cont'd)



- **NPA is uniquely designed to meet current standards by requiring:**
 - Approval by the Designated Officer of plans submitted by Foothills to implement the approved project
 - Foothills to comply with all undertakings it provided during the NEB hearing and to provide to DO, for approval:
 - Final detailed design and detailed construction procedures and specifications
 - A schedule for project control, including schedules for regulatory reviews and approvals
 - Results of further studies (environmental, social and economic matters) as may be ordered or directed by the DO
 - Business and opportunity plans, environmental plans and procedures, plans for meeting Terms & Conditions

Canada - Advantages of the NPA – Land Rights



- **Foothills holds a right-of-way (ROW) in the Yukon**
 - Provides access through Yukon along the route of the APP
 - Acknowledged in the Umbrella Final Agreement by Yukon First Nations, Canada and Yukon
 - Final Agreements have been entered into by the Kluane, Champagne Aishihik and T'an Kwach'an First Nations, Kwanlin Dun, Carcross/Tagish and the Teslin Tlingit Council.
 - ROW has since been approved by Cabinet pursuant to Sec. 37 of the NPA and remains in full force and effect

Canada - Other Land – BC and Alberta



- In BC, Foothills holds Map Reserves under the *Land Act* and Mining Reserves under the *Mining (Placer) Act* for all lands required for pipeline purposes
- In Alberta, Foothills holds a Consultative Notation with respect to Provincial Crown Lands
- The effect of the above is to give notice of intended use of land to all others and provides Foothills with the opportunity to review and comment upon any conflicting proposed development
- The normal process for acquiring Crown land rights will occur as the project progresses; including a License of Occupation (*Land Act*) in BC and a Pipeline Agreement (*Public Lands Act*) in Alberta
- Negotiations with landowners for privately held lands



Fundamental Decisions

In passing the NPA, Parliament clearly:

- Decided that the APP is in the public interest
- Determined there is a need for the APP
- Recognized a general route for the APP
- Recognized that environmental and social impacts, while expected, would be acceptable with mitigation
- Created NP Agency to be the exclusive regulatory agency to determine environmental and socio-economic issues related to the completion of the APP, i.e. what was appropriate and what required mitigation

AGIA "Must-haves" Promote Basin Development



- Rolled-in tolls up to 115% of initial rates in Alaska
- Open Season every 2 years
- In-State deliveries
 - Distance-sensitive tolls
 - Minimum 5 delivery points (could not occur til 2018 @ earliest)
- Low equity ratio requirement for pipeline sponsors
- State fiscal incentives (if any) targeted to AGIA pipeline shippers