

ALASKA LEGISLATURE COMMITTEE FILES

2007-2008

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AGIA can help deliver a successful gas pipeline if we....

Avoid Exclusivity to Ensure a Pipeline Gets Built



- **AGIA may preclude a successful project from moving forward**
 - expedited regulatory handling offered only to licensed project
 - State can be penalized for assisting other project
 - AGIA may conflict with Federal law and regulation

- **Should the State pick an exclusive winner based only on a proposal?**

- **The market will determine the best solution through actual performance**

- **Alaska Natural Gas Pipeline Act is a good model**
 - Provides expedited regulatory handling to any project

AGIA can help deliver a successful gas pipeline if we....
Address Resource Terms to Allow a Project to Proceed



- The resource terms in AGIA will not encourage the firm transportation commitments needed for a successful project
- Solving resource issues with clarity will enable a successful open season which is the key to advancing the project
- BP wants to develop mutually agreeable resource terms

What is so important about ETS

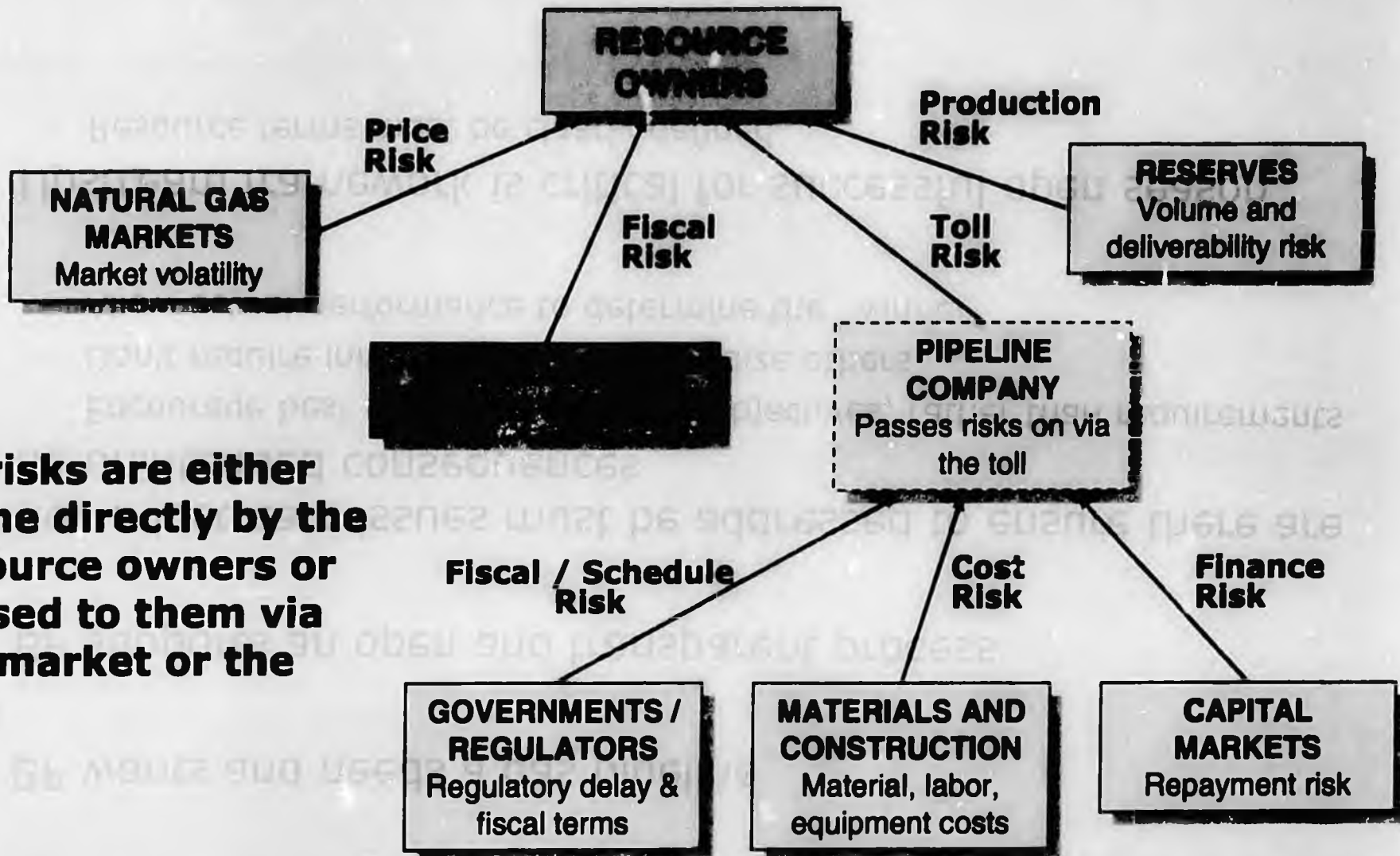




What is so important about FT?

- Firm Transportation commitments (FT) by the resource owners are needed for a gas pipeline company to get financing
 - "No customers, no credit, no pipeline" (TransCanada)
 - "No producers, no pipeline" (Enbridge)
- FT is a binding financial obligation
 - not simply "committing gas to a pipeline"
- Requires multi-billion dollar commitments by resource owners
 - Assuming 4.5 bcfd, \$3.50/mcf, 25 year term.....**\$144 billion**
- Long term commitments represent real risk
 - Risk is borne by resource owners

Project Risk Resides with the Resource Owners



All risks are either borne directly by the resource owners or passed to them via the market or the toll.

➔ Those bearing a risk are commercially motivated to manage that risk

Summary



- BP wants and needs a gas pipeline
- BP supports an open and transparent process
- Key midstream issues must be addressed to ensure there are no unintended consequences
 - Encourage best solution by offering objectives, rather than requirements
 - Don't require initial shippers to subsidize others
 - Allow actual performance to determine the "winner"
- Upstream framework is critical for successful open season
 - Resource terms must be clearly defined



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April 30, 2007

The Honorable Hollis French, Chair
Senate Judiciary Committee
State Capitol, MS 3100
Juneau, AK 99801

Senator French:

Thank you for the opportunity to provide testimony to the Senate Judiciary Committee. During testimony I was not able to fully answer a question regarding the Canadian policy on rate subsidization resulting from rolled-in rate treatment. I have provided a written response below.

What is the Canadian policy on subsidization as it relates to rolled-in rates?

I am not aware of any statement being made by the Canadian National Energy Board regarding subsidization resulting from rolled-in rate treatment. However, in Canada the NEB has determined that rolled in toll treatment for pipeline expansions is generally in the public interest.

An important decision on the matter of rolled-in rate treatment in Canada was made by the NEB on the Iroquois project (GH-5-89 Decision), in which the NEB found, among other things, that "tollpayers have no acquired rights", and that "when new facilities are completed they will become an integral part of [the] pipeline system and will not be associated with or dedicated to any individual shipper's gas."

I have also enclosed a copy of the public testimony BP provided on SB104. Thank you again for the opportunity to participate in your deliberations.

Sincerely,

David Van Tuyl
Gas Commercialization Manager, BP Alaska

Attachment
cc: Committee Members

**BP Testimony on AGIA (SB104)
Senate Judiciary Committee
April 14, 2007**

- Mr. Chairman, members of the committee, for the record my name is Dave Van Tuyl. I am the Gas Commercialization Manager for BP Alaska. Thank you for the opportunity to testify before you this morning.
- My testimony will start with some general comments about the importance gas pipeline project, then I'll provide some specific suggestions on the AGIA bill, then I'll turn to a brief discussion of financing and risk, and then I'll conclude with a summary.

BP's Vision for Alaska

- I'd like to spend a moment to look into the future and consider the opportunities we have before us.
- BP has a **long history in Alaska**. BP has been actively involved in the exploration, development and production of Alaska's North Slope energy resources for decades.
- And we see the opportunity for a bright future ahead. In fact, we envision our **50-year future in Alaska**. It's not just a slogan.
- So how might that vision look to our company?
- I'd like to turn your attention to the graph at the bottom of slide 2, which shows the **possibility of the future that BP sees** in Alaska, depicting BP's share of production through time.
- There are a few key points to draw from the graph.

- The days of **high plateau** production are behind us.
- We still have a significant level of production today, but that **production will continue to decline** with time. That's what the dotted red line depicts.
- That shows production declining at historic levels, which already would require **significant investment**.
- We can make up that decline in production with new investment that would result in new production from **heavy oil resources and from gas**.
- But it's not a given. It's a view of what's **POSSIBLE**.
- That future is only made possible with an Alaska gas pipeline project.

BP Key Messages

- So **BP wants and needs a gas pipeline**. And we need that pipeline to be built for a low capital cost and then operated cost efficiently. We believe that is what is required to make the project happen and be successful. Low costs are good for both BP and the State because it results in lower tariffs, higher netbacks and more revenues for the State and BP.
- Also, a low cost project will provide incentive to explore for more gas to keep the pipeline full into the future. That is also good for the State and for BP.
- The best way to ensure there is gas exploration in the future is to get a gas pipeline built in the first place, and to get it built for a low cost.

- This is a **hugely important project to BP, to Alaska and to the nation**. It represents the largest, known, undeveloped gas resource in the United States, and in BP's global portfolio. The gas project is important in its own right – but it also extends the economic life of Alaska's oil production for decades. Extending oil production is good for the State, the nation and for BP.
- We **share the governor's and the legislature's desire** to get a successful gas project moving, and **BP stands ready** to engage with the administration and legislature to reach a balanced fiscal framework that works for all the parties.
- And finally, a successful framework will set the foundation for **a stable, healthy, and viable oil and gas business for decades** to come. BP's future in Alaska is directly linked to the gas pipeline project.
- That's why we are very encouraged by the Governor's and the legislature's enthusiasm about getting Alaska's gas to market. That is also our vision, and so we share your enthusiasm. It's the key to Alaska's future, and to BP's future in Alaska.
- Therefore, it's important that we get it right.
- BP sees AGIA as the Administration's expression of its commitment to advance the gas pipeline project in an open and transparent way. We applaud that good faith expression.
- Developing the right process is difficult. Since first seeing AGIA at its roll out to the legislature and the public on March 2nd, we have identified a number of important areas of concern for you to consider.

- We believe AGIA CAN be successful if some key issues are addressed, and I've summarized those concerns here, and will discuss them in more detail shortly.
- We believe AGIA may create some unintended consequences that could jeopardize the vision of getting Alaska's gas to market quickly, and at low cost. We believe it is important for the Legislature to consider these areas of concern as you deliberate on AGIA.
- Why do we feel these changes are so important? It's because we want the project to be a success, because there is much at stake for BP and for Alaskans.

What A Successful Gasline Means

- It's worth a brief reminder of the importance of a successful project. And I'd like to emphasize that what we need is a SUCCESSFUL gas pipeline, not just ANY gasline.
- As we've said, this is a project of tremendous scope and scale and that's what the picture reminds us of. Because of this it presents tremendous risk. But if it's done right, it also presents the opportunity for great benefits as well.
- Because there is much at stake, we need to get it right.
- The project creates the opportunity for jobs for Alaskans, and if we deliver a successful, low cost project, for revenues to the State and to BP well into the future.

- We can create a whole new industry of gas exploration with a successful, low cost project. Gas exploration and expansion are only possible if the pipeline gets built in the first place, and if it's built for a low capital and operating cost. That will make it attractive for bringing new volumes into the project, which benefits the State, gas explorers, and initial shippers as well.
- A successful gas pipeline project will provide the opportunity to bring a long term gas supply source for use by Alaskans.
- And finally, gas sales will diversify Alaska's economy for decades into the future.
- As I said, there's a lot at stake, so we need to get it right.
- Now I'll turn specifically to our suggestions on AGIA that would help AGIA deliver a success gas pipeline.
- Each of the next three slides starts out with the statement, "AGIA can help deliver a successful gas pipeline if...", and I'll describe modifications we recommend to AGIA on each slide.

Use Objectives Instead of Prescriptive Requirements

- First, AGIA can help deliver a successful gas pipeline if we use objectives, instead of prescriptive requirements
- We fully support the State clearly providing its objectives for a successful gas pipeline project
- The concern we have is that AGIA as drafted presupposes solutions to those objectives, such as those contained in Section .140 starting on page 4 of the bill.

- We think that prescribing solutions up front will not result in the best project. We've heard the administration state their intent that "we need to let industry do what they do best". We fully agree with that intent, and think it only gets met if industry is allowed to offer its own unique, creative solutions.
- One specific example of prescribing a solution we find particularly troubling is the issue of toll subsidization.
- AGIA as drafted can result in one party subsidizing another. Now I'm referring to the language in Section .140(7) of the bill on page 7-8. AGIA specifically requires initial shippers - who financially underpin the project and who already bear most of the risk associated with the project - to bear yet another risk and additional cost: the risk of tariff increases of 15% or more by **subsidizing expansion shippers**
 - First I want to make clear that the issue is not just the potential for a 15% rise in the tariff. And by the way, the "15% cap" as I've heard this language characterized is not 15%, and it's not a cap. In reality it could result in a significantly higher increase than 15%.
 - But the more fundamental issue is that we believe the issue of subsidization is contrary to FERC policy.
 - We understand and we fully share the State's desire for a pipeline to be expandable - it's absolutely good business.
 - However, we believe that the **State should carefully consider** the potential adverse consequences of requiring pipeline owners to increase rates on their initial customers to subsidize expansion shippers.
 - A policy of subsidization places additional risk on the initial shippers, making the project less attractive, and therefore puts the project at risk.

- Now if the **State wants to subsidize others**, it can certainly do so itself, directly, as a policy choice. But we don't believe it's good policy to do so with other peoples' money.
- Congress made clear in the Alaska Natural Gas Pipeline Act of 2004 that rates for initial shippers should NOT increase if a mandatory expansion was ordered. In fact, the language of the Federal Law states that

"the [FERC] shall...ensure that the rates do not require existing shippers on the Alaska natural gas transportation project to subsidize expansion shippers." - ANGPA, Sect. 105(b)

- Also, in Order 2005, FERC put in place a rebuttable presumption of rolled in rates for expansions provided it did not require subsidization by initial shippers [and I'd like to read paragraph 125 of the Preamble]:

"In conclusion, to provide guidance to potential shippers in advance of the initial open season that is the subject of this rule, the Commission intends to harmonize both objectives (rate predictability for initial shippers and reduction of barriers to future exploration and production) in designing rates for future expansions of any Alaska natural gas transportation project. It is consistent with our guiding principle that competition favors all of the Commission's customers, as well as with the objectives of the Act, to adopt rolled-in rate treatment up to the point that would cause there to be a subsidy of expansion shippers by initial shippers, if any subsidy were to be found." [Order 2005, paragraph 125]

- These two excerpts from Federal law and regulation, suggest that .140(7) of AGIA and Federal law could be in conflict. This conflict

issue actually becomes quite complicated, and we are continuing to study it. If indeed there is a conflict, resolving it would add delay and uncertainty. We do not see how that is in any of our interests.

- So we remain concerned about this conflict.
- In any case, we believe that this type of provision, requiring a subsidy for not-yet-ready shippers at the expense of initial shippers, would be a disincentive for potential shippers participating in an open season. That's not in any of our interest.

Avoid Exclusivity to Ensure a Pipeline Gets Built

- The second modification that would enable AGIA to help deliver a successful gas pipeline relates to the issue of exclusivity.
- Under Sections .410 and .540 of the bill on pages 20 and 22, AGIA would result in an **exclusive winner** before any real work is done and awards State funds based on promises, not results
- We are concerned that this feature may actually **PRECLUDE** a successful project from moving forward. That's clearly not anyone's intent, but could be an unfortunate unintended consequence.
 - Our understanding of AGIA is that expedited regulatory handling is offered only to the licensed project, and that the State can be penalized for assisting another competing project
 - We're concerned that this approach may actually conflict with Federal law and regulation, which favor competition among various project proposals and market involvement in the choice.
 - We think it wise that the State consider **avoiding any notion of exclusivity** or the government 'picking a winner'; I'm not aware of any example where that has worked successfully.

- We recognize that the Administration has, in good faith, laid out selection criteria under Section .180 to enable the selection of the exclusive winner in as transparent a way as possible.
 - So that leaves a fundamental question: Should the State pick an exclusive “winner” based only on a proposal?
 - That approach gives us concern.
 - We believe that the **State can help to advance the project by setting out a clear framework for investors** - from there the market will work to identify the most effective project
 - And we support open competition in the **marketplace**, rather than in advance of actual performance or before the competition actually starts
 - In fact, the FERC requires that the **market demonstrate that it wants that application** before awarding a certificate to an applicant. That's what happens in a successful open season.
 - We believe the Federal law under ANGPA offers a good model, in which expedited regulatory handling is provided to ANY project.
 - We certainly understand that from the State's perspective, there are a number of **specific things desired from ANY project** (jobs and training for Alaskans, gas access for Alaskans, pipeline expansions).
 - We support all of these objectives.
 - Those objectives can and will be addressed by a successful project through open competition in the marketplace.
- A third area we suggest be considered carefully is that, although AGIA seeks to get a project moving, and we fully support that objective, **it does not sufficiently address the resource framework, which is the key enabler for a financeable project**
 - That said, **we are encouraged that AGIA recognizes at least in part, the importance of some of these key resource issues.**
 - In Section .310 on page 16, AGIA seeks to address the issue of **royalty valuation**, which has been an historic source of conflict

between industry and the State. But we are concerned that these terms **do not provide sufficient clarity** to justify making the firm transportation commitments required to underpin the project.

- The royalty valuation provisions depend on future regulations; neither the shippers nor the legislature know what those regulations might say.
 - The valuation regulations would allow for retroactive adjustments, and the regulations associated with RIV/RIK switching imply that “reasonable” disproportionate costs and “reasonable” interference with marketing is okay. I don’t know what that means or how to evaluate that.
 - Also, these regulations may change every two years.
- In Section .310(a)(3) on page 17 of the bill, AGIA seeks to address royalty issues associated with **RIV/RIK switching** which is incompatible with the long-term arrangements required to make a gas pipeline project happen (RIV = “royalty in value”; RIK = “royalty in kind”). RIV/RIK switching is problematic for at least two reasons:
 - 1) One is that if the State chooses to switch let’s say from in-value to in-kind, the **shipper would have to come up with additional gas to satisfy its customers** in the marketplace.
 - 2) The second problem is associated with obtaining the capacity on the pipeline if the State switches. For instance, if the State had originally elected to take gas in value, the shipper would have obtained the associated capacity to ship the State’s associated share of gas. If the State then switched from in-value to in-kind, this could result in **stranding downstream capacity**, raising the question of who would pay for that cost of unused capacity.
 - Under AGIA, the specific solution to RIV/RIK switching is **left to future regulation** that, as I mentioned earlier, would allow for the lessee to bear disproportionate costs, and potentially interfere with long-term marketing.

- AGIA includes a provision related to gas production tax in Section .320(a) on page 19. However, the gas production tax rate is not established, and **only becomes known after the conclusion of the open season**. A shipper would not know what the production tax is before having to make the FT commitment, which would be an incredible risk.
 - The gas production tax rate is then only established for a period of 10 years, which for reference is a **fraction of the period that shippers will likely be required to make their firm transportation commitments**.
 - **AGIA is silent as to the many other payments** made to the State, which constitute the majority of industry payments.
- It is widely understood that the resource owners will pay the cost and bear the risk in building a pipeline **whether they own it or not**
 - Resource owners will pay all the costs of the pipeline, either directly or indirectly by reimbursing the pipeline owner through the tariff for the costs they incur
 - It's the RESOURCE that drives the construction of a basin-opening pipeline like this project, NOT the PIPELINE that drives the resource!
 - Therefore, solving the resource issues with clarity is key to allowing a project to move forward.
 - Multi-billion dollar commitments spanning decades are needed to financially underpin this project;
 - Just like Wall Street needs to know the rules before lending money, resource owners need to know the fiscal rules that will govern the project before making commitments that will enable the pipeline to be financed.

- Although this is widely known, the details of an upstream framework are complex and will take time and effort by both the State and the producers to agree - but unless they are addressed, a project won't secure financing; it won't advance
 - The provisions of Sections .310 and .320 do not adequately address these upstream issues. To do so requires robust interaction.
- Thus far, there have been some high level discussions between our senior management and the Governor.
- But we've been disappointed in the level of interaction with the Commissioners and their staff. That's where the problem will ultimately be solved.
- Over the last three weeks we've had three constructive discussions with one deputy Commissioner. That's a start.
- We would welcome the opportunity to increase the frequency and depth of dialogue with the Administration.
 - BP remains ready to engage at any time

What Is So Important About FT?

- We've heard a fair amount, in this committee and others, about this term called "FT" which is short for firm transportation commitments
 - In listening to many of these hearings it seems to me that the nature of these commitments is not fully understood
 - However, these commitments are absolutely critical for a gas pipeline to be successful
 - Therefore, I thought I'd spend a moment hopefully adding a bit of clarity to the understanding of FT

- These commitments, typically obligations to “ship or pay” made by the resource owners or “shippers”, are needed by the pipeline company to get financing
 - validating just how important they are, we've heard some very simple and straightforward comments from pipeline companies who have testified in the past couple of weeks
 - TransCanada has said “No customers, no credit, no pipeline” (and in this context customers means shippers)
 - Enbridge put it even more simply by saying “No producers, no pipeline”

- Those aren't “political” statements. They are statements about the simple financial truths of gas pipeline projects

- FT is a binding FINANCIAL obligation. I've sometimes heard FT described as “committing gas to a pipeline”. I've heard that quote from industry as well as others, so I'm not pointing any fingers here. But I just wanted to make it clear that FT is an actual financial obligation
 - Typically, FT is known as a “ship or pay” obligation
 - That means that a shipper commits to pay the pipeline company for use of its service whether or not the shipper actually delivers gas to the line
 - And it's also important to note that a company does not need to have ANY gas resources to enter into a firm transportation commitment. Any company who meets the creditworthiness standards set by the pipeline company is free to bid for capacity. Gas pipelines are “open access”. Anyone is free to obtain capacity if they make the requisite commitments.
 - These FT commitments are real financial obligations. We are required to disclose these commitments as additional information with our filing with the SEC.

- Clearly, an FT of this magnitude will be taken into consideration by financial entities like banks when evaluating our company. That's because it's a real obligation.
- Once these commitments are made to the pipeline, they are used by the pipeline to obtain financing from the financial markets, provide coverage for that financing, and a return for the pipeline.
- Maybe an example to explain the nature of these commitments would help. Let's say we've had a successful open season, the pipeline gets project financed, is built and it's in operation. Then, heaven forbid, for some reason the pipeline company goes bankrupt. Not what we're hoping for, for sure. But what would the lenders do? So they would turn to the FT commitments made by the shippers to get their repayment. And these FT commitments would indeed be paid to the lenders. That's because they are a **REAL FINANCIAL COMMITMENT**. They have to be properly taken into consideration when evaluating project economics.

- The scale of these commitments is often oversimplified. It's not "just" the capital cost of the project, if that weren't in itself a large enough commitment.
 - the commitment is for what is known as the "demand charge" which is the cost of service the pipeline will charge through time
 - Capital is one major component
 - But for illustration, I've provided some broad assumptions to put the scale of these commitments in perspective.
 - assuming a 4.5 bcfd project, at a unit cost of \$3.50/mcf for 25 years results in a total FT commitment of \$144 billion
 - That's a huge sum, even for a company the size of BP

- These long term commitments are just that – commitments. Therefore, they represent real risk. And the size of these commitments magnifies the risk. And that risk is borne by those making the commitments,

Risk Diagram

- This next slide attempts to show how **risk is ultimately allocated** in a major resource development project like the Alaska Gas Pipeline Project

- I'm going to **step through it one bit at a time.**

- First, we start with the **Resource Owners** – that's of course the State of Alaska, and it includes the lessees, like BP, CP, EM, Chevron and others.

- There are certain risks that are inherent to the resource itself.
 - There is always price risk associated with selling a commodity like gas
 - that's the risk that the price of gas will fall in the future, possibly below the tariff
 - There's also production risk
 - Keeping the pipeline full for project life
 - Being able to deliver the full volume every day
 - These risks are important considerations when a resource owner has to make the firm transportation commitments necessary to underpin the project

- Next, there's fiscal risk for a lessee; that's the risk that the fiscal terms on the upstream business might change. On major infrastructure projects like this around the world, it's not uncommon for host governments to address fiscal risk with a mutually agreed framework.

- There are also a whole host of risks associated with constructing the pipeline itself
 - Regulatory process could change → schedule risk
 - Material, labor and equipment costs → cost risk, which includes project management and execution
 - Need for finances from the capital markets → finance risk

- **What is critical to appreciate** is that all these project-related risks that are taken by the pipeline company are ultimately passed through to the resource owners through the toll
 - The Pipeline company receives a regulated rate of return
 - Gets a reasonable return on investment commensurate with the risks
 - That's the pipeline's reward
 - In exchange for this regulated rate of return, the regulators ensure that the pipeline does not take on certain risks
 - These instead are passed through to the resource owners, provided that the pipeline owner delivers the project on time and operated efficiently
 - That's how the risk / reward balance is struck by the pipeline regulators

- So ultimately, **ALL RISKS** are either borne directly by the resource owners, or are passed through to the resource owners through the toll

- To ensure a low cost project, it's important that those that are bearing a risk are able to manage that risk
 - They are commercially motivated to manage that risk downwards

- To reiterate, it's critical that the fiscal system is established in such a way that the risks associated with the resource or "upstream" are adequately addressed to ensure the risk / reward balance is right.
 - That will maximize the likelihood of having a successful open season and a successful project.
 - The State is uniquely positioned to address this risk

Summary

- So in summary, I'd like to leave you with four messages.

- First, BP wants and needs a gas pipeline. It's critical to our vision of the 50-year future in Alaska.

- Second, BP fully supports an **open process** that leads to a mutually agreed fiscal framework with the State that **allows a project to advance and attract financing**

- We think there should be an **open and transparent public review** of the resulting framework
 - The Governor has already committed to keep the legislature and the public apprised - we fully support her in that.
 - It is critical that the legislature supports and endorses that framework
 - The judicial branch should review that framework to ensure constitutionality
 - The people of Alaska and all 3 branches of government should and will be consulted.

- We think that the resulting framework should be **available to all investors** to ensure competition

- Third, we believe that a number of midstream details in AGIA should be fixed.
 - We think the best project will come about if the State allows industry to offer solutions, rather than prescribing them up front.
 - The provisions which result in rate subsidies of one party to another should be eliminated
 - **any notion of exclusivity** or the government 'picking a winner' like those contained in Sections .410 and .540 should be avoided
 - Any process should allow competition in the marketplace to work

- It is easy to make hopeful promises but it is harder, and vitally important, to deliver performance
 - That is what we believe the State should require. **Delivery, not promises.**

 - And finally, a **mutually agreeing an upstream framework is critical.**

 - The resource issues must be resolved for the project to proceed and to ensure the resource owners have sufficient confidence to make the necessary long term financial commitments in an open season required to advance the project. Section .310 and .320 of AGIA do not accomplish this objective.

 - We are ready to engage on developing that upstream framework.

 - Thank you for the opportunity to testify today. I'd be happy to answer any questions you might have.
-



Senate Judiciary Committee

April 14, 2007

■ **Alaska Gasline Inducement Act (AGIA) Process**

- Open, transparent and competitive
- Identifies clear evaluation criteria
- Inducements to project applicants in exchange for specific commitments
- Empowers selected applicant to build successful consortium, leading to open season

■ **Return to Stranded Gas Development Act Process?**

- No identified criteria
- No requirement to justify need for 30-45 years of concessions in excess of \$10 billion
- State in compromised negotiating position
- No project commitments other than spending levels – due diligence only criteria
- Oil tax concessions beginning now for 30 years with no commitment to build a line

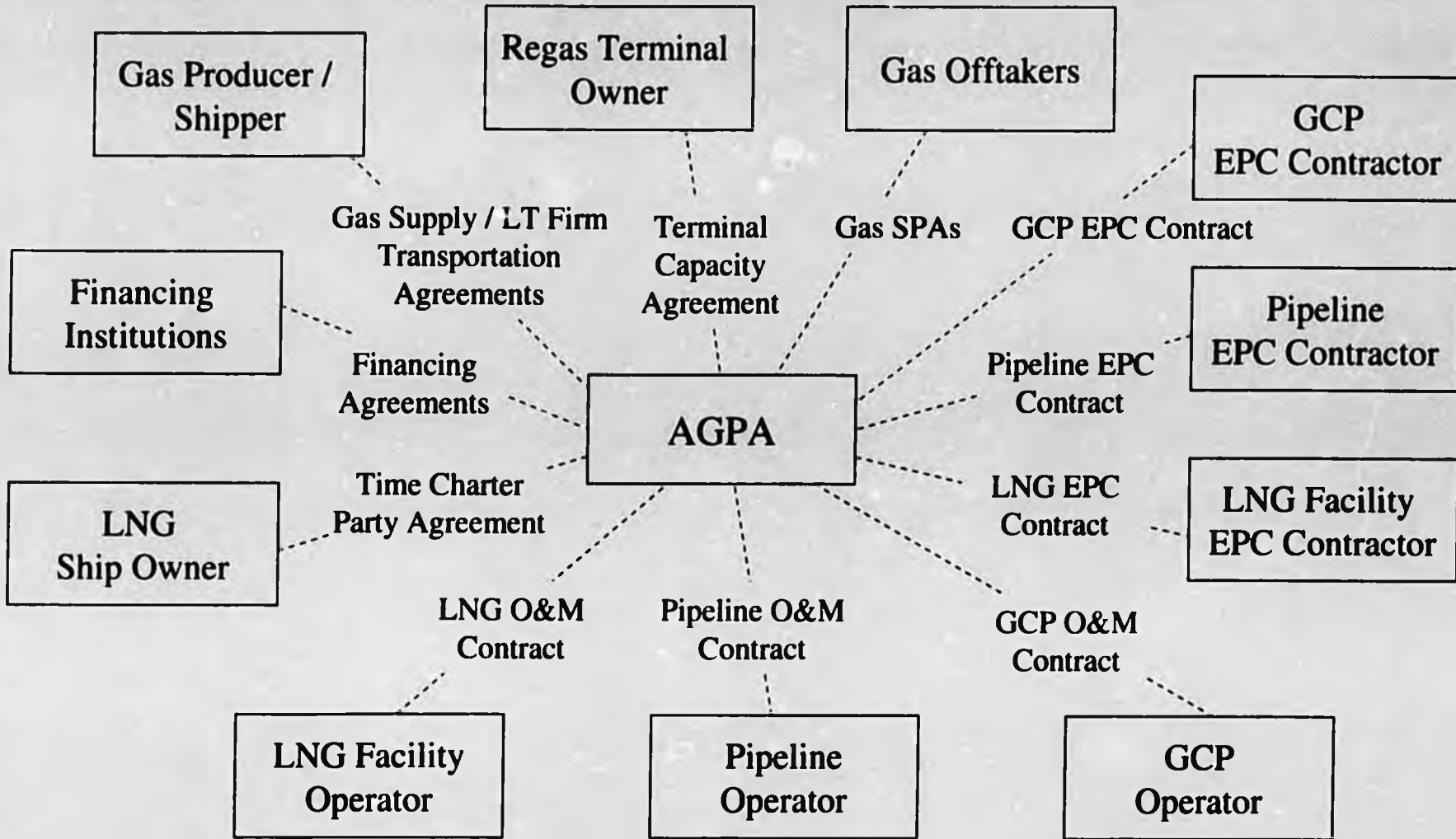
The Alaska Gasline Port Authority ("AGPA")



Formed to ensure:

1. A gasline is built
2. Stable source of energy to Alaskans not tied to Lower 48 price index (Henry Hub, etc.)
3. All pipeline and liquefaction associated jobs are within the state of Alaska; including construction, operation, and maintenance
4. Direct net-project revenue sharing – 60% to State – 30% to every Alaska municipality – 10% in energy related benefits to rural Alaska
5. Earliest opportunity for in-state gas availability
6. Greatest opportunity to supply gas liquids to in-state markets
7. Market optionality for Alaska's gas

Indicative AGPA Project Structure



- Industry leaders will be involved in all components of AGPA's project

AGPA Project Description



Gas Conditioning Plant in Prudhoe Bay

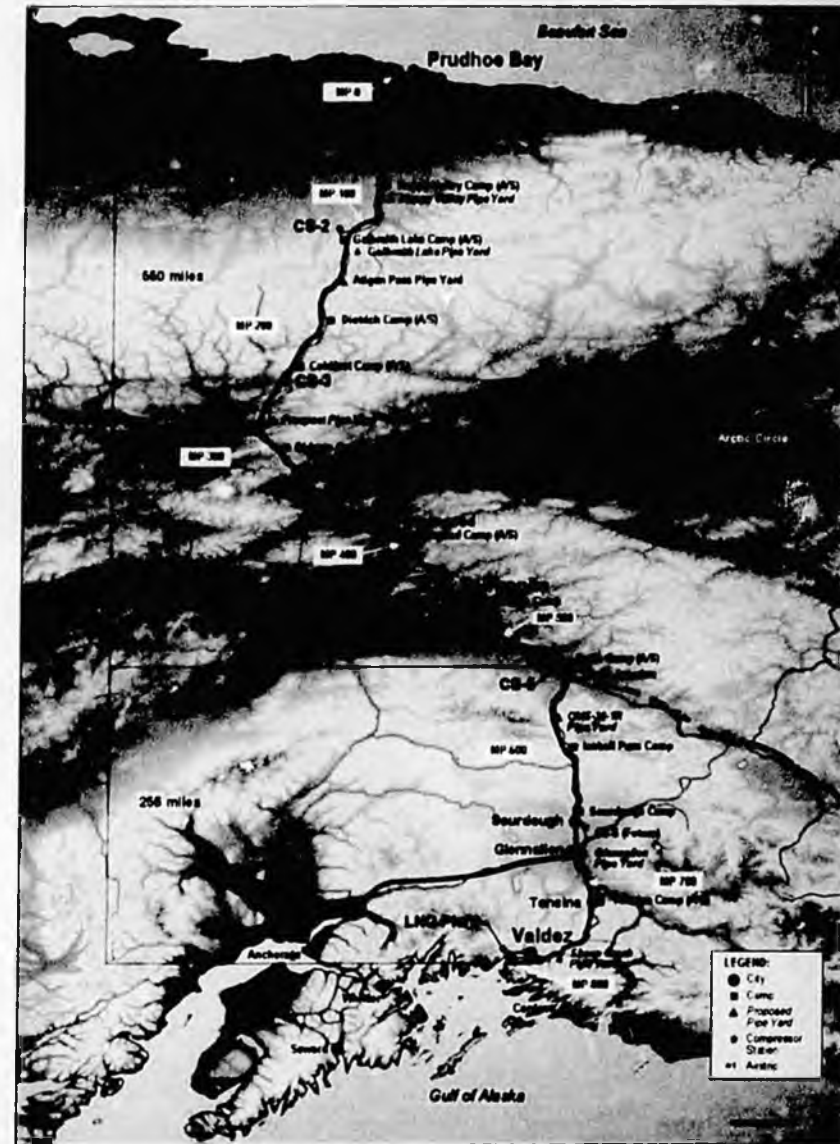
- removes impurities
- compresses and chills the gas to pipeline specifications

Pipeline from Prudhoe Bay to Valdez

- parallel to TAPS
- pre-build to Delta Junction for later tie-in for the Alaska/Canada Highway Project
- tie-in at Glennallen for a spur line to Alaska South Central natural gas grid

LNG Facility in Valdez

- integrated LNG liquefaction and LPG extraction facilities
- includes storage and vessel loading facilities



Project Status



1. Project Route Permitted
2. The 12 Senior Permits Acquired
 - Yukon Pacific Corporation
 - \$100 million expended
 - Right-of-way
 - Project FEIS
 - LNG terminal permit
3. Bechtel Cost Estimates
 - Complete & Updated
4. Marine Transportation / Jones Act
 - MOU with the largest LNG shipping company in the world – Mitsui OSK Lines
5. Access to Multiple Markets
 - Only West Coast receiving terminal under construction
 - West Coast Alternatives
 - Hawaii
 - Pacific Rim
6. Anticipated Financing
 - 80% debt (Federal loan guarantee available)
 - 20% private funding

Financing Approach



- Limited recourse project financing
 - well-established financing approach for capital-intensive energy or infrastructure projects around the world
 - Project is sole source of repayment of loans – limited or no recourse to sponsors and other Project participants

- The key factors for financeability
 - commercial and contractual structure
 - project economics; ability to generate cash flows sufficient to repay the debt
 - experience and track record of the various project participants, including: engineering and construction contractors, facility operators, offtakers, suppliers, etc.
 - appropriate risk allocation under project and financing agreements
 - credit worthiness of the counterparties under Project agreements

Risk Mitigation



- 800 mile pipeline is 100% adjacent to TAPS, 100% in Alaska
- Infrastructure in place for entire line – roads, bridges, camp pads, etc.
- LNG project: lower overall cost overrun risk:
 - liquefaction facilities utilize proven technology and well-tested design, resulting in a relatively low level of uncertainty in cost estimate
 - low level of cost uncertainty for LNG marine transportation and regasification
 - pipeline component has the highest capital cost uncertainty – for LNG project the pipeline is only a portion of overall cost to market
- LNG Project with 2/3 less cost = 2/3 less risk

- Alaska loses U.S. markets to LNG projects from elsewhere
- Expiration of \$18 billion Federal Loan Guarantee
- Increased cost of construction (steel, etc.) as years of study and negotiation goes by

LNG Project is Economic



- Robust economics with a forecast of internal rate of return in excess of 30% to upstream producers with no tax concession by State

- Greatest benefits to the State of Alaska

- Favorable economics takes into consideration AlCan Highway pre-build to Delta Junction

- Win-Win for Alaska for LNG:
 - Capture West Coast market now plus enable a later AlCan Highway project to proceed when ready

Advantages of LNG from Alaska



- The Alaska LNG project will benefit from an efficient, low-cost liquefaction operation:
 - ambient conditions (low average temperatures) in Valdez result in significant unit cost savings in comparison with liquefaction facilities located in tropical climate
 - efficiency gains estimated in the range of 30 – 40%
- Most other LNG projects have significantly higher marine transportation costs to market due to longer shipping distances
- Many other LNG projects involve higher upstream costs due to complex, expensive field development
 - Alaska benefits from substantial existing North Slope infrastructure and developed fields (Prudhoe Bay)

Advantage of LNG for Alaska – Right Sized Project



- **Gas requirements:**
 - **Current ANS discovered gas resource: 35 Tcf**
 - **Alaska LNG project initial phase gas requirements: 15-25 Tcf (1.5-2.5 bcf/d)**

- **Maximum current offtake allowed for PBU is 2.7 bcf/d (AOGCC Rule 9)**
 - **LNG: approximately 2 bcf/d offtake**

- **The Alaska LNG project will enable Alaska's gas to reach Alaskan's and the market sooner, while exploration efforts are underway for the larger pipeline projects**

- **AGPA provides Alaska's vast gas resources the significant benefit of market optionality**

AGIA Suggested Amendments

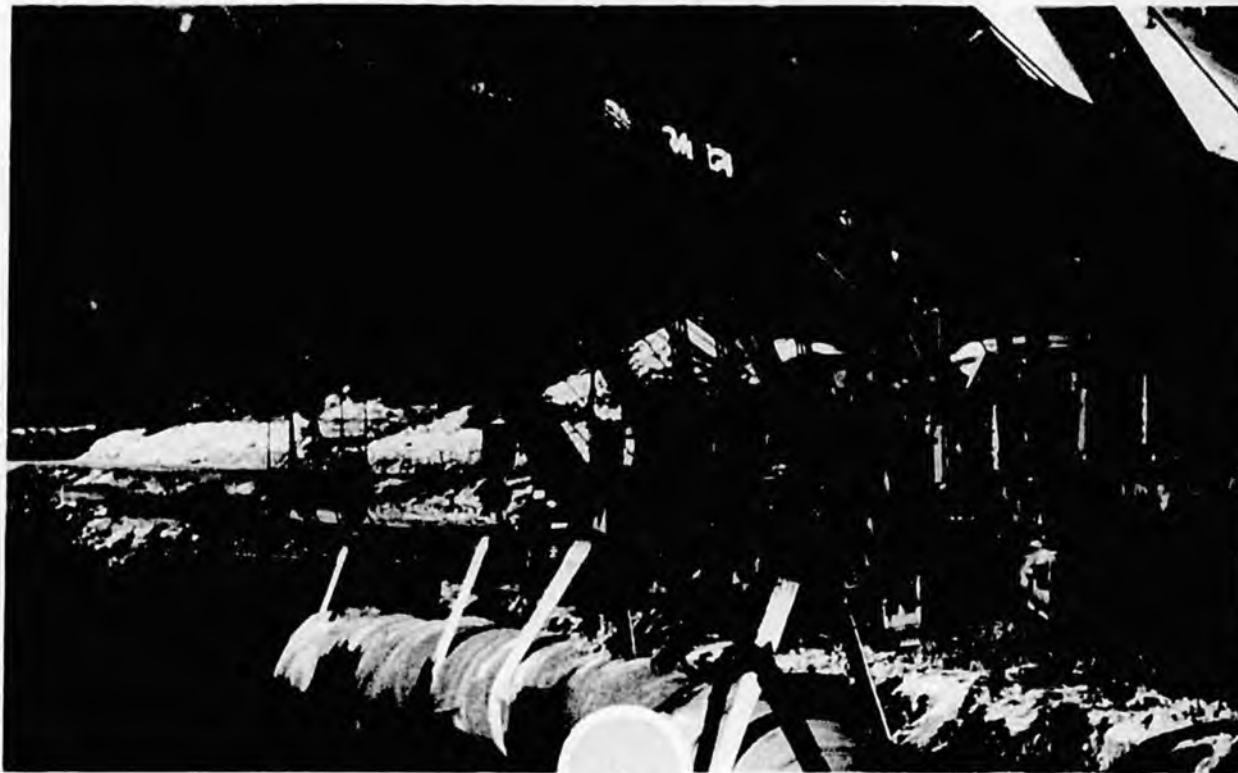


- More detail required from Canadian line applicants
- If offtake amounts exceed AOGCC Rule 9 limitations (2.7 bcf/d less field use), must have already filed an application with AOGCC for increased offtake limits
- Additional gas reserves needed? Budget and timeline for exploration program
- Analysis of anticipated oil loss from PBU if volume exceeds AOGCC Rule 9 limitations
- Analysis of liquids availability in Alaska for value added processing
- Timeline for project start up and completion for present value analysis
- Current project cost estimate required with application

AGIA benefits towards advancing gas pipeline

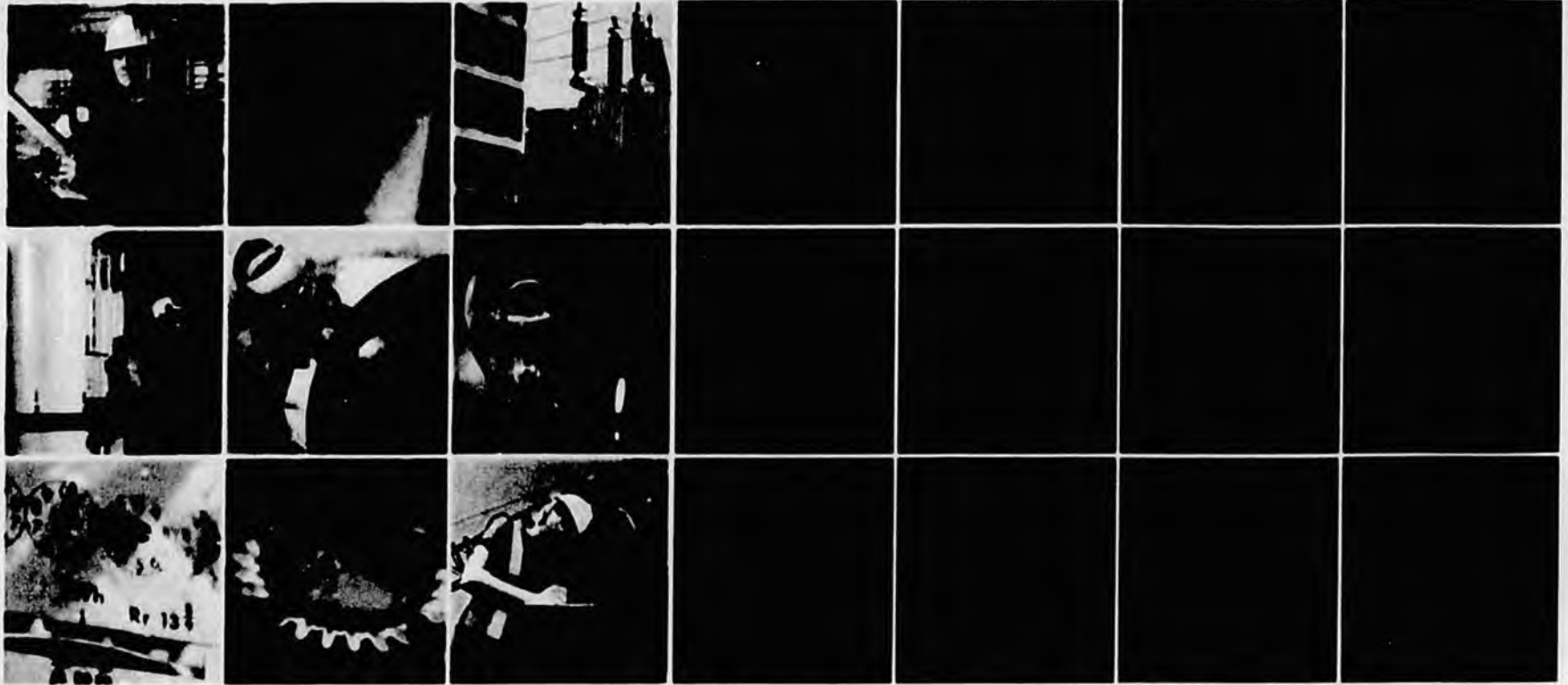
- Rolled in rates – good for Alaska’s future
- Allows for independently owned infrastructure
- Follows successful model used in other countries who also use rolled in rates and independently owned pipelines.
- \$500 million skin in the game – sends very positive message about Alaska’s desire to commercialize Alaska’s gas

The All-Alaska Gasline. The future is on the line.



Alaska Gasline
PORT AUTHORITY

Right Sized – Right Now!



State of Alaska

Senate Judiciary / House Resources Testimony

April 13/14, 2007



TransCanada

In business to deliver

TransCanada Natural Gas Pipeline Network



- **36,500 miles of wholly-owned pipeline**
- **Interests in an additional 4,600 miles of pipeline**
- **Unparalleled connections from traditional and emerging basins to growing North American markets**
- **Average daily volume of approximately 15 Bcf**

TransCanada's Pipeline Assets

- TC is North America's largest gas transmission company, owning approximately 2/3 of the take-away capacity from Alberta hub to North American markets.
- TC owns 36,500 miles of natural gas transmission pipelines and provides service to Northeast, Midwest, Pacific NW, California, Eastern Canada and Western Canadian markets WCSB markets.
- TC also owns 360 Bcf of natural gas storage capacity.
- One-third of the Alaska Highway Pipeline Project is in the ground and transporting approximately 3 Bcf/d every day (Foothills Prebuild, Northern Border and GTN loops).
- TC has strong cash-flows (C\$2.4 B in 2006) and growing financial capacity from its pipeline assets and 7700 MW of power generation assets (in-service or under development).
- TC has 50 years experience as a builder/owner/operator of cold-weather North American regulated pipelines.

TransCanada - Proven Basin Developer



Regulatory Structure

- Independent pipeline model
- Rolled-in tolls

Alaska Highway Pipeline



TransCanada's Interest

- TransCanada (TC) has been a lead player in the project since its inception. We have more than \$2B and 30 years invested in bringing Alaskan gas to market.
- TC's subsidiary, Foothills, holds valid and exclusive certificates issued under the Northern Pipeline Act (NPA) for Canadian section of the project – these certificates do not have a sunset or expiry date.
- Foothills is named Canadian Project Sponsor in Canada/U.S. Treaty.
- TC has an easement under NPA for entire route in Yukon recognized in Umbrella Final Agreement between Government of Canada, Government of Yukon and Yukon First Nations.
- TC holds key land and environmental permits in Alaska.

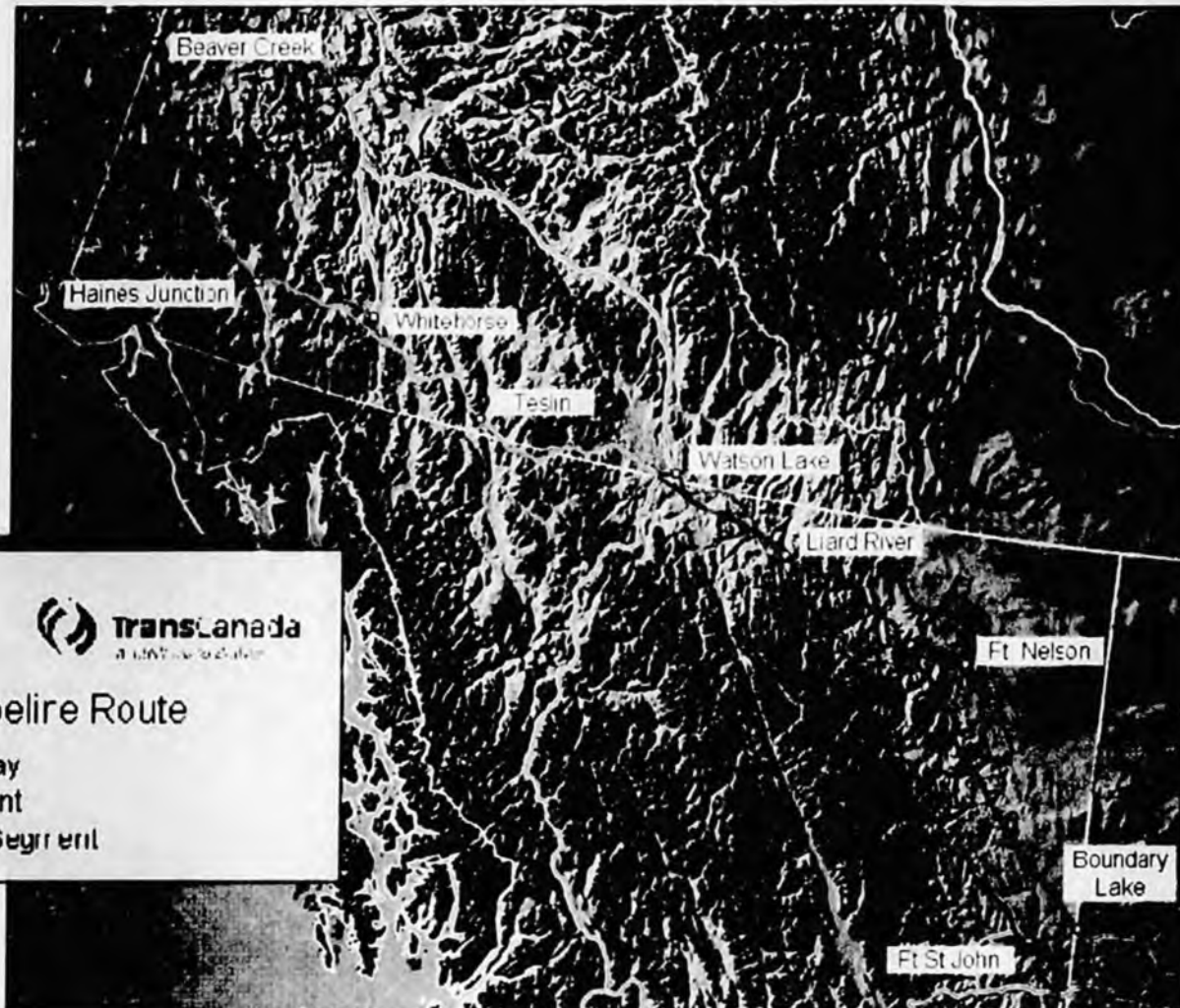
Legislative/Regulatory Structure - Competition Held, and Canadian Project Sponsor Selected


- NEB held competitive hearings, open to all parties
 - Selected Foothills as Canadian project sponsor
 - Rejected other applications (Arctic Gas)
- Canada / U.S. negotiated Treaty for Alaskan gas project
 - Canada obtained benefits in exchange for access across Canada for Alaskan gas
 - Foothills named Canadian sponsor in Treaty
- Canada enacted Northern Pipeline Act (NPA)
 - Enshrined Foothills rights and obligations
 - Established single-window regulator, complement to NEB
- Foothills granted exclusive rights – only reasonable interpretation.
 - Project expedition not achievable unless exclusive
 - No commercial party would invest necessary billions without exclusivity.
 - No expiry or “sunset” date in Foothills certificates.

TransCanada's Land Status - Alaska




- TransCanada holds key land and environmental permits
 - Conditional FERC certificate granted under ANGTA
 - Clean Water Act wetlands permits
 - Federal ROW
 - Completed State ROW application (pending final State decision since Q1, 2005)

Canadian Section



 **TransCanada**
A subsidiary of CNR

Alaska Highway Pipeline Route

-  Alaska Highway
-  Yukon Segment
-  Northern BC Segment

TransCanada's Land Status - Canada

- **Yukon Easement**
 - Received in 1983
 - Confirmed in 1993 in Umbrella Final Agreement
 - Width: 240 metres
 - Easement is Federal
 - Yukon Govt. publicly stated this cannot be replicated
 - Access already granted
 - NPA holds other Reservations by Notation
- **BC Map Reserve**
 - Registered in 1981
 - Pipeline corridor is largely Provincial Crown
 - Width: 1600-metre corridor
 - Process to perfect through BC/Alberta Lands
 - No term or rental fee until interest perfected
 - Few private land interests
- **Key difference from Mackenzie: Easement and Reserve/Notation corridor are Federal/Provincial – not subject to FN title**