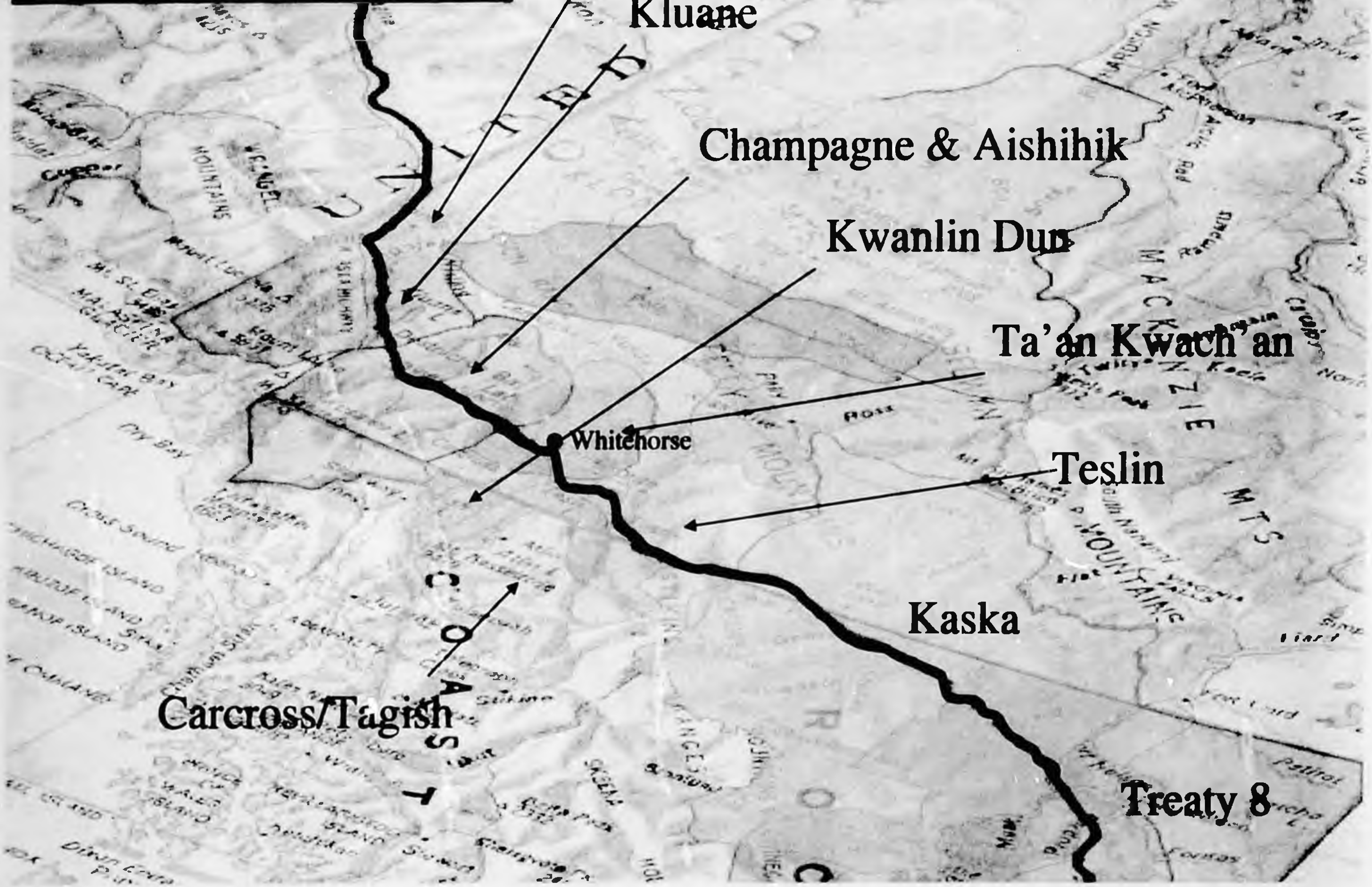
ALASKA LEGISLATURE COMMITTEE FILES 2007-2008 SJUD 12540

First Nations in Yukon and North BC



First Nations Land Claim Agreement Status

- Yukon: (First Nation pop. of ~ 2,600 along AHPP)
  - All right of way First Nations have settled except Kaska and White River.
    - Kaska did not complete negotiations
    - White River completed negotiations but have not held a ratification vote
- BC: (First Nation pop. of ~ 5,800 along AHPP)
  - Kaska FN – AIP stage pursuant to the BC Treaty process.
  - Taku River Tlingit – AIP stage in BC Treaty process
  - Treaty 8 – signed in 1899

TransCanada's Benefits to First Nations

- Benefits of the NPA for First Nations derive from:
  - Terms and Conditions (obligations which are attached to Foothills' Certificates of Public Convenience and Necessity)
  - Undertakings from the project hearings
- Foothills is required to deliver significant benefits and minimize impacts of the project.
- Benefits are already secured.
- Government of Canada can impose penalties on Foothills should it fail to comply with Terms and Conditions of the NPA.

TransCanada's Benefits to First Nations (cont'd)

- NPA Benefits for all Northern Residents:
  - Training and employment opportunities for construction and operations of the pipeline.
  - Northern business opportunities.
  - Opportunity for equity participation.
  - Natural gas supply to communities
    - Beaver Creek, Burwash Landing, Destruction Bay, Haines Junction, Whitehorse, Teslin, Upper Liard and Watson Lake (many are First Nation communities)
    - Foothills has an obligation to provide specified financial assistance for gas off-takes.
  - Zonal tolls
    - Lower tolls for Whitehorse or Ft. Nelson versus Alberta deliveries.

TransCanada's Benefits to First Nations (cont'd)

- NPA Specific Benefits for First Nations:
  - Fair and competitive opportunity to participate in the supply of goods and services.
  - Representation on the Board of Directors for Foothills South Yukon.
    - 3 of 11 directors for First Nations/Women
  - Foothills must enhance First Nations participation in project employment, training, and entrepreneurial opportunities through detailed socio-economic plans.
  - Terms and Conditions require Foothills to establish and maintain a consultation process with First Nations.
  - Terms and Conditions or Undertakings (from hearings) establish protection for biophysical, socio-cultural, and socio-economic environment of the communities and traditional lands.
- The Umbrella Final Agreement and Yukon First Nation Final Agreements acknowledge and respect the validity of Foothills' pipeline easement.
  - Setting aside new lands for a Greenfield project would be a difficult and slow process.

Summary

- TransCanada holds critical assets for the project in Alaska and Canada
  - Alaska
    - Conditional FERC Certificate
    - Clean Water Permits and Federal ROW
    - Pending State ROW
  - Canada
    - NPA Certificates
    - Canada / U.S. Treaty
    - Single-window regulatory agency
    - Yukon ROW
    - Specific benefits for First Nations and extensive history of consultation.

Thank You

TransCanada
In business to deliver

The Palin-Parnell Administration presents

AGIA

The Alaska Gasline Inducement Act

Senate Judiciary
4/4/2007

AGIA Overview

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AGIA:

- Is a **commercial vehicle** that creates a competitive playing field
- Provides a **pipeline sooner and on Alaska's terms**
- Is a **transparent process**, with **transparent inducements**.

Commercial Vehicle

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- AGIA is not a negotiation
- Successful bidding process requires AGIA's inducements
  - Inducements provide for a level playing field and all the players are in the game
  - Without inducements, no bidders
  - Without bidders, state has no ability to get a pipeline on its desired terms

Commercial Vehicle AGIA

The Alaska Gasline Inducement Act

AGIA's inducements:

- Known, clearly quantified, and transparent
- Midstream inducement of $500 million:
  - *reduces licensee's project development risks, especially an independent pipeline licensee*
- Upstream tax and royalty inducements:
  - *coupled to the licensed midstream project to make license more valuable*, by
    - Encouraging open season participation
    - Ensuring that state will stick with its licensed partner
- Requirement to obtain pipeline certificate reduces overall project risks, increases opportunity for success

A Project on the State's Terms

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- State's "must haves" focus on the future:
  - A competitive and vibrant oil and gas industry
  - Jobs and careers, not only from the pipeline itself, but also from a vibrant support industry
  - Gas for Alaskans

A Project on the State's Terms

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The state "must haves"

- Minimum 70/30 debt/equity ratio ensures reasonable base tariffs
- Expansion requirements ensure explorer's gas can access the pipeline
- Rolled-in rates ensure all parties have an economic incentive to explore for gas

Transparent Public policy

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The Alaska Gasline Inducement Act

- AGIA creates a competitive process, not a negotiated process
- Bids commented upon by the public
- Winner chosen by the Commissioners
- Legislative review and approval
- Value of AGIA's inducements are up-front and transparent

Summary

- AGIA levels the playing field.
- AGIA is a **commercial vehicle** that provides a **pipeline sooner on Alaska's terms**, in a **transparent manner**.

Constitution of Alaska

Article 9 - Finance and Taxation

§ 1. Taxing Power

The power of taxation shall never be surrendered. This power shall not be suspended or contracted away, except as provided in this article.

Constitution of Alaska

Article 9 - § 4. Exemptions

The real and personal property of the State or its political subdivisions shall be exempt from taxation .... [P]roperty used exclusively for non-profit religious, charitable, cemetery, or educational purposes, ... shall be exempt from taxation. <u>Other exemptions of like or different kind may be granted by general law.</u> All valid existing exemptions shall be retained until otherwise provided by law.

The Palin-Parnell Administration presents

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[illegible]nomics of AGIA's [illegible] provi[illegible]

[illegible]resentation to Senate Ju[illegible]

4/16/2007

Summary of economics of AGIA rolled-in rate provisions

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- AGIA rolled-in rates promote competition, exploration and development. Contrast: if the FERC's lower-48 policy were used it is unlikely that the last Bcf of in-fill compression will occur, and very unlikely that looping will occur.
- Rolled-in rates are in the state's interest given uncertainty of where expansion gas will come.
- The objective evidence indicates that rolled-in rates cost Producers only modestly, are mostly off-set by State's $500M contribution, and ***are unlikely to affect their investment decisions***.

Expansion Scenarios: Physical characteristics

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- **Base Case**: 4.5 Bcf/day
- 1st **Expansion**: 1 Bcf, infill compression
- 2nd **Expansion**:1 Bcf, infill compression
- 3rd **Expansion**: 1 Bcf, looping

Note: Volumes here reported at pipe inlet

[illegible] Effects of AGIA vs. FERC-L48 Rate Policy

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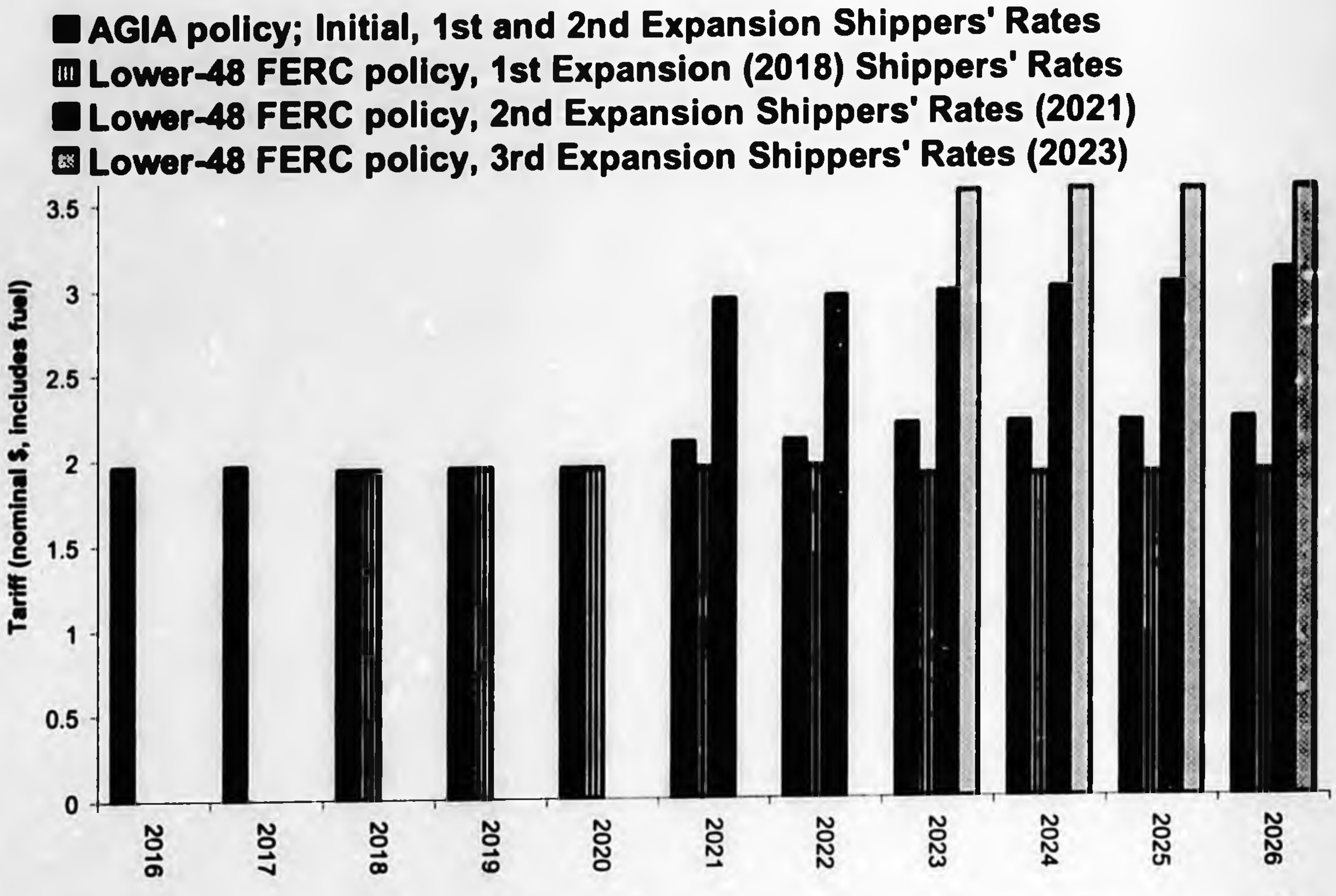

tax freeze

Tariff Effects of AGIA vs. FERC-L48 Rate Policy (cont.)

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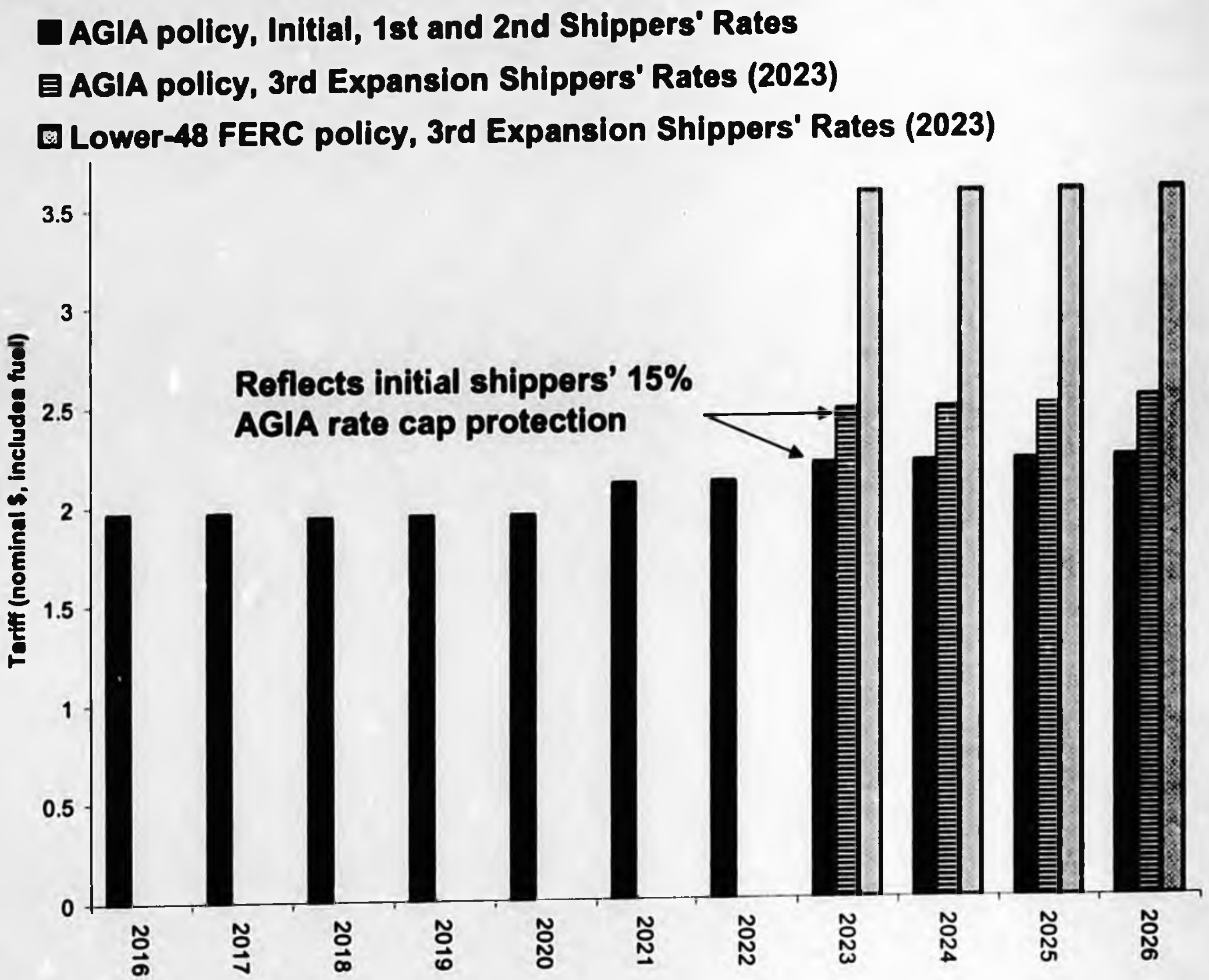

State Revenue [illegible] Background

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- We don't know from where gas for a given expansions will come – state lands (12.5% royalty + PPT), federal lands (1/2 fed. royalty + PPT), or the OCS (0% royalty, no PPT).
- Given such uncertainty the state is clearly better off with AGIA's rolled-in rate provisions.

<u>Case A: "State gas first"</u>

1st bcf from state lands
2nd bcf from NPR-A
3rd bcf from OCS

<u>Case B: "State gas second"</u>

1st bcf from NPR-A
2nd bcf from state lands
3rd bcf from OCS

<u>Case C: "State gas last"</u>

1st bcf from OCS
2nd bcf from NPR-A
3rd bcf from state lands

State Revenue, AGIA Rates: All Expansions Occur

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- Without rolled-in rates it is **very *un*likely all** expansions would occur. But if they did:

[AGIA revenue] – [L48 FERC revenue] =

	State NPV_5 difference, \$2007 (billion)			
	Case A State gas first	Case B State gas 2nd	Case C State gas last	Expected Value
\$3.50	(0.91)	(0.79)	0.15	(0.52)
\$5.50	(0.75)	(0.58)	0.25	(0.36)
\$7.00	(0.71)	(0.52)	0.05	(0.39)

[illegible] Revenue, AGIA Rates: No Looping

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- Without rolled-in rates it is **very *likely*** the **last** expansion **won't occur**. If it doesn't: [AGIA revenue] – [L48 FERC revenue] =

	State NPV_5 difference, \$2007 (billion)			
	<u>Case A</u> State gas first	<u>Case B</u> State gas 2nd	<u>Case C</u> State gas last	<u>Expected Value</u>
$3.50	(1.13)	(1.05)	0.85	(0.44)
$5.50	(0.74)	(0.65)	3.30	0.64
$7.00	(0.56)	(0.46)	5.00	1.33

[illegible] Revenue, AGIA Rates: No Looping, No Full in-fill

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- Without rolled-in rates it is ***likely neither 2nd*** nor ***3rd*** expansion occur. If they don't:

  [AGIA revenue] – [L48 FERC revenue] =

	State NPV_5 difference, \$2007 (billion)			
	Case A State gas first	Case B State gas 2nd	Case C State gas last	Expected Value
\$3.50	1.71	1.67	2.18	1.85
\$5.50	5.63	5.57	6.28	5.83
\$7.00	8.51	8.45	9.27	8.75

State Revenue, AGIA Rates: AGIA rates state's best bet

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- Even given the **bad** assumption of equal chance for each expansion path (e.g. odds of looping unaffected by rate treatment), AGIA maximizes expected state returns.

	Expected Value State NPV_5 difference, \$2007 (billions)			
	All Three Exp.	1st Two Exp.	Only 1st Exp.	Avg of Cases
\$3.50	(0.52)	(0.44)	1.85	0.30
\$5.50	(0.36)	0.64	5.83	2.03
\$7.00	(0.39)	1.33	8.75	3.23

Worst-Case Producer Effects of AGIA Rates

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- The following shows Producer upstream investment measures given the three expansions under the “worst case” of no producer gas in any of the expansions.

	NPV	IRR	P/I	NPV per BOE	% Δ NPV	Δ IRR	% Δ P/I
$3.50	3.8	29.5%	3.0	$0.46	-7.0%	-0.22%	-4.8%
$5.50	11.7	62.8%	7.3	$1.41	-3.3%	-0.10%	-2.9%
$7.00	17.4	79.0%	10.3	$2.10	-2.3%	-0.13%	-2.1%

Effects of AGIA Rates - NPV

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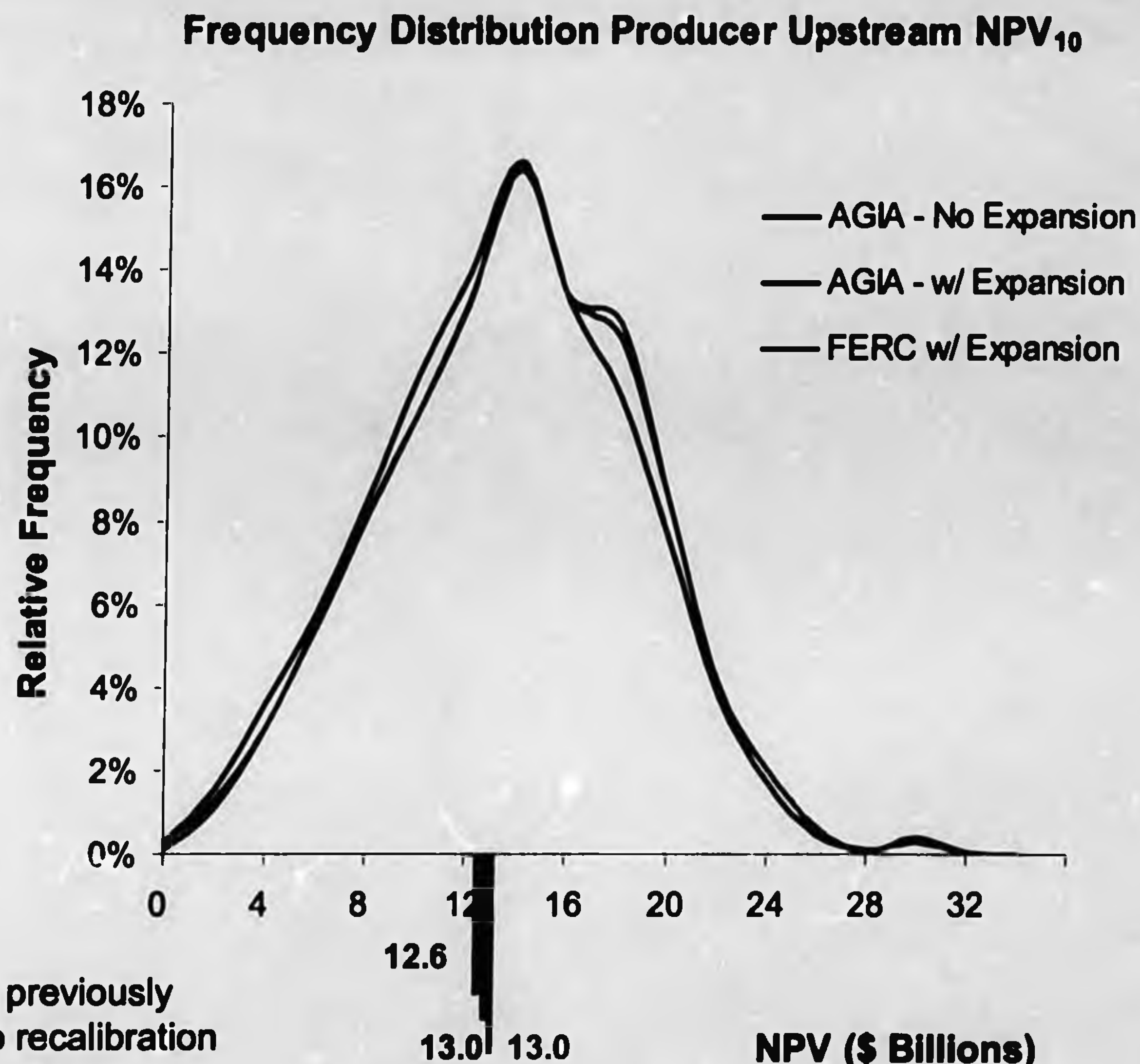

Note: Results differ from previously reported estimates due to recalibration of $2004 to $2006 price paths.

Effects of AGIA Rates - IRR

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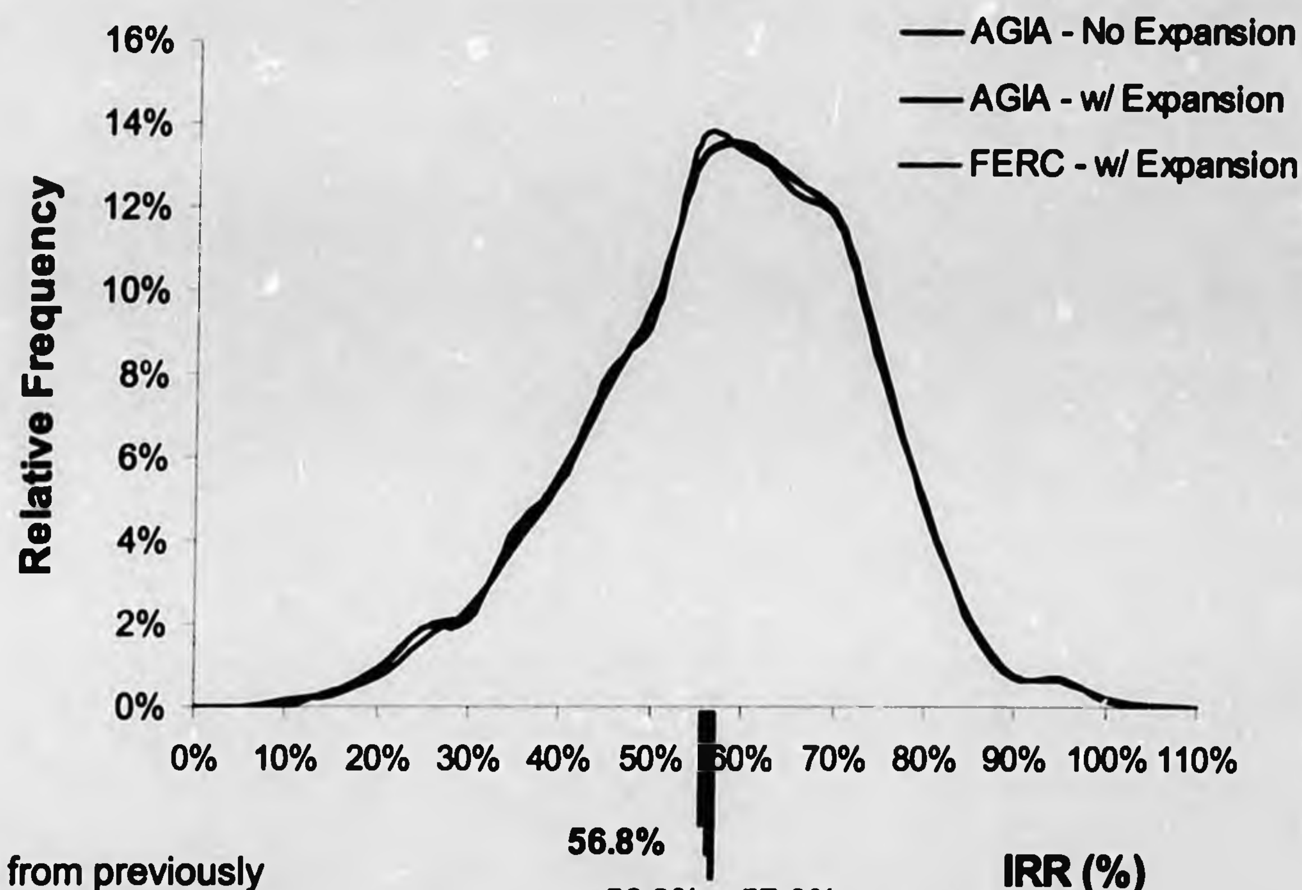
Frequency Distribution Producer Upstream IRR



Note: Results differ from previously reported estimates due to recalibration of $2004 to $2006 price paths.

Effects of AGIA Rates – P/I

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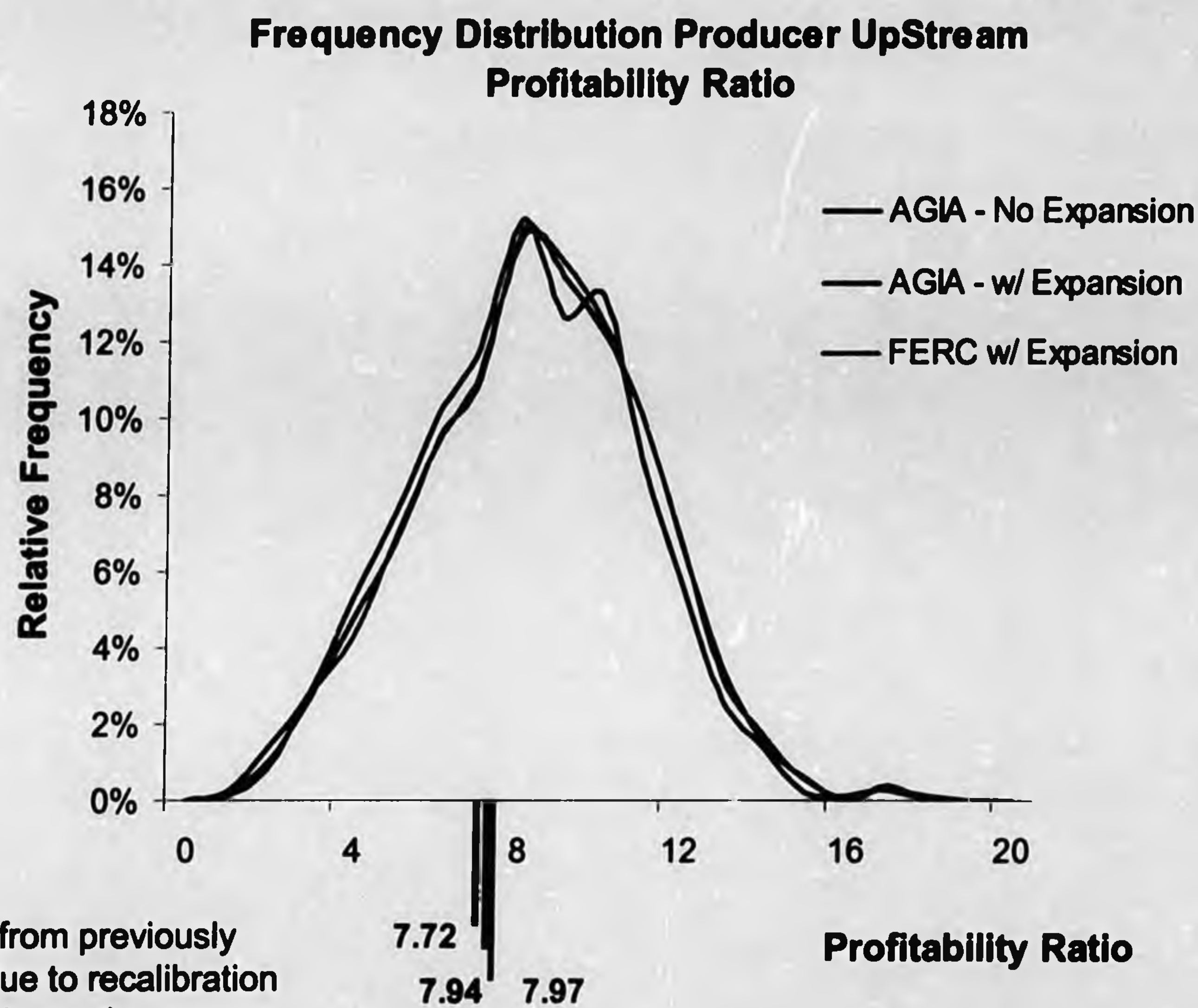

Note: Results differ from previously reported estimates due to recalibration of $2004 to $2006 price paths.

Summary

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- AGIA rolled-in rates promote competition, exploration and development.
- Given uncertainties, AGIA's rolled-in rates are clearly in the state's monetary interest.
- The objective evidence indicates that AGIA's rolled-in provisions cost the Producers only modestly and ***are unlikely to affect their initial investment decisions***.

The Palin-Parnell Administration presents

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Presentation to Senate Judiciary
4/11/2007

[illegible]
oil production tax

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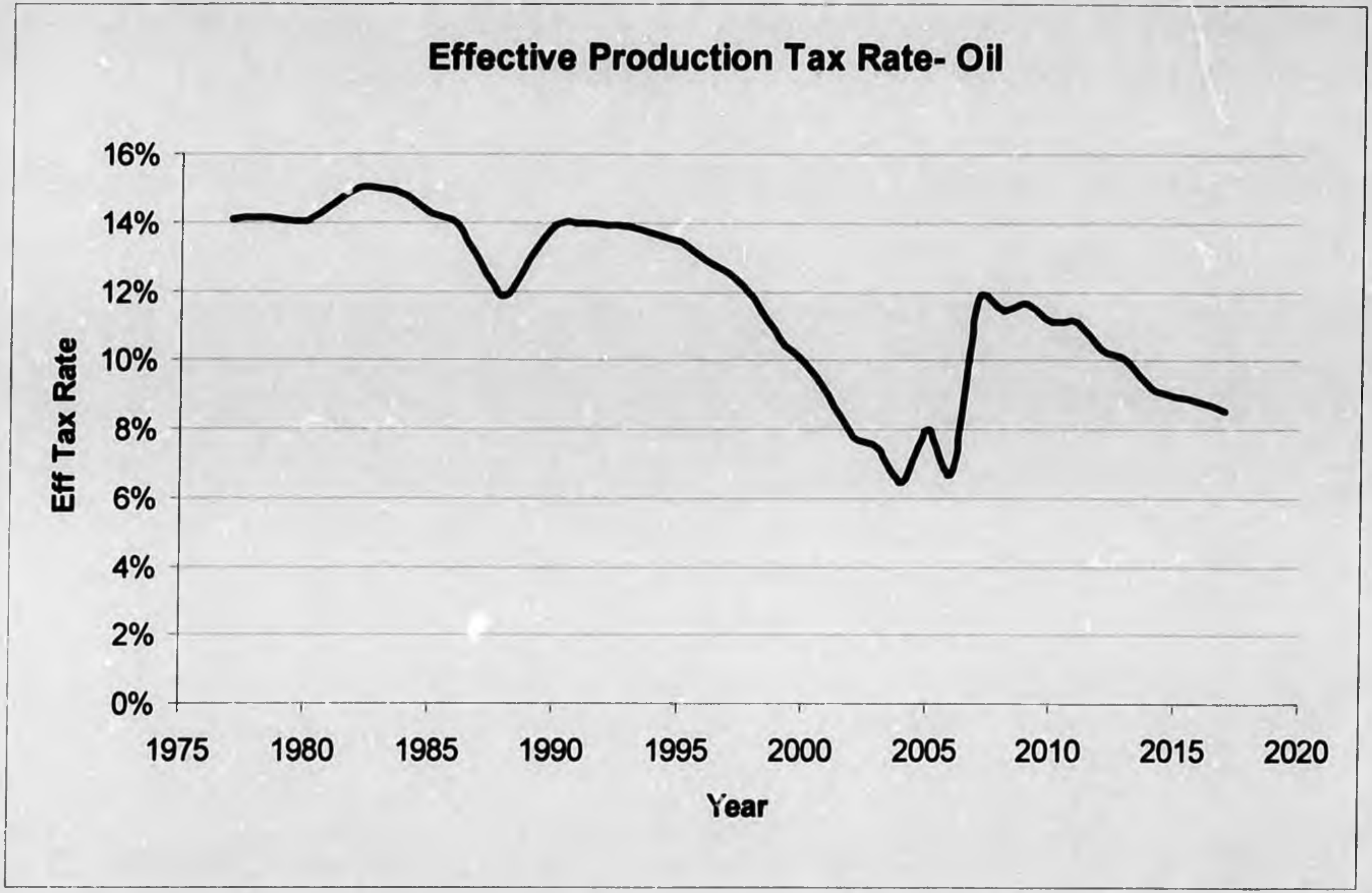

Q3. FT contracts: nominal dollar size of obligation

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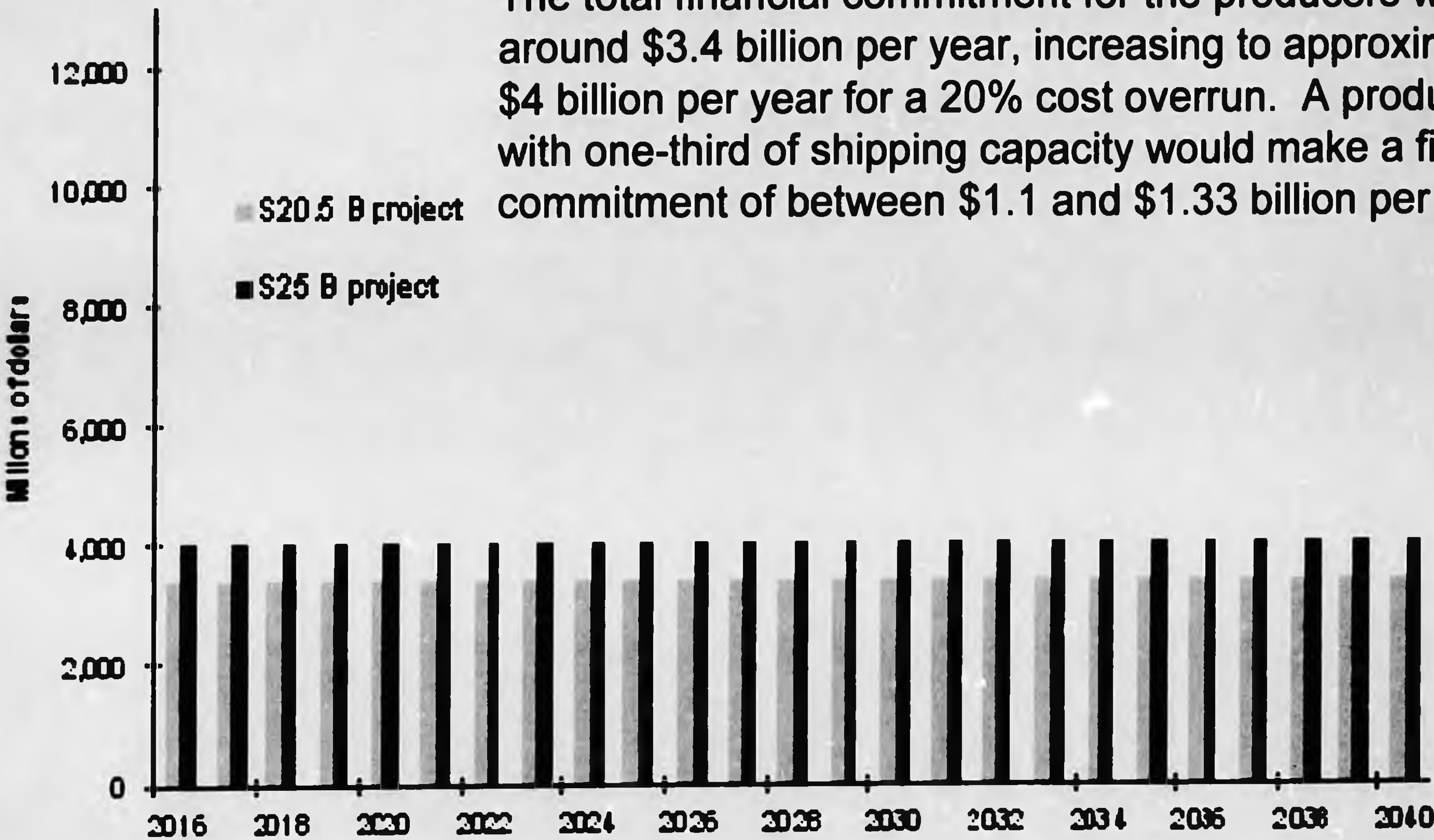
The total financial commitment for the producers would be around \$3.4 billion per year, increasing to approximately \$4 billion per year for a 20% cost overrun. A producer with one-third of shipping capacity would make a financial commitment of between \$1.1 and \$1.33 billion per year.



Q3. FT contracts (cont.): tariff in context of revenues

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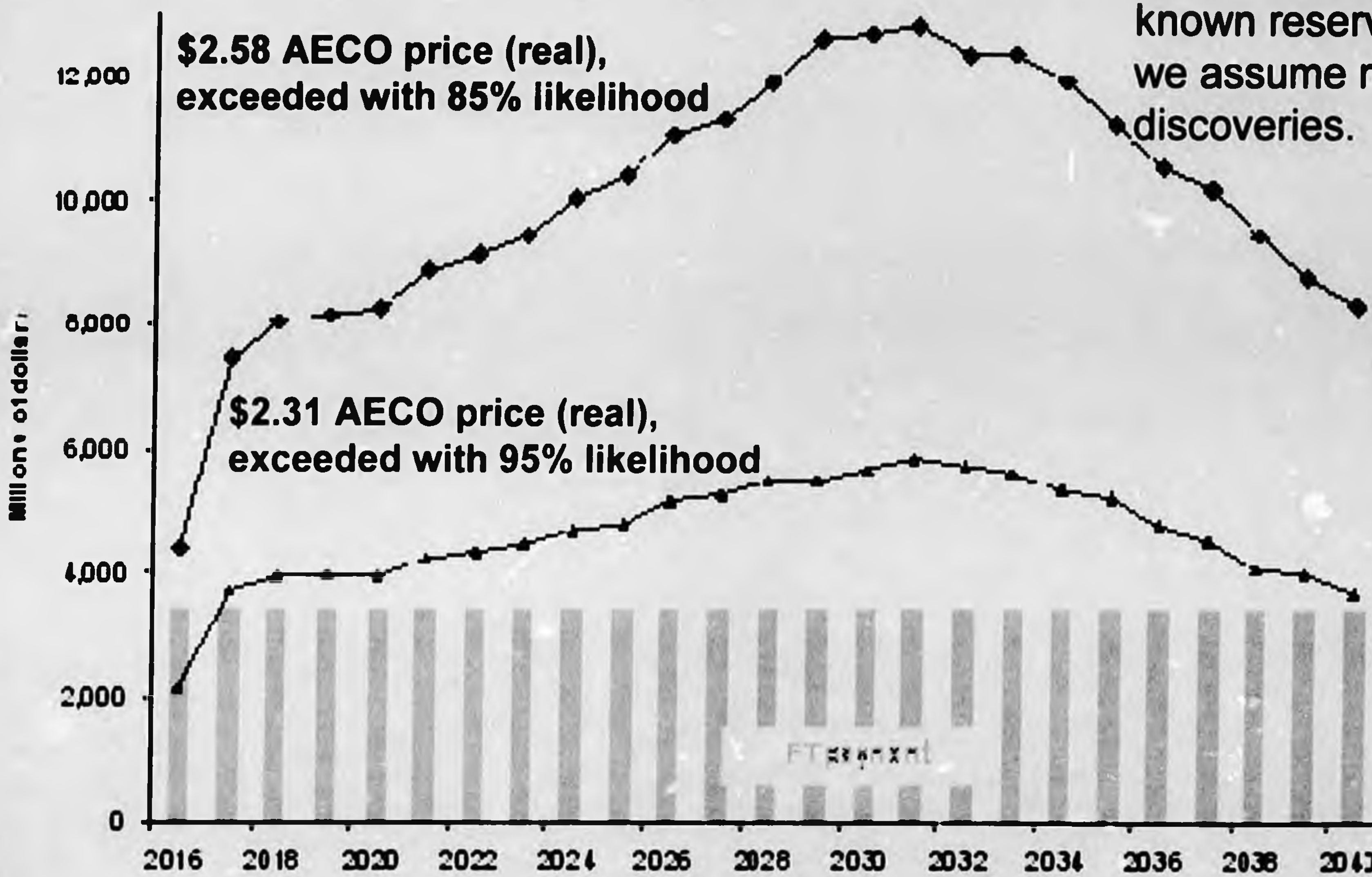
Revenues declines as known reserves decline; we assume no new discoveries.



Analysis of Producer Returns, Investment Attractiveness, and Fiscal Certainty

Response to questions
4-5, 9-11, 16

How to measure investment attractiveness?

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- NPV = "net present value"
  - The current value of future profits
- IRR = "internal rate of return"
  - The discount rate that makes NPV = 0
- P/I = "profitability index"
  - [present value of cash inflows]/[present value of outflows]
- NPV/Boe = "NPV per barrel oil equivalent"
  - Measure of how much cash flow is generated from reserves

Producer Upstream Returns
Base case cost = $20.5B

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	NPV	IRR	P/I	NPV per BOE
$3.50	4.1	29.8%	3.2	$0.49
$4.00	6.1	39.7%	4.3	$0.74
$4.50	8.1	48.7%	5.3	$0.98
$5.00	10.1	56.3%	6.4	$1.22
$5.50	12.1	62.9%	7.5	$1.46
$6.00	14.0	68.9%	8.5	$1.70
$6.50	16.0	74.2%	9.5	$1.93
$7.00	17.8	79.2%	10.5	$2.15
$7.50	19.6	83.9%	11.5	$2.37
$8.00	21.3	90.4%	12.4	$2.57
$8.50	22.9	95.6%	13.2	$2.76

Producer Upstream Returns 50% cost overrun = $30.1B

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	NPV	IRR	P/I	NPV per BOE
$3.50	1.2	13.8%	1.5	$0.14
$4.00	3.2	20.9%	2.2	$0.39
$4.50	5.2	28.0%	3.0	$0.63
$5.00	7.2	35.0%	3.8	$0.87
$5.50	9.2	41.4%	4.6	$1.12
$6.00	11.2	47.2%	5.4	$1.35
$6.50	13.1	52.4%	6.1	$1.59
$7.00	15.1	57.2%	6.9	$1.82
$7.50	16.9	61.9%	7.6	$2.05
$8.00	18.8	67.8%	8.3	$2.27
$8.50	20.5	72.7%	9.0	$2.47

Producers' returns as both shippers + pipeline owners

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	NPV	IRR	P/I	NPV per BOE
$3.50	3.0	12.6%	1.3	$0.37
$4.00	5.0	14.0%	1.4	$0.60
$4.50	6.9	15.4%	1.6	$0.83
$5.00	8.7	16.7%	1.7	$1.06
$5.50	10.6	17.9%	1.9	$1.28
$6.00	12.4	19.0%	2.0	$1.50
$6.50	14.2	20.1%	2.2	$1.72
$7.00	16.0	21.1%	2.3	$1.93
$7.50	17.7	22.1%	2.5	$2.14
$8.00	19.3	23.0%	2.6	$2.33
$8.50	20.8	23.9%	2.7	$2.51

Producer NPV: Relative likelihood

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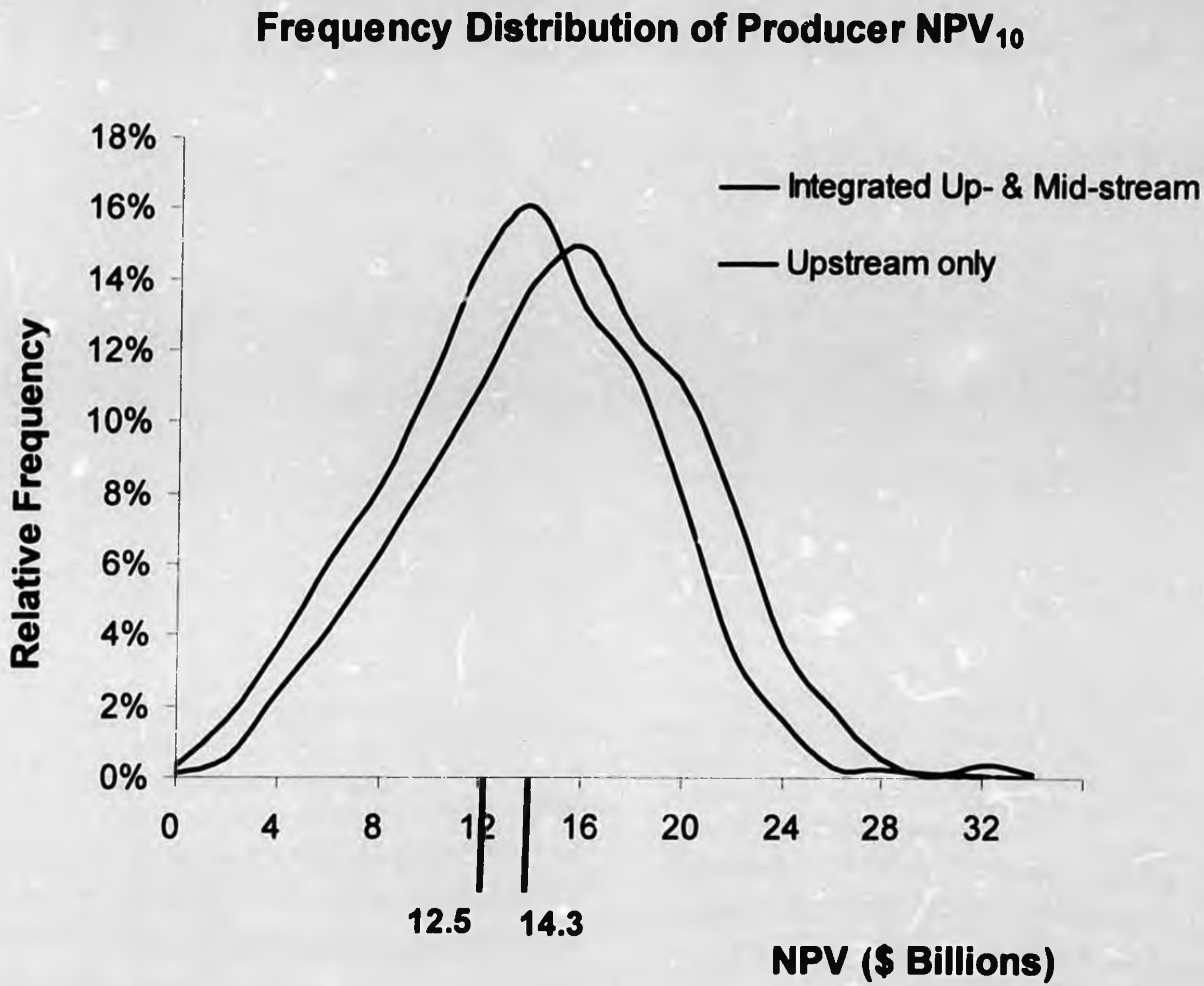

Producer IRR: Relative likelihood

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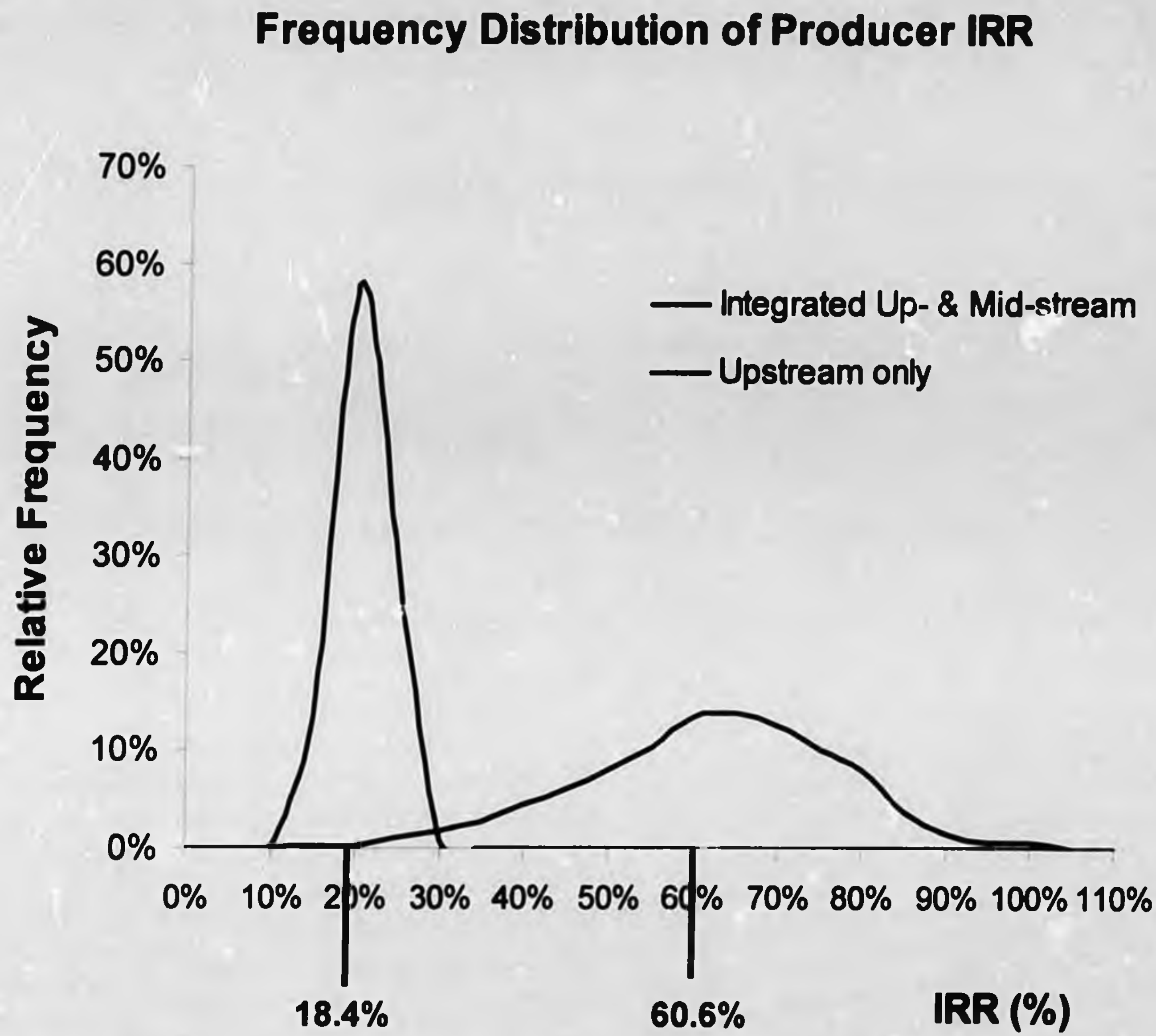

Producer P/I:
Relative likelihood

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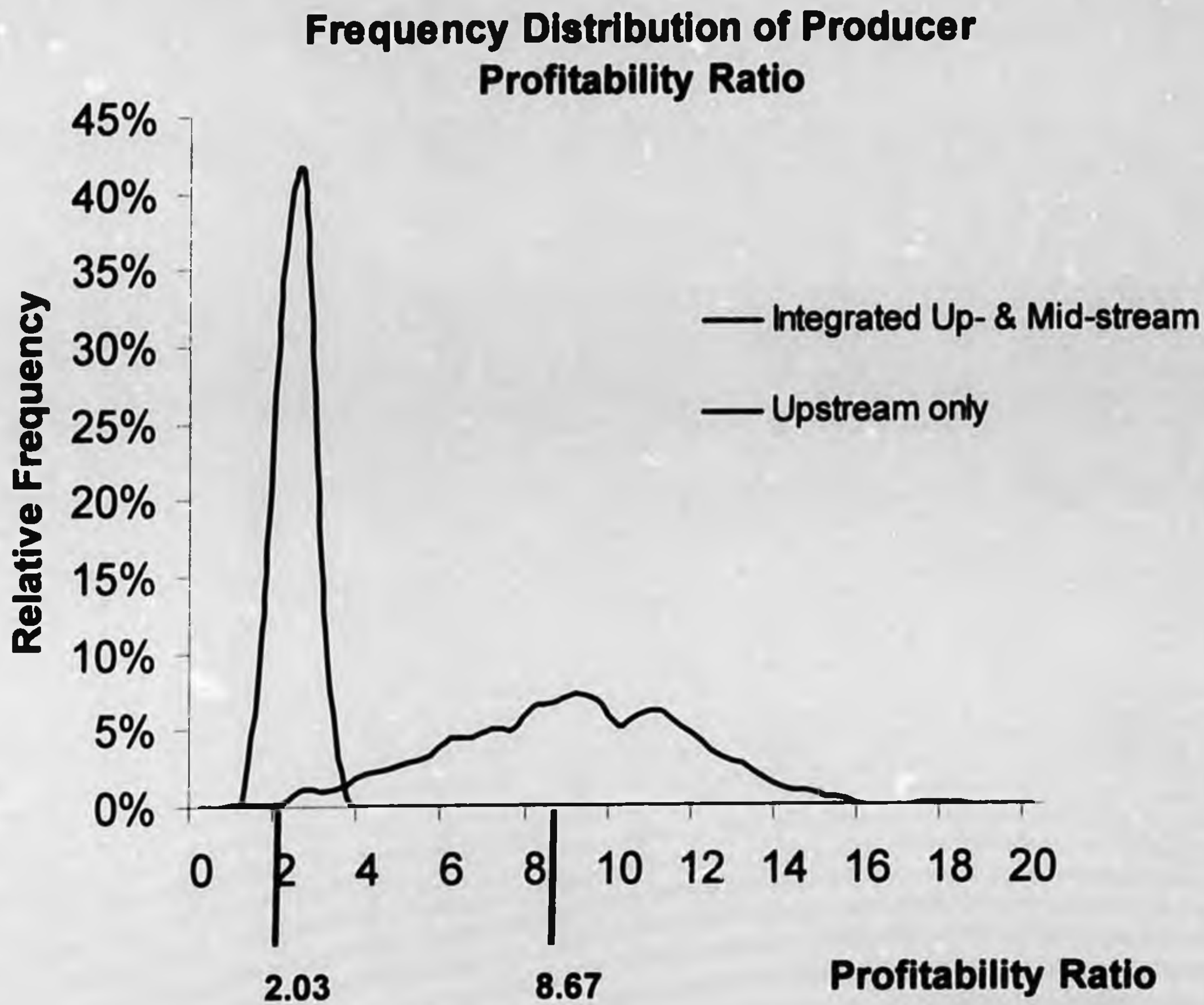

Internal Rate of Return (IRR)
($35 and $25 oil and 6/1 oil/gas ratio)

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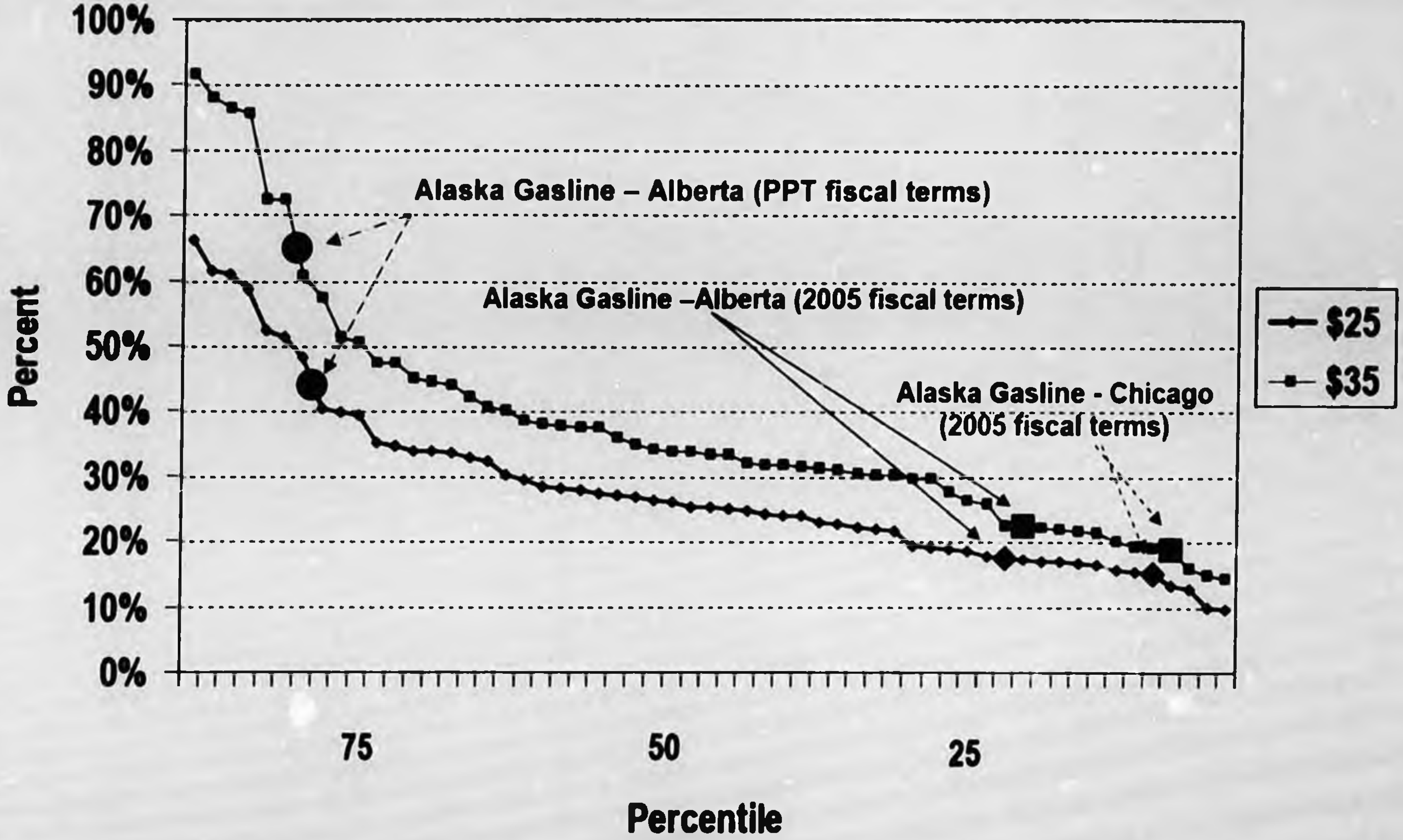

Project comparison data from EconOne presentation to LB&A Committee, 6/14/06. EconOne data assumes 100% Producer pipeline ownership; upstream return data assumes 0% pipeline ownership.