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IMPACT TO STATE OF ALASKA FROM TRANSCANADA OWNERSHIP IN AKLNG PROJECT

DRAFT – SUBJECT TO REVISION

PREPARED FOR THE STATE OF ALASKA

JANUARY 2014



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BACKGROUND

- As part of exploring an equity position in the Alaska LNG (“AKLNG”) Project, the State of Alaska (“the State” or “SOA”) is contemplating a commercial arrangement with TransCanada wherein TransCanada provides the State with transportation services through the GTP & Pipeline components of the AKLNG Project for the entirety of the State’s Gas Share on terms consistent with those developed in the AGIA process
- As part of this commercial arrangement, TransCanada will fund development of the mid-stream assets during the pre-FEED stage and provide the State with an equity option to purchase an interest of up to 40% in the mid-stream assets prior to entering the FEED stage of the project. This means the State would receive up to 40% of the equity return TC receives and be responsible for up to 40% of the cost during FEED and ultimately, construction and operation.

SCOPE OF ASSESSMENT & KEY ASSUMPTIONS

- The purpose of this analysis is to evaluate the impact of TransCanada's ownership in the AKLNG project on the State of Alaska
- This study analyzed two different alternate levels of State equity participation and State Gas Share – 20% and 25%
- Under each equity alternative case, three ownership scenarios were analyzed to demonstrate the benefit of TransCanada's participation in the AKLNG project:
 - SOA Ownership – State retains ownership in its 20%-25% share of the GTP and Pipeline
 - TransCanada GTP + Pipeline Ownership – TC assumes the State's 20%-25% share of the GTP and Pipeline
 - TC Ownership + SOA 40% Buyback – TC assumes the State's 20%-25% share of the GTP and Pipeline, but SOA exercises an option to buy back 40% ownership in these components at the beginning of the FEED stage of project development
 - In all three scenarios above, the State retains its 20%-25% share of the LNG Plant
- Key terms proposed for TC's services provided to the State include:
 - Debt/Equity: 70/30 through first year of operation; 75/25 thereafter
 - Return on Equity: 12% plus rate tracker
 - Cost of Debt: 5% plus rate tracker
- It is assumed that there is a 6% opportunity cost associated with any equity investment by the State (reflecting assumed returns from the Constitutional Budget Reserve Fund)

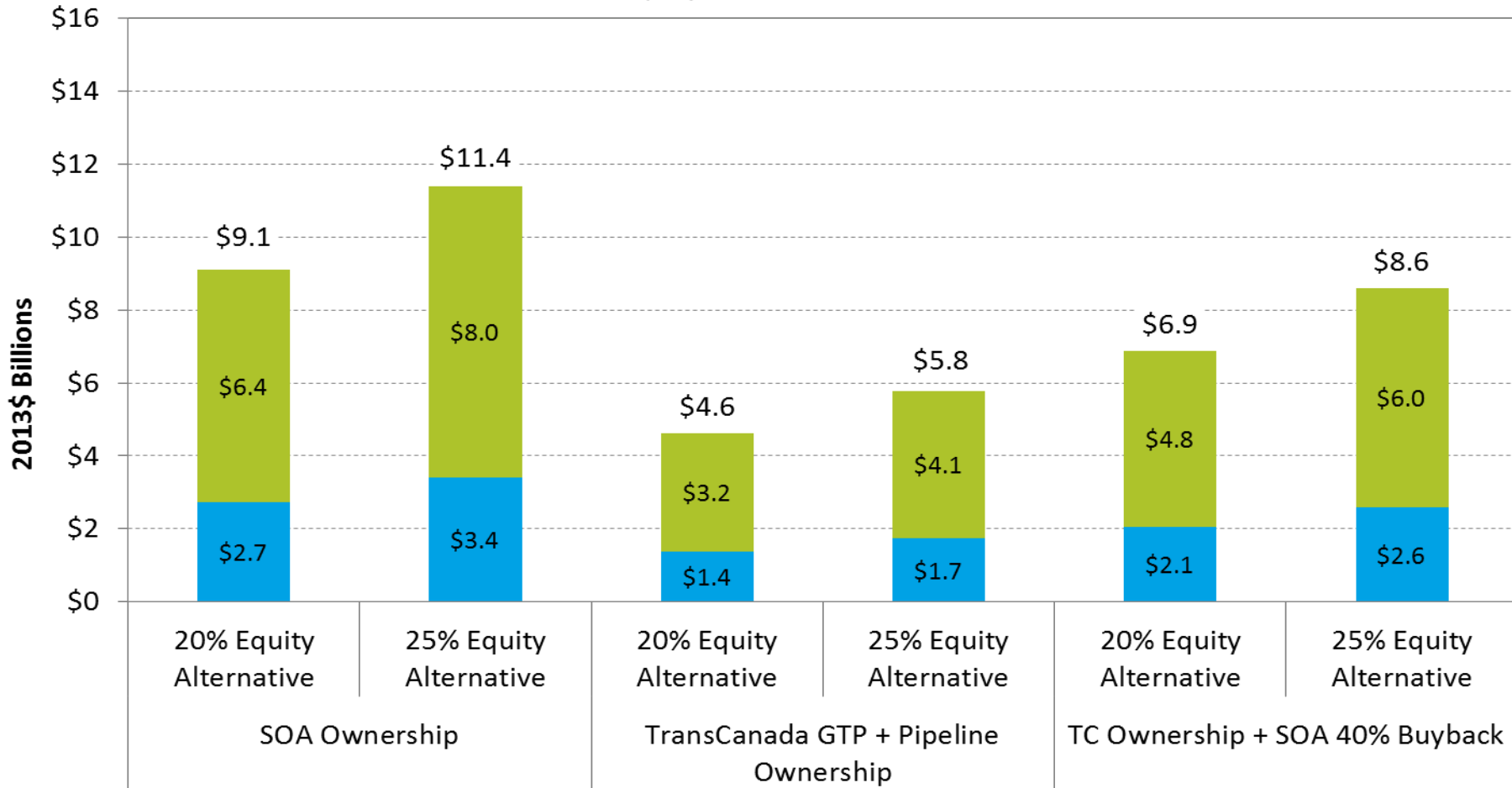
KEY FINDINGS

- **TransCanada’s participation in the AKLNG project can reduce the State’s total investment in the Project by between \$2 billion and \$5.5 billion depending on the total equity stake ultimately owned by the State**
 - Assuming a 70/30 debt to equity ratio for the State, TransCanada’s participation in the AKLNG project can reduce the equity investment required from the State by between \$600 million and \$1.7 billion depending on the total equity stake
- **TransCanada’s involvement creates additional value of \$3-\$6 billion on a cash flow basis and between \$600 million and \$1 billion on an NPV basis for the State of Alaska through the initial 30 year project life**
- **TransCanada with its extensive Arctic experience brings value to the State as a Builder, Owner, Operator for the State’s interests in the mid-stream of the Alaska LNG Project**
- **Additionally, TransCanada brings the benefit of being a 3rd party pipeline company whose interests lie in maximizing the volumes of natural gas it treats and transports and hence in maximizing the development of North Slope gas resources**

STATE OF ALASKA TOTAL CAPITAL INVESTMENT (IN 2013\$)

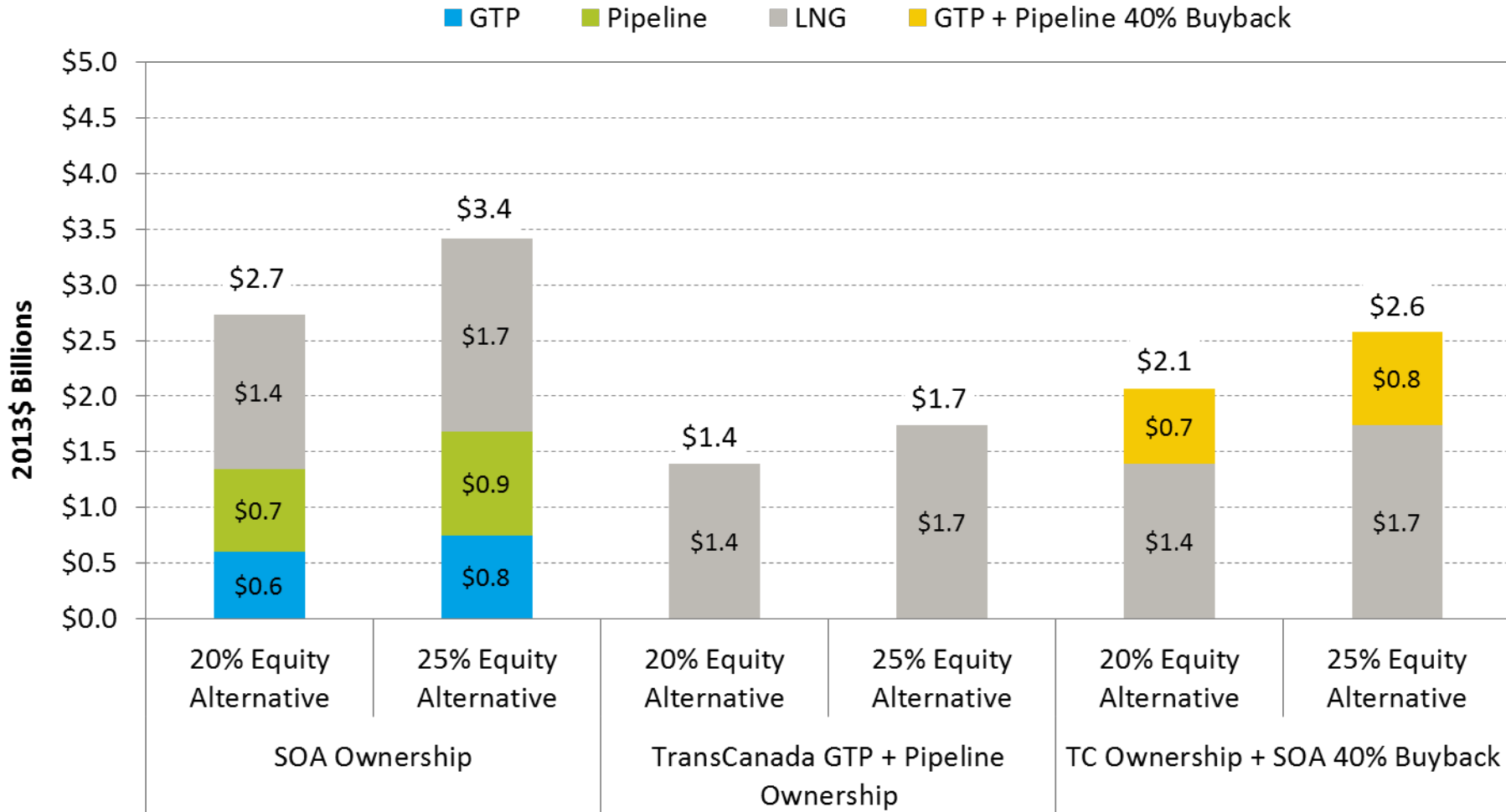
SOA Total CapEx in Real Dollars

■ Equity ■ Debt



STATE OF ALASKA EQUITY CASH CALLS* (IN 2013\$)

SOA Equity CapEx in Real Dollars

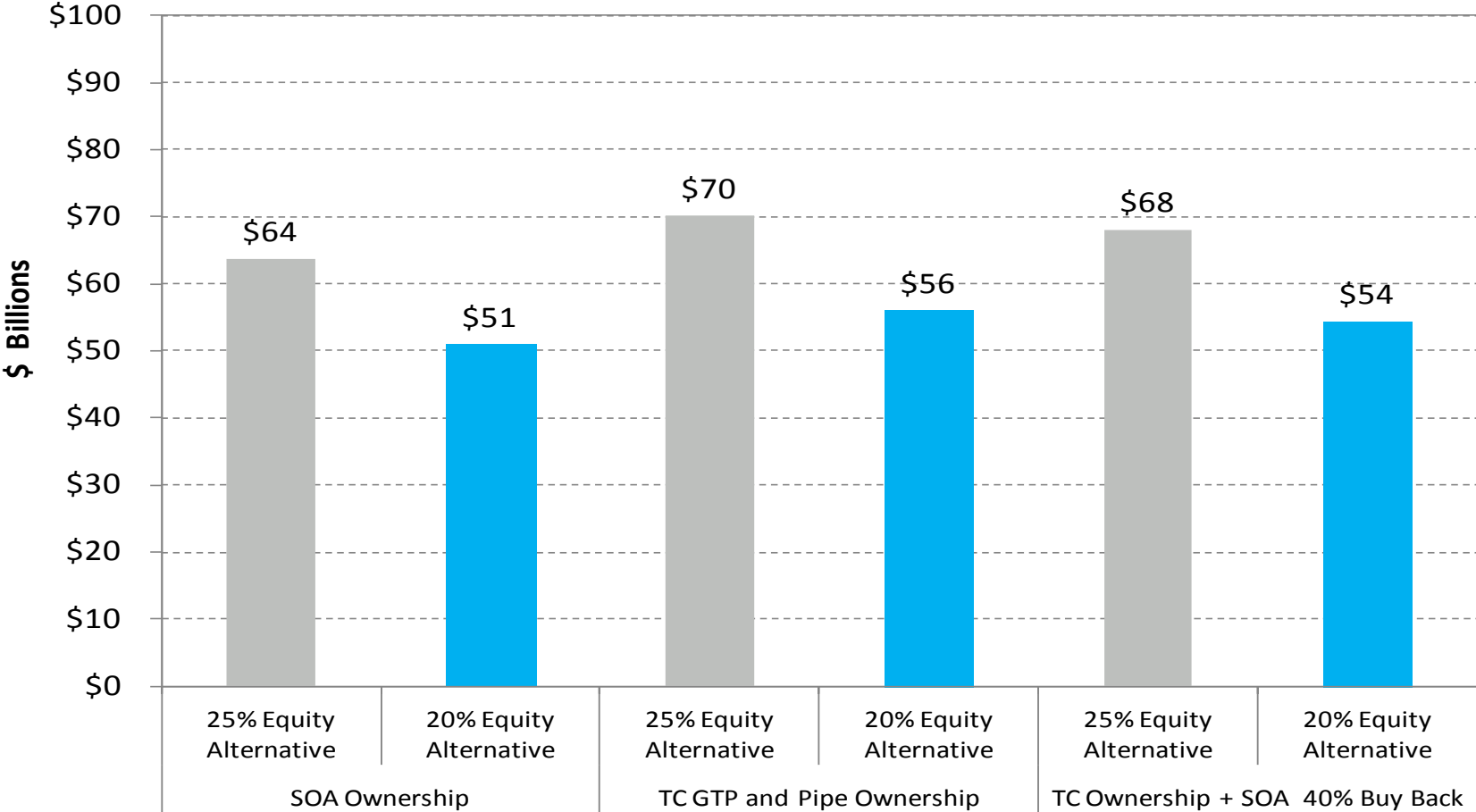


*Assumes a 70/30 debt/equity split for the State's investment

STATE OF ALASKA TOTAL CASH FLOWS ASSOCIATED WITH EQUITY ALTERNATIVE*

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Total Cash Flows to State of Alaska Associated with Equity Alternative



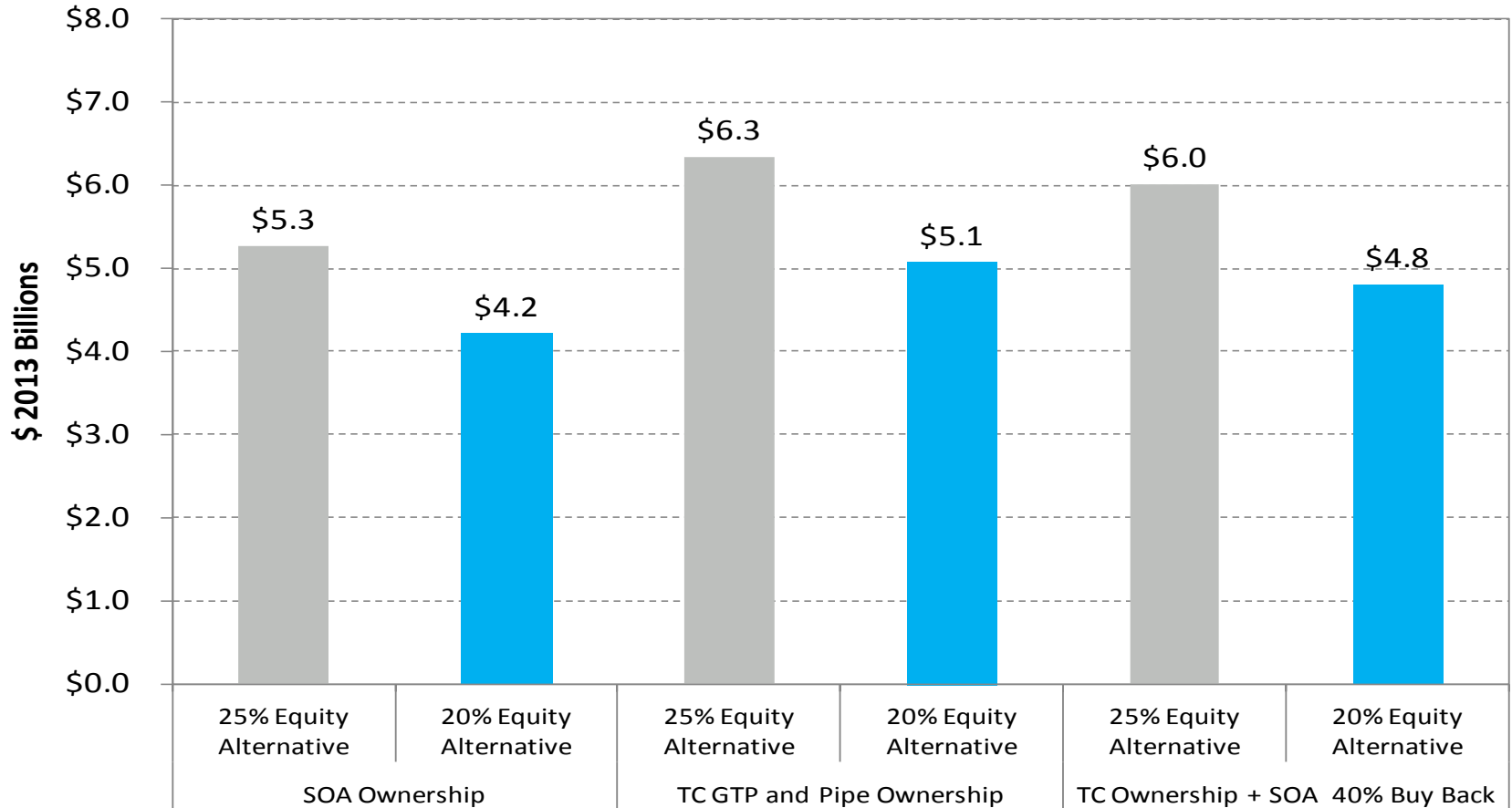
* Total cash flows over initial 30 years;
 Values include the estimated impact of opportunity cost to the State which may not be a cash flow element



STATE OF ALASKA NPV₁₀ ASSOCIATED WITH EQUITY ALTERNATIVE*

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NPV to State of Alaska Associated with Equity Alternative



* NPV of total cash flows over initial 30 years discounted at 10%



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