



Overview of the Methodology Utilized to Determine the Net Present Value to Stakeholders

State of Alaska – Anchorage Special Session

June 18, 2008

What are the key factors to determine NPV?

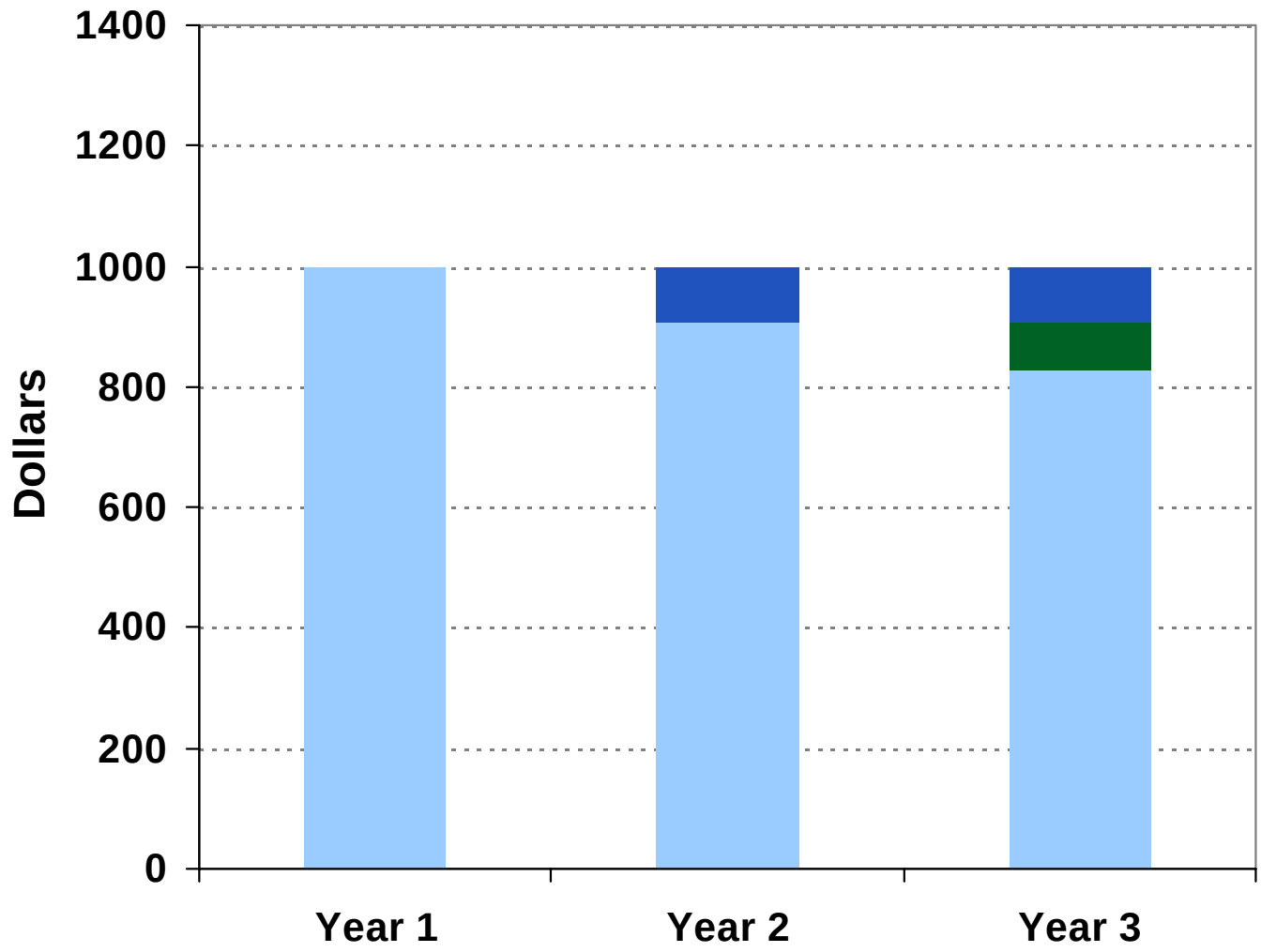
1. An estimate of cash flows, net, by year:
   - Includes capital expenditures, operating expenses and revenue
2. An assumption about the discount rate.

A discount rate is needed to calculate NPV for each project stakeholder.

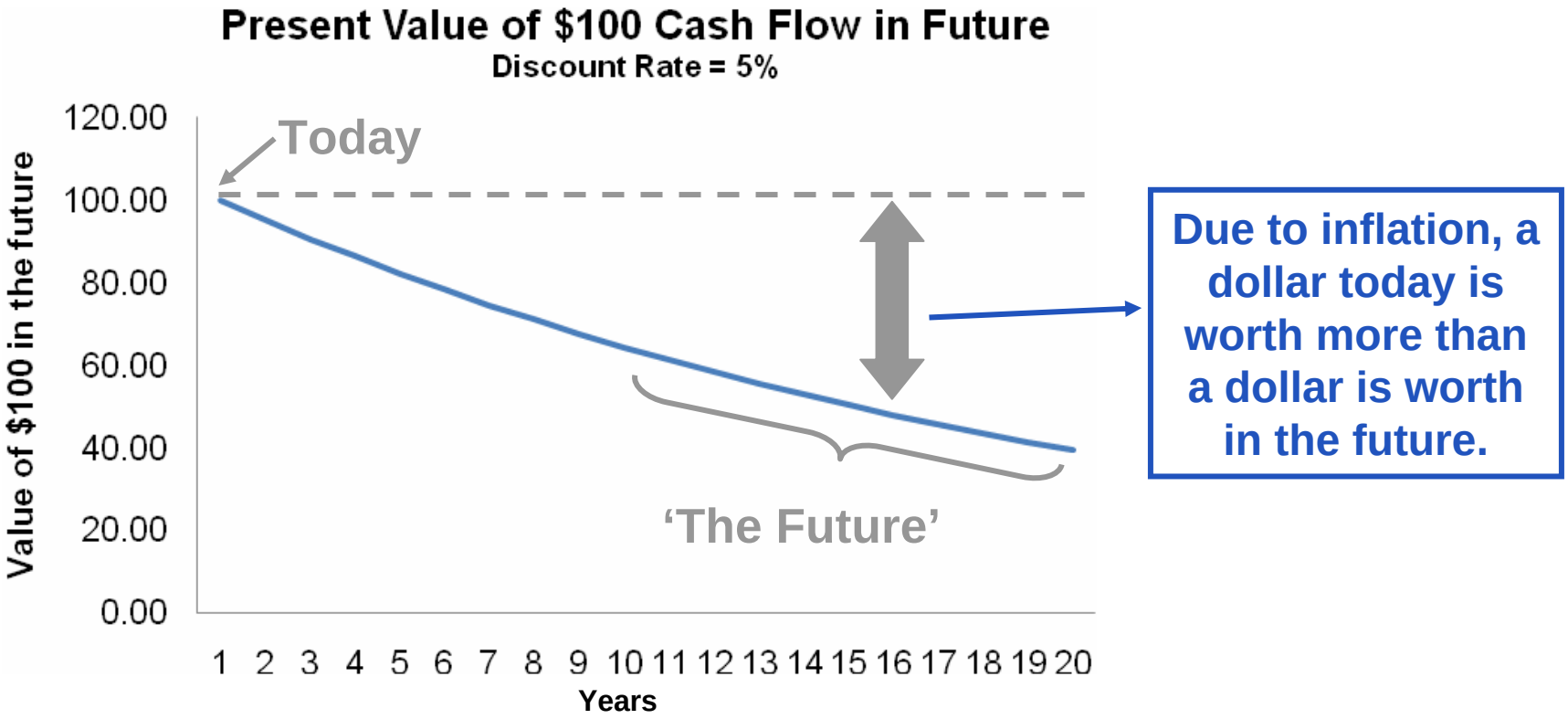
- Discount rate is a price. It is the price associated with waiting to get a benefit, versus getting a benefit today.
- Many factors can influence the price of waiting (discount rate). These include: alternative investment returns, ones cost of capital, general inflation conditions, concern for the well being of future generations
- Discount rates[1] vary by stakeholder:
  - State – 5% (Sensitivities of 0%, 2%, 6%, 8% were also used)
  - TransCanada – 8.8%
  - Producers – 10% and 15%

[1] See Section 4.1 of NPV Report for discussion of discount rates used in NPV analysis.

Discounting Example



Net Present Value (NPV) calculates how much a stream of future cash flows are worth today.



$245 billion of Cash Flow ➔ $61 billion of NPV_5

- NPV_5 of State's cash flow for a 4.0 Bcf/d project is $61 billion.
- Total State Net Cash-flow (undiscounted) is $245 billion.
- These results indicate that the State is indifferent to:
  - Having $61 billion *today* (Remember - NPV is a measure of what future dollars are worth today)
  - and having $245 billion of cash flow starting in year 2020 extending through 2044.