TRANSCANADA'S PARTICIPATION IN AK LNG: KEY ISSUES

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Janak Mayer, Chairman & Chief Technologist › janak.mayer@enalytica.com
Nikos Tsafos, President & Chief Analyst › nikos.tsafos@enalytica.com

http://enalytica.com

VIEW FROM 2014: WHY TRANSCANADA?

Experience	Long history work on an Alaska gas pipeline projects
Continuity	Leverage AGIA work and agree to dissolve AGIA partnership amicably
Governance	TC would help **SOA negotiate terms to make infrastructure as expandable as possible**
Expansion	TC would actively pursue new gas to be shipped through the pipe
Execution	TC would make a successful project more likely (on time and lowest cost)
Finance	TC would relieve SOA from cash calls during development phase

Even so, the agreement came under scrutiny in several areas

Tariff cost	Question whether TC tariff was competitive to market norms / SOA cost of debt
Risk/Reward	TC took on limited risk (only risk was SOA credit health)
Voting rights	TC held most of the control (SOA could direct TC voting only in limited areas)
Back-in rights	In original deal, TC retained full back-in rights (amended to provide clean off-ramp)

WHERE WE AGREE WITH ADMINISTRATION AND WHERE NOT

Where we agree with administration statements

The State of Alaska (SOA) will pay TransCanada (TC) no matter what

Under failure case, terminating TC relationship now much cheaper than terminating later

SOA retains risk, but TC retains most decision making (TC's only risk is deterioration of SOA credit)

SOA credit rating will be hit regardless of whether TC is in the project or not

SOA has several financing options—no need to panic about having higher cash calls

This is the only clean off-ramp that SOA has; failure to pass this bill means harder to sever ties with TC

Not having Alaska Gasline Inducement Act (AGIA) makes a big difference in SOA calculations

Non-alignment in voting and non-visibility of information undermine original case for TC in AK LNG

Where we differ from or wish to supplement administration statements

The strictly financial case for severing relationship with TC is not as compelling as has been argued

Decision should focus on strategic, not financial considerations: expansion plans and AK LNG vision

IS THE FINANCIAL UPSIDE TRULY COMPELLING?

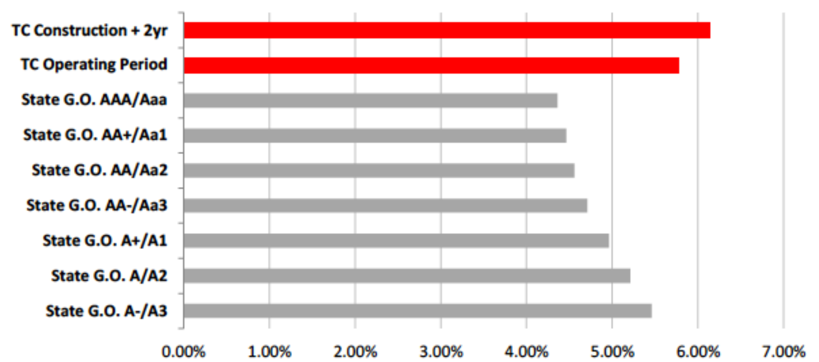
"Under all scenarios of State credit rating downgrade down to A-/A3, the State cost of debt remains below the TC cost of capital."

"The State could potentially achieve up to ~$400 million incremental annual cash flows, based on the State's expected lower cost of capital."

TC Cost of Capital vs. State Debt Interest Rate

The interest rate on State debt would depend on the credit rating. The table below compares:

- TC weighted average cost of capital under the PA, calculated as of Sept 11, 2015
- Interest rates on taxable State G.O. debt, estimated by FirstSouthwest as of Sept 11, 2015



- Under all scenarios of State credit rating downgrade down to A-/A3, the State cost of debt remains below the TC cost of capital
- Note that, following a rating downgrade during the construction period, the State credit rating and cost of capital will likely recover once the Project is operational; TC cost of capital is fixed at FID for the term of the FTSA

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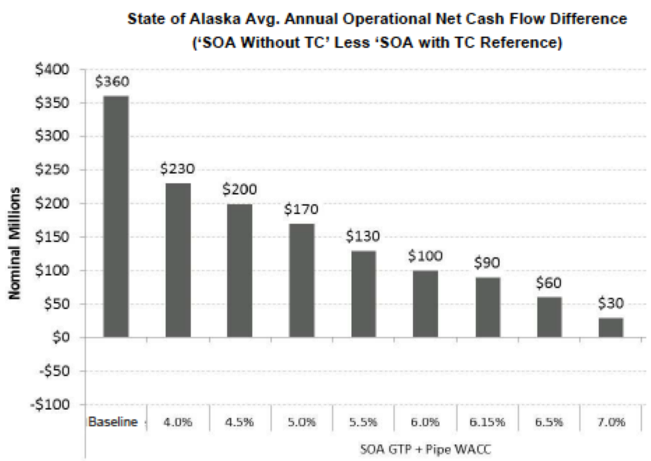
The economic benefit of replacing TC could vary based on the SOA's credit rating

- The State could potentially achieve up to ~**$400 million incremental annual cash flows,** based on the State's expected lower cost of capital
- The State's cost of capital would increase with any credit downgrades
- Even if the State's credit rating deteriorates and results in a higher cost of capital for the State, it is still expected that the State will achieve additional annual cash flows without TC



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SOURCE: "TRANSCANADA'S AKLNG PARTICIPATION: FINANCING ISSUES," OCTOBER 24, 2015; "TRANSCANADA'S AKLNG PARTICIPATION," OCTOBER 25, 2015

SOA COST OF DEBT LIKELY HIGHER THAN TODAY

Assuming that SOA issues $13–$15 bn in debt, it can expect credit downgrade / higher borrowing costs

These numbers assume high oil prices and revenues through 2038

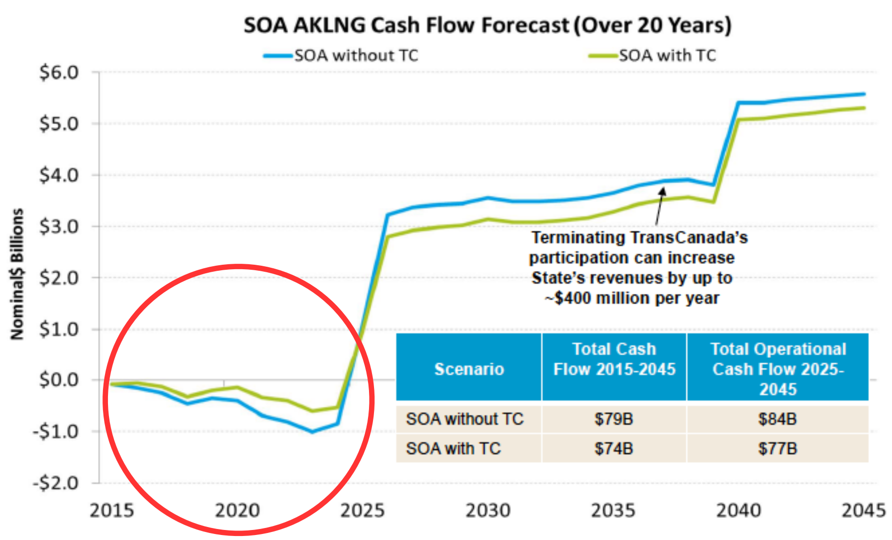
It is not hard to see a scenario where SOA cost of debt gets much closer to TC tariff (now 5.8% to 6.15%)

Of course, SOA has other financing options (e.g. project finance, tax-exempt debt, equity, etc.)

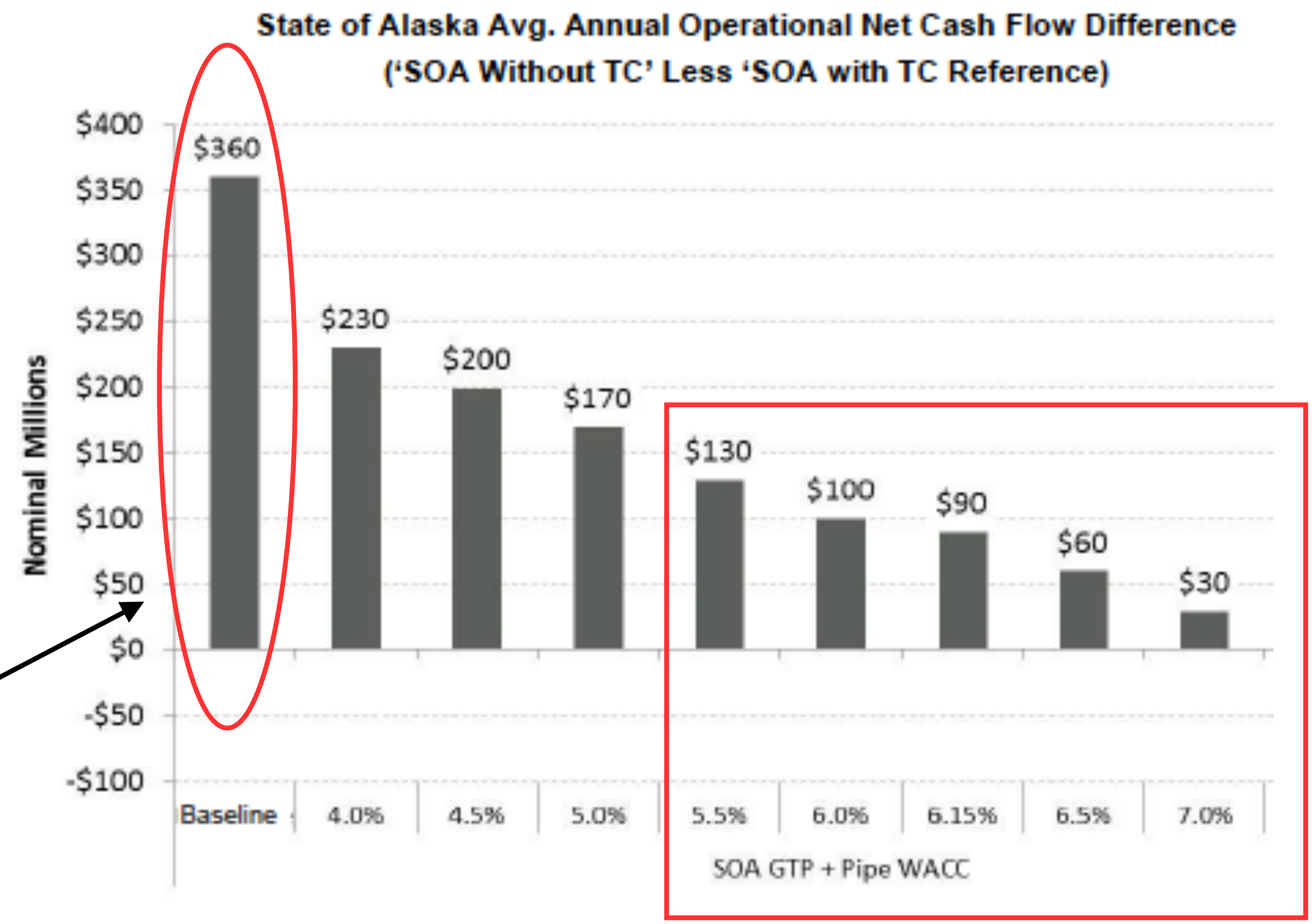
RATING (MOODYS/S&P)	DEBT SERVICE LIMIT (% OF GFUR)	INTEREST RATE ON TAXABLE BONDS	MAX NEW DEBT SOA CAN ISSUE (IN MILLIONS)
AAA/AAA	5%	4.49%	3,851
AA1/AA+	8%	4.59%	6,382
AA2/AA	10%	4.69%	8,009
AA3/AA-	12%	4.84%	9,549
A1/A+	17%	5.09%	13,361
A2/A	20%	5.34%	15,387

SOURCE: FIRST SOUTHWEST, "AKLNG DEBT SIZING (AS OF JUNE 3, 2015)"

$360MM ASSUMES +$2BN UPFRONT EQUITY; $NPV_{10} \simeq 0$



Scenario	Total Cash Flow 2015-2045	Total Operational Cash Flow 2025-2045
SOA without TC	$79B	$84B
SOA with TC	$74B	$77B



$2bn in additional outlays to generate the publicized $360mm in annual additional revenues

More likely annual gains for SOA

SOURCE: "TRANSCANADA'S AKLNG PARTICIPATION," OCTOBER 25, 2015

TC INFLECTION POINT OPENS UP BROADER QUESTIONS

How can SOA best protect its interests in AK LNG?

No AGDC secondee in 135-strong project management team

Unclear decision-making / division of labor within SOA

AK LNG can back-fill TC exit; can AGDC step up?

How will SOA ensure expansions / a full pipeline?

AGDC plan to pursue expansions is unclear

Need not just technical but chiefly commercial expertise

What is the optimal capitalization structure for SOA?

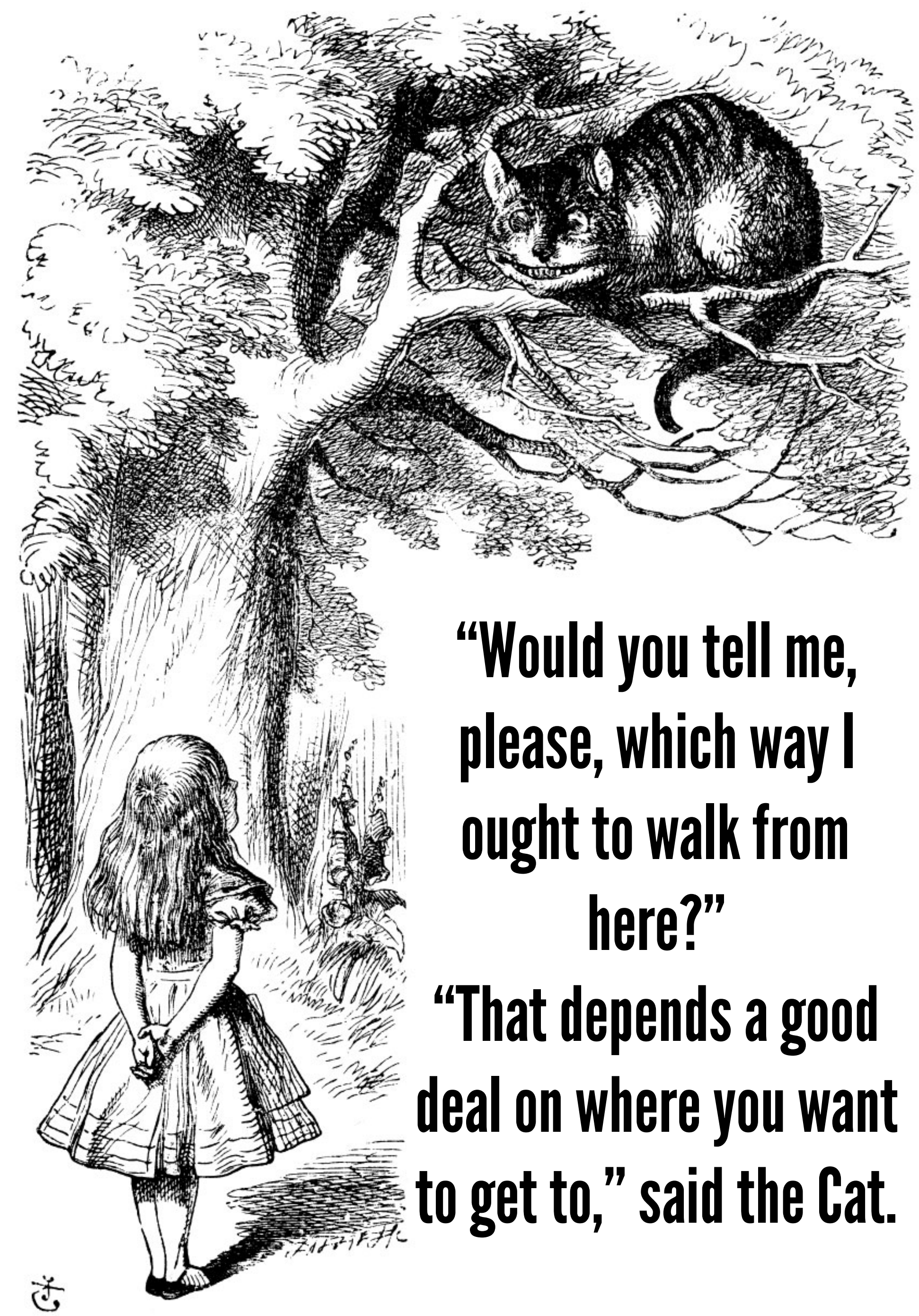
Should SOA rely so heavily on debt (e.g. 100% debt)?

What are the merits of equity and what form might it take?

What is SOA's vision for AK LNG?

What if partners withdraw (strengthens case for TC)

How much do withdrawal agreements raise risks for SOA?



"Would you tell me, please, which way I ought to walk from here?"
"That depends a good deal on where you want to get to," said the Cat.

SOURCE: LEWIS CARROLL, ALICE'S ADVENTURES IN WONDERLAND

WHAT'S IN A SALES AND PURCHASE AGREEMENT (SPA)?

Most SPAs are over 100 pages and are customarily confidential (with limited details released)

Pricing	Formula (e.g. oil, Henry Hub, netback); fixed and variable parameters; inflation
Term	Usually 20-year for new projects; date of first delivery; treatment of delays
Volume	Average contract quantity plus any flexibility ($\pm$10-20%); make-up gas
Title transfer	Delivery point; destination restrictions; profit-sharing for diverted gas
Logistics	Delivery schedule; facility specs and approvals; measurement
Gas quality	Gas specs (molecular breakdown / heating value); provisions for off-spec gas
Financial	Invoicing process; payment terms; guarantees; currency; taxes; insurance; indices
Precedents	Precedent conditions; regulatory approvals; activation window
Legal	Jurisdiction; dispute resolution; renegotiation; force majeure; liabilities; termination

WITHDRAWAL / SALES CARRIES MAJOR RISKS FOR SOA

Economics	Buying 75% of AK LNG gas could cost \$1.4–\$7.4 bn/yr (1995-2014 Henry Hub prices)
Liability	Right to purchase could mean obligation to buy; major contingent liability; options costly
Pricing	Does SOA have a thorough and detailed understand of pricing / volume risk?
Asymmetry	If producers are willing to commit to a set price, does SOA really want to buy?
Title	If gas has an "option" attached to it, legal title become less clear
Transfer	Where is gas transferred? In what condition (e.g. what happens to CO_2)?
Activation	Is this SPA triggered by a specified date or other conditions?
Fiscals	What kind of fiscal certainty would producers want to offer binding agreement?
Focus	Overly focused on failure; lower commitment; opt out rather than work issues
Now vs. later	SOA can pursue this path later; doing so today could expose SOA to major risks