UBS

Alaska Natural Gas Pipeline Project Presentation

Legislative Budget & Audit Committee
Senate Resources Committee

October 13, 2004

Presentation Topics

The State of Alaska's Banking and Presentation Team

Natural Gas Pipeline Project

Municipal Investment Banking
Robert Doherty*
Managing Director
John Costagliola
Managing Director

Business and Legislative Strategy
James W. Ziglar, Sr.*
Managing Director

Municipal Energy / Power Banking
James Scott*
Managing Director

Energy Pipeline Banking
Charles Davis*
Managing Director

Energy Hedging Group
Christopher Calger
Managing Director

Municipal Tax / Legal / Credit / Quantitative Analysis
Joe Forrester*
Managing Director
Brad Gewehr
Managing Director
Joseph Monitto
Managing Director

Interest Rate Hedging
Rhahime Bell
Managing Director

Canadian Energy Pipeline Banking
Three Corporate Bankers

Municipal Underwriting and Sales
William Schlichting
Managing Director
Robin Sweeny
Managing Director

Municipal Corporate Banking
William Holmberg
Managing Director

Taxable Syndicate Desk
John Feery
Managing Director

Local Alaska Managers
Nine Financial Advisors

* In attendance at today's briefing.

Overview of Testimony

- The goal of today's testimony is to present a strategy for the State to insure that the natural gas pipeline is built

- Alaska is a unique State, not only geographically but also economically, when compared to the "Lower 48" and even to other "Petro-States"

- There are significant legal challenges, financing constraints and risk considerations that we will address today. Our presentation today is organized as follows:

  — Market overview and LNG competition

  — Project review and risk assessment

  — Financing options and business models

  — UBS's recommendations and conclusions

The State of Alaska and UBS – A Good Match

- UBS is a full-service, global, financial firm with strong domestic and local ties that offers the State of Alaska the ideal platform from which to assess alternative business models and to design and successfully execute the Natural Gas Pipeline Project

UBS Investment Bank

- Over the past 10 years, UBS has advised on over $80 billion in electric and gas projects
- Global utility and energy advisory team, including 42 bankers in the U.S. and 9 in Canada
- Leader in worldwide mergers and acquisitions, integrated debt and equity financing, and secondary equities
- Named "Bank of the Year" in 2003 by Investment Dealer's Digest, "Best Global Equity House" in 2003 and 2004, and "Best Global Investment Bank" in 2004 by EuroMoney magazine

UBS Financial Services Inc.

- Ranked #1 firm in negotiated, senior managed U.S. public finance transactions
- Most extensive institutional and retail investor networks in the industry
- Strong underlying credit ratings (Aa2/AA+/AA+)
- In-house tax and credit analysts
- Actively involved in 50% of all State of Alaska issues
- Retail office in Anchorage (6,500 accounts)

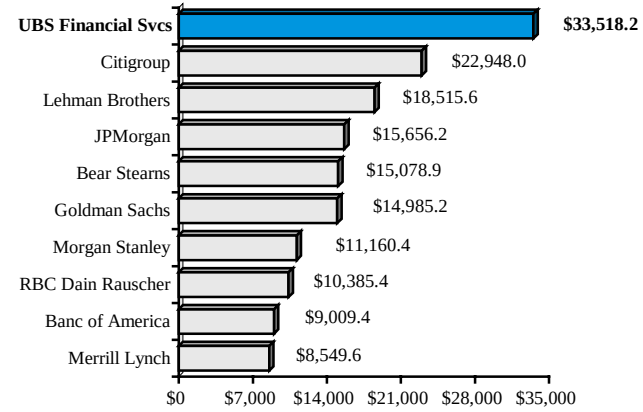
UBS Energy LLC

- Industry leader in energy trading and marketing
- Operates wholesale natural gas and power markets in the U.S. and Canada
- 110 energy professionals based in the U.S. and Canada
- Natural gas trading, transportation and storage capabilities
- Integrated energy hedging, futures and options program

UBS Financial Services Inc. is the #1 Municipal Underwriter in the U.S.

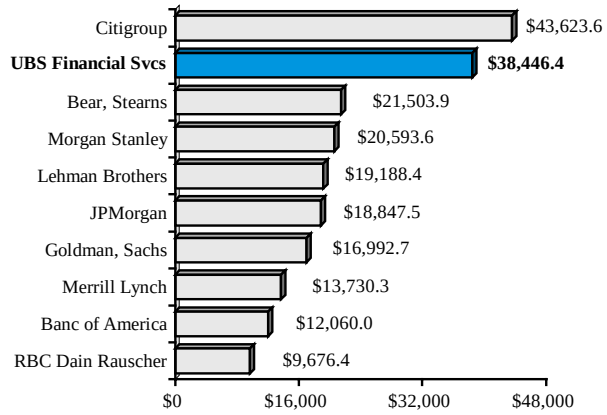
- UBS is the dominant player in the tax-exempt market

2004 YTD Negotiated Senior Managed Ranking
($ in millions)



Source: Securities Data Corporation

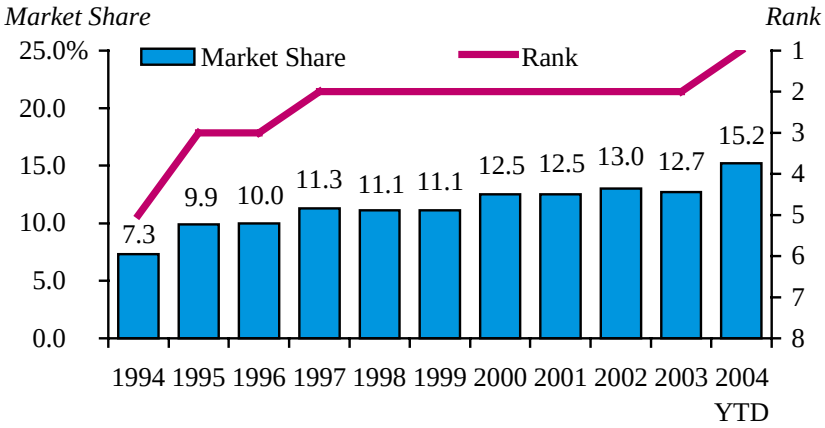
2003 Negotiated Senior Managed Ranking
($ in millions)



Source: Securities Data Corporation

- UBS is the #1 ranked underwriter of negotiated, senior managed municipal issues in 2004 YTD
- UBS has extensive experience with many of the largest and most complicated municipal financings
- Since 1999, UBS has senior managed 17 "$1 billion plus" deals for a total par amount in excess of $29 billion

UBS Market Share and Ranking (1994 – 2004)



Source: Securities Data Corporation

UBS Investment Bank is a Global Leader

1st

Best Global Investment Bank
Euromoney 2004

World's Best Bank
Euromoney 2003

Bank of the Year
Investment Dealers' Digest 2003

World's Best Investment Bank
Euromoney 2002

Corporate Broker of the Year
Acquisitions Monthly 2003

Global Emerging Market Bond House
IFR 2003

World's Best Equity House
Euromoney 2004, 2003

Best US & Best Asia Pacific Bookrunner
Euroweek Equity Markets Poll 2003

FX Derivatives House of the Year
Derivatives Week 2003

Best Provider of Support in the Secondary Market
Euroweek 2004

Best for Overall Electronic Services
Euromoney 2003, 2002

M&A/Advisory

Westfield

2004
US$20 billion
Financial advisor to the Westfield Group on its merger to create one of the world 's largest listed property investment groups

China Telecom

2004
US$8.2 billion
Financial advisor to China Telecom on its acquisition of ten target provinces

Regions

2004
US$5.9 billion
Financial advisor to Regions Financial Corporation on its merger with Union Planters Corporation

Equity/Equity-linked

belgacom

2004
US$3.6 billion
Joint global coordinator and bookrunner on the largest European IPO since 2001 and the largest -ever in Belgium

JAL

2004
JPY100 billion
Sole bookrunner on the zero coupon convertible bonds completed in just over two hours

Apollo Management

2004
US$930 billion
Joint bookrunner on the sixth largest US IPO of 2004

Debt

Pacific Gas and Electric Co

2004
US$6.7 billion
Joint bookrunner on the companies first mortgage bonds —the largest capital markets transaction in the history of the US utilities industry

Mizuho Financial Group (MHFG)

2004
US$1.5 billion
Joint bookrunner on the upper tier 2 issue —the debut international offering by the world's largest banking group by total assets

Rockwood

2004
US$1.85 billion
Joint lead arranger and bookrunner on the US$1.85bn senior credit facilities and the US$850m senior subordinated bridge facility —the largest global LBO financing YTD

Selected Landmark Energy Transactions Managed by UBS

UBS's track record in landmark energy transactions is testament to the experience of our global energy team

The largest oilfield service transaction in history

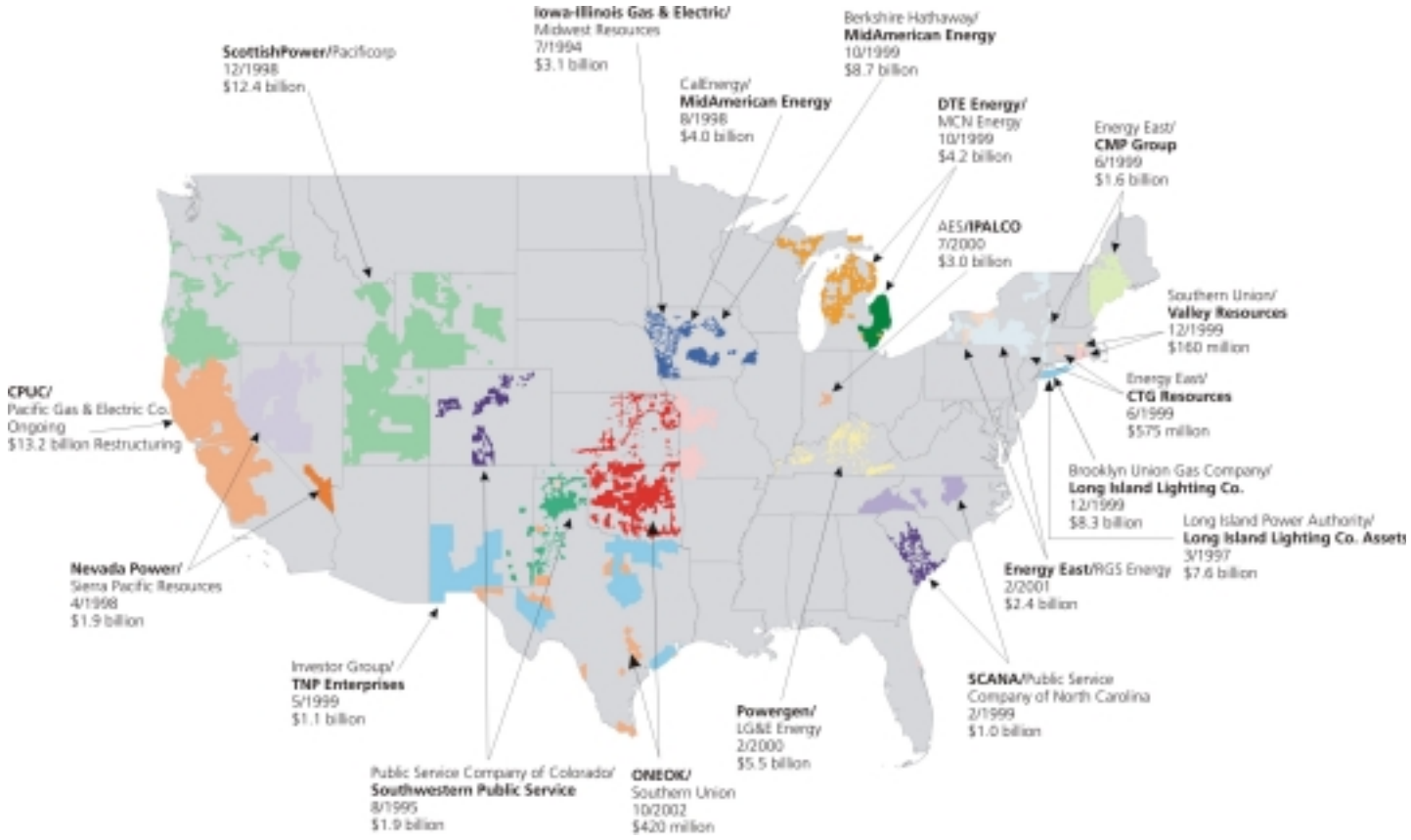
- Halliburton's $8.9 billion acquisition of Dresser Industries in 1998

Seven of the largest E&P transactions ever

- Devon Energy's $3.5 billion acquisition of Mitchell Energy in 2002
- Canadian Natural Resources' $1.5 billion acquisition of Rio Alto in 2002
- Devon Energy's $4.6 billion acquisition of Anderson Exploration in 2001
- Occidental Petroleum's $3.6 billion acquisition of Altura Energy Ltd., a JV of BP Amoco and Shell, in 2000
- Devon Energy's $2.4 billion acquisition of PennzEnergy in 1999
- Seagull Energy's $2.3 billion acquisition of Ocean Energy in 1999
- Sale of Louisiana Land & Exploration to Burlington Resources for $2.9 billion in 1997

UBS's U.S. Utility Sector Advisory Experience

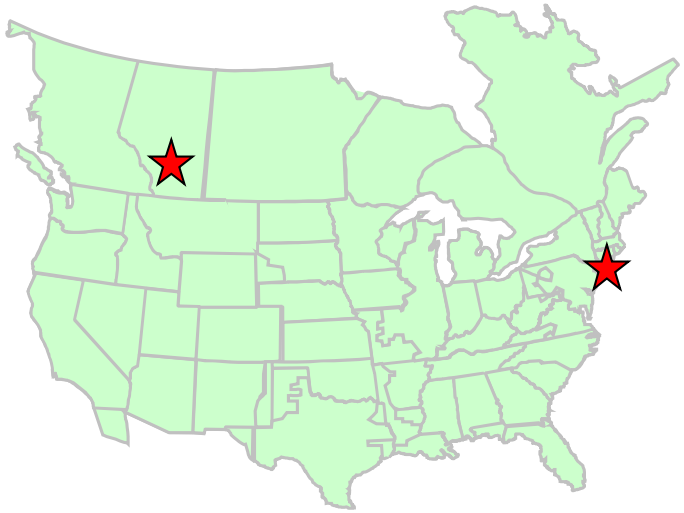
During the past cycle of utility transactions, UBS has advised on over $80 billion of U.S. electric and gas advisory assignments (1)



(1) Dates represent transaction announcements and figures represent enterprise values; UBS client in bold, since 1994.

UBS Energy LLC Is the Leader in Natural Gas Price Risk Management and Energy Marketing Services

- U.S. Energy Headquarters: Stamford, Connecticut
  - — U.S. gas trading and marketing
  - — U.S. power trading and marketing
  - — Global crude oil and products trading
- Canadian Energy Headquarters: Calgary, Canada
  - — Canadian gas and power trading and marketing
- Transportation:
  - — UBS leases transportation space on a pipeline
  - — UBS has the ability to move gas between locations and to provide risk management at receipt and delivery points



- Storage:
  - — UBS leases storage space in physical storage cavern
  - — UBS injects gas during a particular month and withdraws in a month when it is priced higher
- Delivery:
  - — Requires a pipeline nomination at a physical location
  - — Next day, balance of the month and next month
  - — Long term – up to 15 years
  - — Seasonal deliveries – for peaking requirements or regional exchanges
- Natural Gas Reserves:
  - — UBS invests in future natural gas production through the purchase of term overriding royalty interests and net profits interests

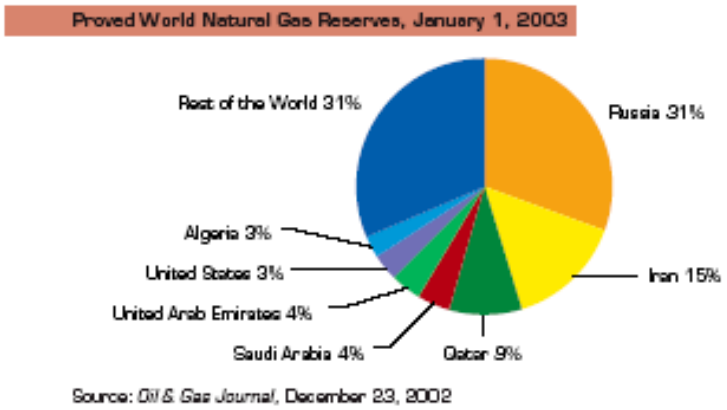
The Liquefied Natural Gas Market

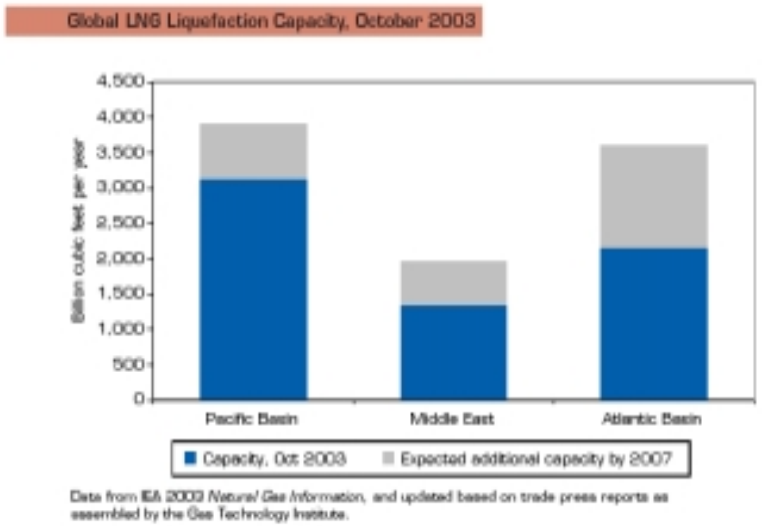
The Global Liquefied Natural Gas (LNG) Market Poses a Serious Challenge to the Feasibility of Alaska's Natural Gas Pipeline Project

- There is a significant first-mover advantage as it relates to competition between the LNG market and Alaska's natural gas pipeline project
- Once the project is underway, costs become "sunk" and will deter LNG competition
- The combination of higher natural gas prices, lower LNG production costs, rising gas import demand and the desire of the producers to monetize their gas reserves is setting the stage for increased LNG trade over the next several years
- Global LNG liquefaction capacity is expected to increase from 6.6 Tcf in 2003 to 9.4 Tcf in 2007
- U.S. LNG imports in 2003 more than doubled (from 2002) to approximately 540 Bcf or approximately 2% of domestic natural gas consumption
- U.S. LNG imports are projected to increase to more than 2.2 Tcf by 2010 or approximately 8% of domestic natural gas consumption

World Natural Gas Reserves and LNG Potential

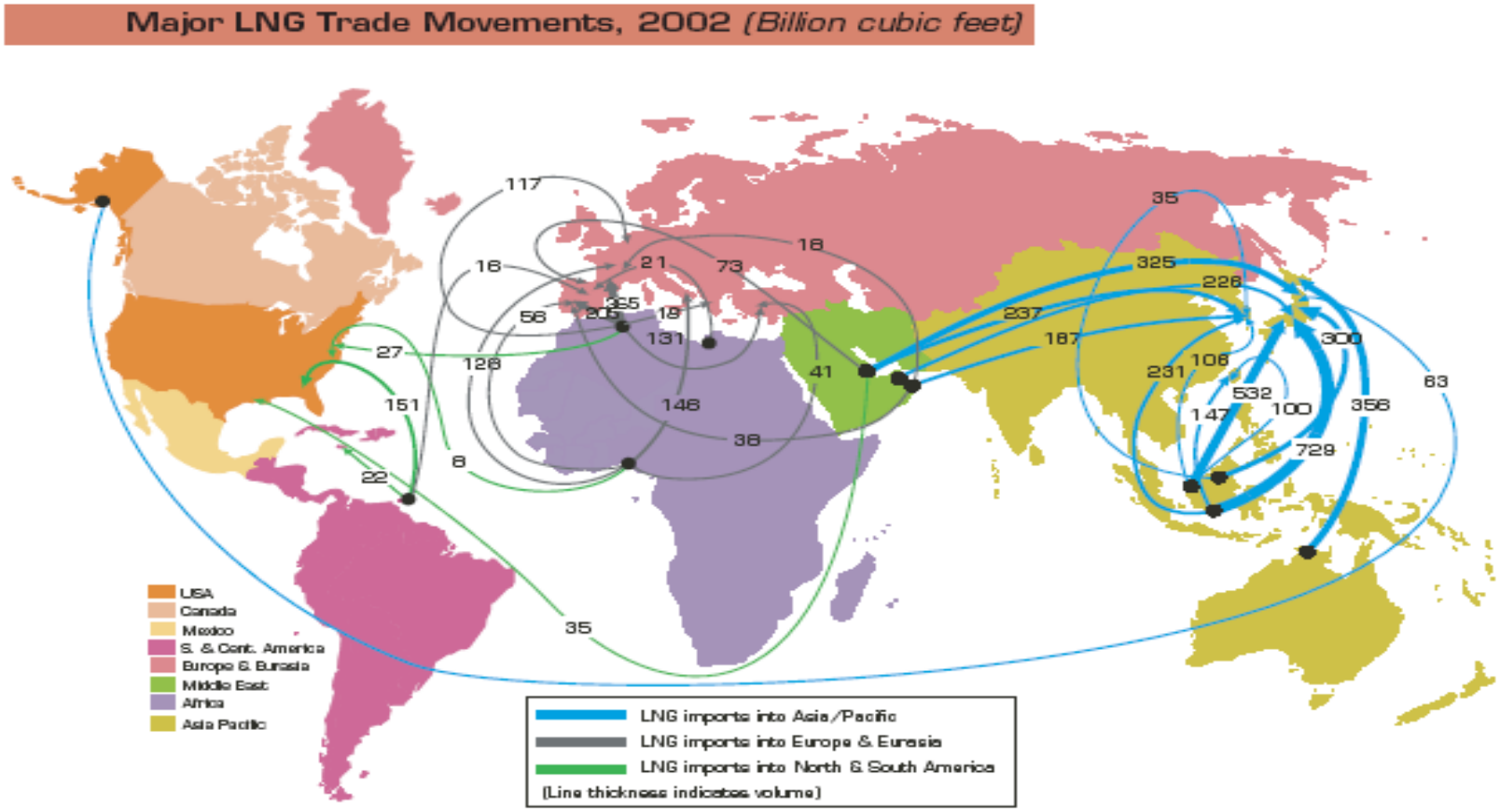
- World natural gas reserves are abundant, estimated 5,500 Tcf or 60 times the volume of natural gas used in 2003





- The 12 countries that currently export LNG hold about 28% of the world natural gas reserves
- Three countries that hold about 33% of the world natural gas reserves are currently building their first liquefaction facilities
- The economic crossover point – where transporting LNG via tanker is cheaper than transporting natural gas via pipelines – occurs at a distance of approximately 1,250 miles for offshore pipelines and 2,375 miles for onshore pipelines

Global LNG Trade

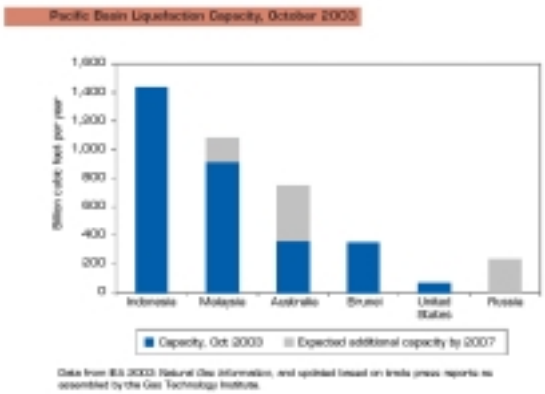


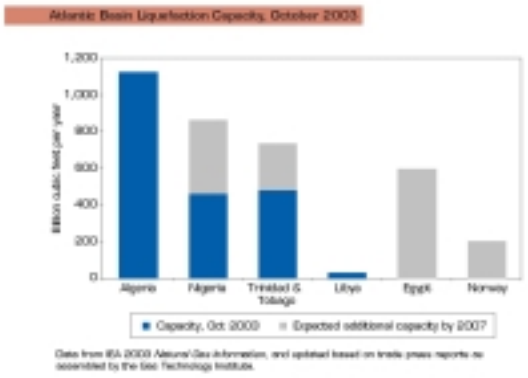
Note: The map includes flows greater than 5 Bcf for imports into the United States, and flows greater than 15 Bcf for imports into all other Countries.

Source: **Imports to the United States and Imports to Japan and Mexico from the United States:** Energy Information Administration, *Natural Gas Monthly* (May 2003). **All Other Countries:** Organization for Economic Cooperation and Development, International Energy Agency, Natural Gas Information 2003 (with 2002 data).

Global LNG Exporters

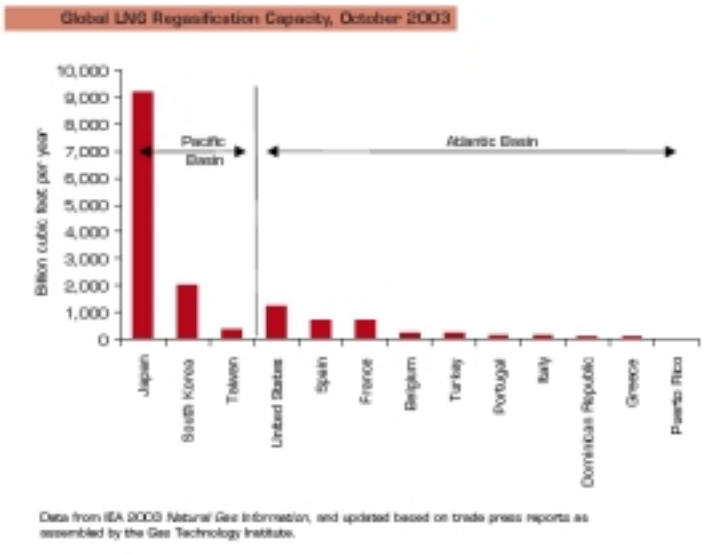
- There are three geographic LNG exporting regions: Pacific Basin, Atlantic Basin and Middle East

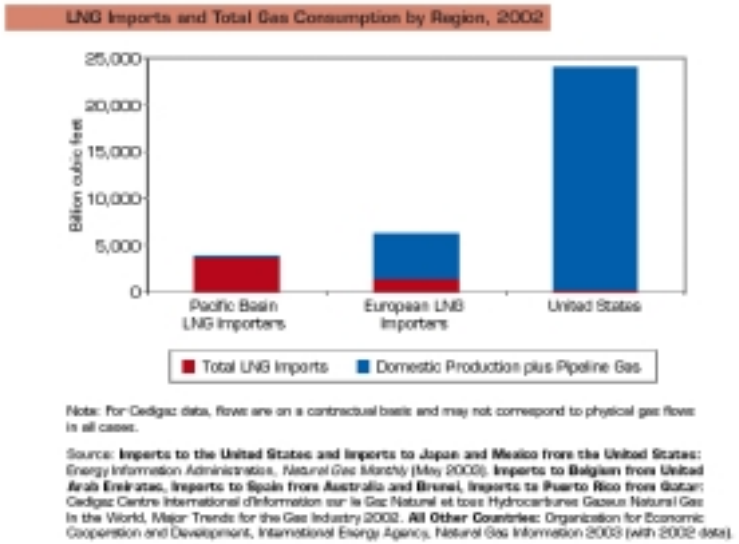




- In 2002, 12 countries exported 5.4 Tcf of natural gas as LNG, with the Pacific Basin supplying nearly 50% of all global exports
- Significant investments are expected to occur in the Middle East and Africa in order to profit from the large volume of proven gas reserves
- According to LNG Shipping Solutions, 151 LNG tankers were in operation worldwide as of October 2003 and an additional 55 tankers are under construction, of which 46 are designed to carry at least 138,000 cubic meters of LNG
- LNG is a growing competitive threat to Alaska's natural gas

Global LNG Importers





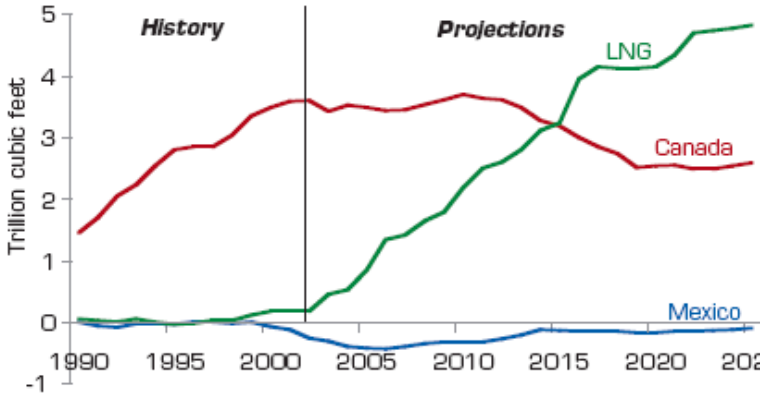
- Most countries with existing import terminals are expanding their import capacity either through construction of new terminals and/or through expansion of existing facilities
- In 2002, the U.S. imported approximately 4% of its total natural gas consumption
- LNG still makes up a small portion of the natural gas market in the U.S. and competes directly with domestic suppliers and pipeline imports
- However, the costs of liquefaction, shipping and regasification have declined significantly, lowering costs to producers and creating the incentive to expand the LNG market

United States: Natural Gas and LNG Outlook

- Based upon EIA long-term forecasts, U.S. natural gas consumption is projected to increase from 22.5 Tcf in 2002 to 26.2 Tcf in 2010 and 31.4 Tcf by 2025

- Domestic gas production is expected to increase more slowly than consumption over the forecast period, rising from 19.0 Tcf in 2002 to 20.5 Tcf in 2010 and 24.0 Tcf by 2025

Net U.S. Imports of Natural Gas, 1990–2025



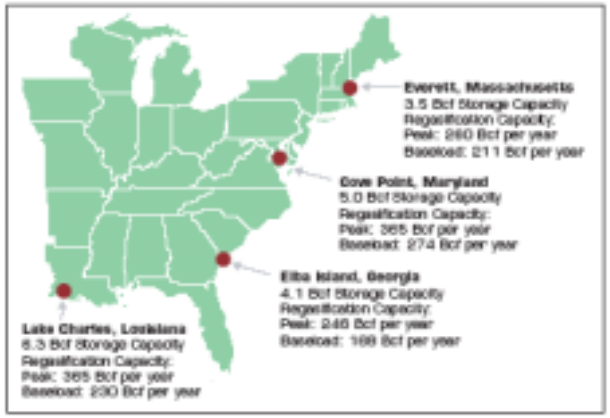
Source: Energy Information Administration, *Annual Energy Outlook 2004*, Refer

- The difference between production and consumption will be made up by net imports, with the bulk expected to come in the form of LNG

- Net U.S. LNG imports are expected to increase from 5% of net U.S. natural gas imports in 2002 to 39% in 2010

United States: LNG Market Overview — Increasing Capacity

LNG Regasification Terminals in the United States



Source: Energy Information Administration

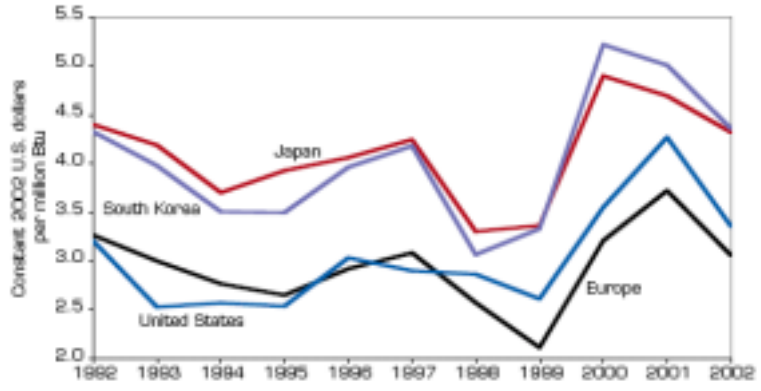
Potential Locations for LNG Regasification Terminals in North America

Source: Energy Information Administration

- The U.S. has been both an importer and exporter of LNG for over the past 30 years
- There are currently four LNG import terminals in the continental U.S., which have all completed an expansion or plan to expand regasification capacity by 2006
- There are at least two dozen proposals to build new LNG regasification terminals in North America over the next several years
- The EIA forecasts that four new LNG regasification terminals will be constructed on the Atlantic and Gulf Coasts from 2007 through 2010 to meet the 58% increase in LNG imports that is projected over this timeframe

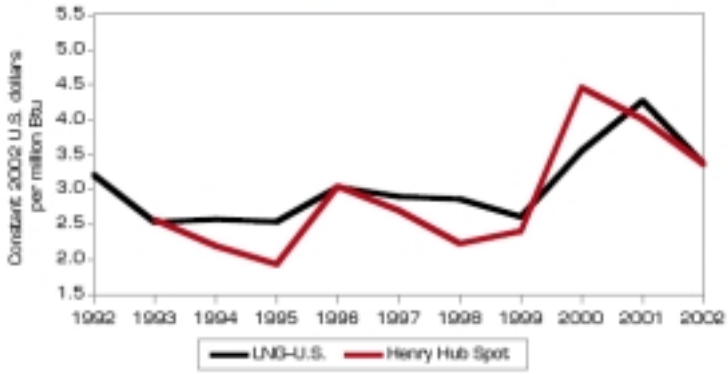
United States: LNG Pricing

LNG Import Prices, 1992-2002



Source: International Energy Agency, Energy Prices and Taxes, third Quarter 2003, online data services.

LNG Import Prices and Henry Hub Spot Prices in the United States, 1992-2002



Source: Natural Gas Intelligence; International Energy Agency, Energy Prices and Taxes, third Quarter 2003, online data services.

- Pricing arrangements in the global LNG market are nonstandard and region-specific. In the U.S., LNG has historically been priced off of competing natural gas and the Henry Hub Index. High price volatility in U.S. natural gas markets creates significant risk exposure
- The evolution of gas "hubs" involving both LNG and pipeline gas present opportunities for price arbitrage and the eventual convergence of a market price
- Pricing will be based upon a number of factors, including infrastructure costs, competing fuel supplies, supply of LNG in the market and regasification capacity
- The optimal pricing structure allows the producer to achieve a return on its substantial investment in infrastructure and production

Summary — Alaska Needs to Take Action Now

- The combination of higher natural gas prices, lower LNG production costs, rising gas import demand and the desire of the producers to monetize their gas reserves is setting the stage for increased LNG trade over the next several years
- Competition from the LNG market poses a serious challenge to the feasibility of Alaska's natural gas pipeline project
- Given current forecasts and projections, there is a significant first-mover advantage
- Once Alaska's project is underway, costs become "sunk" and will deter LNG competition
- The State needs to continue to adopt its proactive attitude in developing alternative business models and the optimal risk-sharing model

What Will It Take to Build the Pipeline?

1. Create a strategy to motivate sponsors/producers/shippers to commit to the project
   - Evaluate participants' objectives and risk/return profiles
   - Offer incentives through "alternative business models" to secure participants' commitment
   - Design the most cost-effective transaction from a debt and equity markets perspective

2. Ensure that the State's participation level is optimized and its risk assumption is minimized
   - Quantify potential risks and rewards from the alternative business models
   - Create appropriate model to assess the State's risk/return profile
   - Select the incentives that most closely align with the State's interests, objectives and profile
   - Understand the State's "out of project box" risks

3. Combine aspects of alternative business models to customize an optimal solution for the State
   - Ensure that all participants have a stake in the completed project
   - Align incentives such that the risk/return proposition is equitable and fair
   - Bonds (taxable and tax-exempt) will only be one component of the overall program

A successful strategy will secure the commitment of the participants by providing appropriate, risk-adjusted returns and by lowering transportation costs and protecting/enhancing returns in a volatile natural gas price environment

The End Game — Freeing the State's "Stranded Asset"

- If the pipeline is **not** built, any and all in-kind gas, project revenues and incremental tax revenues will remain "stranded" — these are valuable and significant assets that could be pledged to the project or sold independently
- Incremental tax revenues from the pipeline are substantial under nearly every scenario

Market Price ($/MMBTU) [1]	$ 2.00	$ 3.00	$ 4.00
Property Tax (SMD) [2]	$ 118	$ 118	$ 118
Variable Revenues [3]			
Royalties ($million)	0	35	236
Severance Tax ($million)	106	106	163
Corporate Income Tax ($million)	190	340	470
Total Variable Revenue	**296**	**481**	**869**
Total State Revenues ($million)	$ 414	$ 599	$ 987

(1) Assumes transportation costs of $1.25/mmbtu.
(2) Fixed rate.
(3) There may be alternative calculation methodologies and additional variable revenue sources generated from the project.
Source: Alaska Department of Revenue.

- Additional economic benefits will flow to the State from an operational pipeline
- The objective is to determine the "best" business model to free these stranded assets
- The key question is how much of the incremental tax revenues, if any, the State can and should commit to the project in the form of equity

Note: Analysis assumes 4.0 bcf/d; $20 billion project cost; severance taxes of (12.5%) and Corporate top tax rate of (9.4%).

Alignment of Participants' Interests is Critical to the Success of the Project

- Differing and potentially conflicting incentive structures can be aligned by understanding the motivations and objectives of the various participants and by crafting alternative business models to cater to their different risk/reward profiles

Producers	Shippers	State of Alaska	Federal Government
■ LNG competition poses a threat to project economics	■ Transportation costs are a significant factor	■ Significant "stranded assets" at stake	■ Participation would enhance project economics
■ Commodity price risk is a significant factor	■ Commodity price risk is a significant factor	■ Limited window of opportunity	■ Best position to offer loan/credit guarantee
■ Increase in supply of natural gas is a factor	■ Sharing/eliminating commodity risk is key	■ Participation level and risk assumption must be fair	■ Education as to economic benefits of project is key
■ Transportation costs are not a significant factor	■ Potential for significant return on equity	■ Must offer reasonable risk/return proposition	■ Non-participation will not "kill" the project

- Additionally, the State must also consider the (price) effect of an estimated increase in the supply of natural gas of 4.0 bcf/d as well as the capital markets implications of a $20 billion project that may be financed, in part, by a large debt offering by the State of Alaska

The State's Risk/Reward Profile — Defining the "Risk Box"

		Risk Assumption				
Types of Risk	Duration of Risk	Sponsor	Producer	Shipper	Federal Government	State
Construction Funding/Completion	Periodic	✓			?	?
Cost Overrun	One-time	✓				
Permanent Takeout	One-time	✓			?	?
Performance/Operational	Constant	✓				
Production Risk at Wellhead	Constant		✓			✓
Commodity Price	Constant		✓	✓		✓
Capacity Gaps	Periodic	✓				✓
Initial Shipping Contracts/Renewal	Periodic	✓				

- The State must establish a clear loss position and the duration of the risks must be understood
- The State must establish liability limits in the case of a catastrophic event, as well as potential ongoing exposure
- The State must address statutory, constitutional, regulatory, federal and policy issues and impediments as necessary

The State's Risk/Reward Profile — Sizing the "Risk Box"

UBS recommends that the State evaluate the amount of absolute and relative risk it is willing to assume using the following criteria:

- State should use its expected benefits to establish a baseline amount of risk assumption
  - — Excess or net revenues from sale of in-kind gas
  - — Incremental tax revenues (i.e., property and corporate)
  - — Additional economic benefits (e.g., job creation)
- State should evaluate its own level of risk assumption against that of the other equity participants
  - — Total threshold amount of risk should be determined
  - — Relative loss position (first, second, parity or combination) should be commensurate with expected benefits
- State should analyze the circumstances under which losses may occur, the extent of those losses and their probabilities
- State should quantify its maximum risk assumption under a catastrophic loss situation
- State should identify and mitigate any ancillary risks
  - — Credit ratings of the State
  - — Opportunity cost for other State programs/projects
  - — Relative costs to other State programs/projects under a worst case scenario
- Ideally, State should structure a business model that limits its risk to project-related revenues

UBS's Strategic Approach to Analyzing Alternative Business Models

- Begin with a traditional pipeline funding model as the "base case" against which to compare the State's options
- Alaska is a unique State, not only geographically but also economically, when compared to the "Lower-48" and even to other "Petro-States"
- The State's estimated natural gas reserves are significant, and to free this "stranded asset" the State may need/desire to depart from the traditional model and itself become an equity participant in the project
- There are a number of alternative business models available to the State to get the pipeline built
- These alternative models differ along a number of very important dimensions to the State and the other project participants. These include:
  - Level of State involvement/ownership
  - Risk/reward profile of the State
  - Nature of federal loan guarantee/participation
  - State's relationship with other participants
  - Capital markets implications

Traditional Pipeline Funding Method

- Given the size of the proposed project, in all likelihood it will be financed on a "project" basis
- Under such a methodology, the sponsors of the project put equity at risk — generally 20% to 40% of the proposed cost — but are not at risk for the debt portion of the financing
- FERC filed tariffs provide for a reasonable return on equity, traditionally about 12%
- The project debt — 60% to 80% of the proposed cost — is non-recourse to the sponsors and is supported solely by the shipping contracts
- Shipper contracts generally have a term of 15 years
- The term of the project debt is typically limited by the term of the shipping contracts (refinancing assumed based upon extension of shipping contracts)
- The total funding cost, including return on and of capital, accounts for a significant portion of the base tariff
- Therefore, lower financing costs result in lower, more competitive tariffs

Traditional Pipeline Funding Method — Marginal Tariff Analysis

- The percentage of debt/equity balanced against the Sponsor's return on equity ("ROE") has a direct impact on the tariff

Marginal Change in Tariff:

		Debt Percentage		
		60%	**70%**	80%
ROE	10%	$(0.03)	$(0.13)	$(0.24)
	12%	$ 0.15	**$ –**	$(0.15)
	14%	$ 0.33	$ 0.13	$(0.06)

Note: Tariff figures are in $/Dth and represent year 1.

- The above matrix provides the results of a sensitivity analysis of the marginal change in the required tariff given certain ROE and debt/equity combinations. Additional assumptions include:
  - — 100% of pipeline capacity is utilized
  - — Total throughput of 4.0 bcf/d, with State's share of 1.0 bcf/d or 25%
  - — Total all-in cost of debt of 7.50% with 30-year level amortization
  - — Total project cost of $20 billion, with State's share of $5 billion or 25%

Economics of the Project — Hypothetical Breakeven Analysis

- A key question for all participants is at what price does the project "breakeven" from an economic standpoint?
- Key economic breakeven factors include:
  - — Tariff
  - — Commodity price
  - — Price of gas at wellhead (for producers only)

Hypothetical Breakeven Costs	
Gas @ Wellhead	$1.00/mmbtu
Tariff	$1.73/mmbtu
Total Breakeven Price	**$2.73/mmbtu**

Hypothetical Commodity Price Risk*			
Spot Market Price	$2/mmbtu	$3/mmbtu	$4/mmbtu
Daily Economic Gain/Loss	$(2.9) mm	$1.1 mm	$5.1 mm
Annual Economic Gain/Loss	$(1.1) bil	$0.4 bil	$1.9 bil

*Assumes 4.0 bcf/d. At low commodity prices, however, producers may not produce the gas.

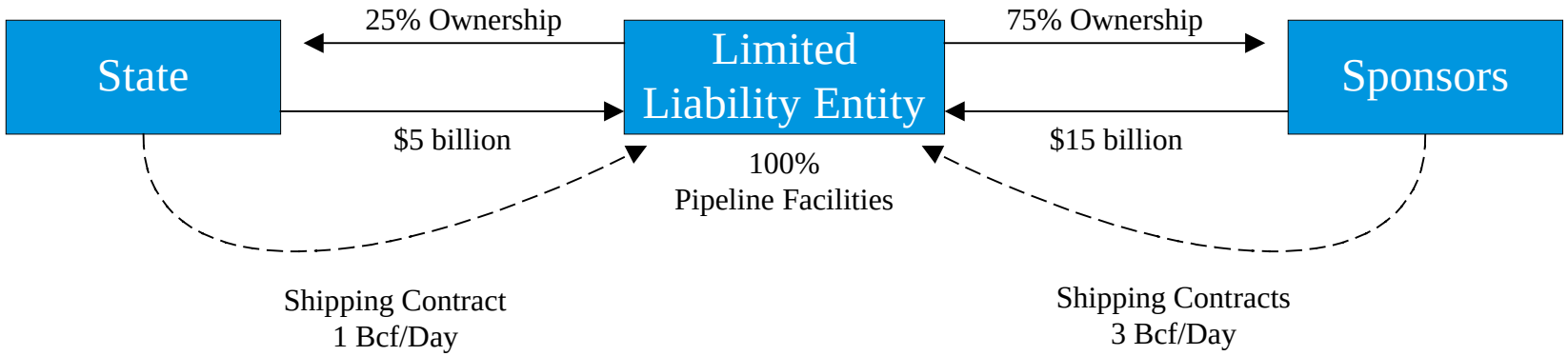
- A key question for the State is how much of this commodity price risk should/must it assume in order to "entice" the producers/shippers/sponsors to sign onto project?
- Clearly, the potential economic gain/loss from commodity risk is significant and those willing to assume that risk should be appropriately compensated
- Given the current environment, it appears that the State may have to assume a portion of the commodity risk in order to make the project viable
- When the pipeline becomes operational, the State would receive significant amounts of in-kind gas

Overview of Alternative Business Models

- State Owned/Direct Support or Equity Participation
  - — State could become an equity partner with other participants
  - — State could own/purchase all/portion of the pipeline or its capacity
- Federal Credit Support
  - — State/other participants could issue bonds backed in part by a federal loan guarantee
- Credit Support by State
  - — State could provide credit support or act as a credit facilitator
- "Pure Investor" Support by State
  - — State could purchase bonds issued to build the pipeline
- No Credit Support by State
  - — State or State Agency could issue bonds without pledging state's credit or revenues (i.e., pass-through financing)
- Hybrid Financing Options/Revenue Sources
  - — State could use a combination of the above strategies

The State as an Equity Participant and Shipper — Hypothetical Case

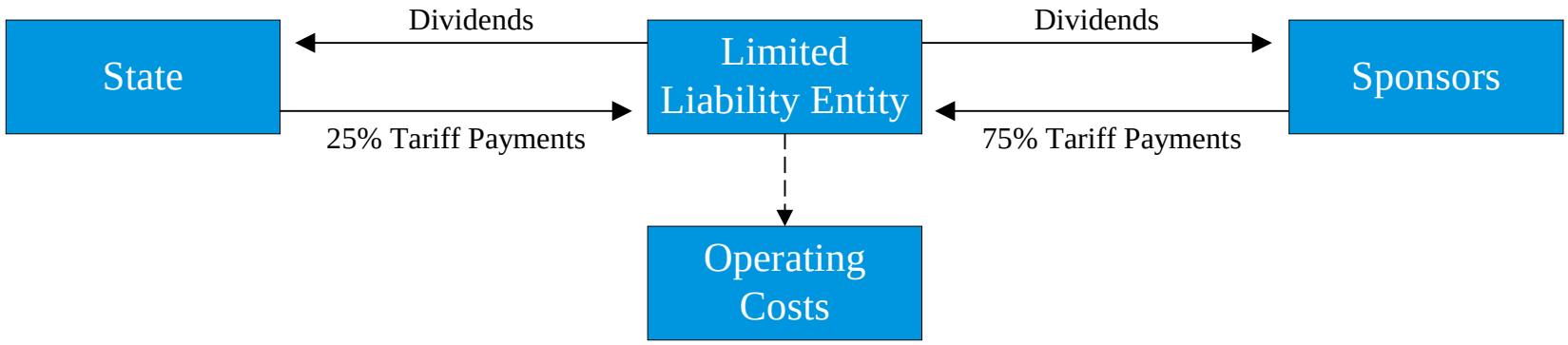
Equity and Ownership Interests:



- A limited liability entity or other special purpose corporation is created to build the pipeline
- State and three Sponsors each have 25% ownership interest in Project
  - — State is responsible for approximately $5 billion
  - — State receives 1 Bcf/Day in-kind gas
  - — State enters into shipping contract for 1 Bcf/Day
- Pipeline financed on an 80/20 project basis (80% debt/20% equity)
  - — Debt is supported by "hell or high water" shipping contract with equity participants
- Federal loan guarantee to provide credit support on 80% of Project cost (i.e., debt portion)

The State as an Equity Participant and Shipper — Hypothetical Case

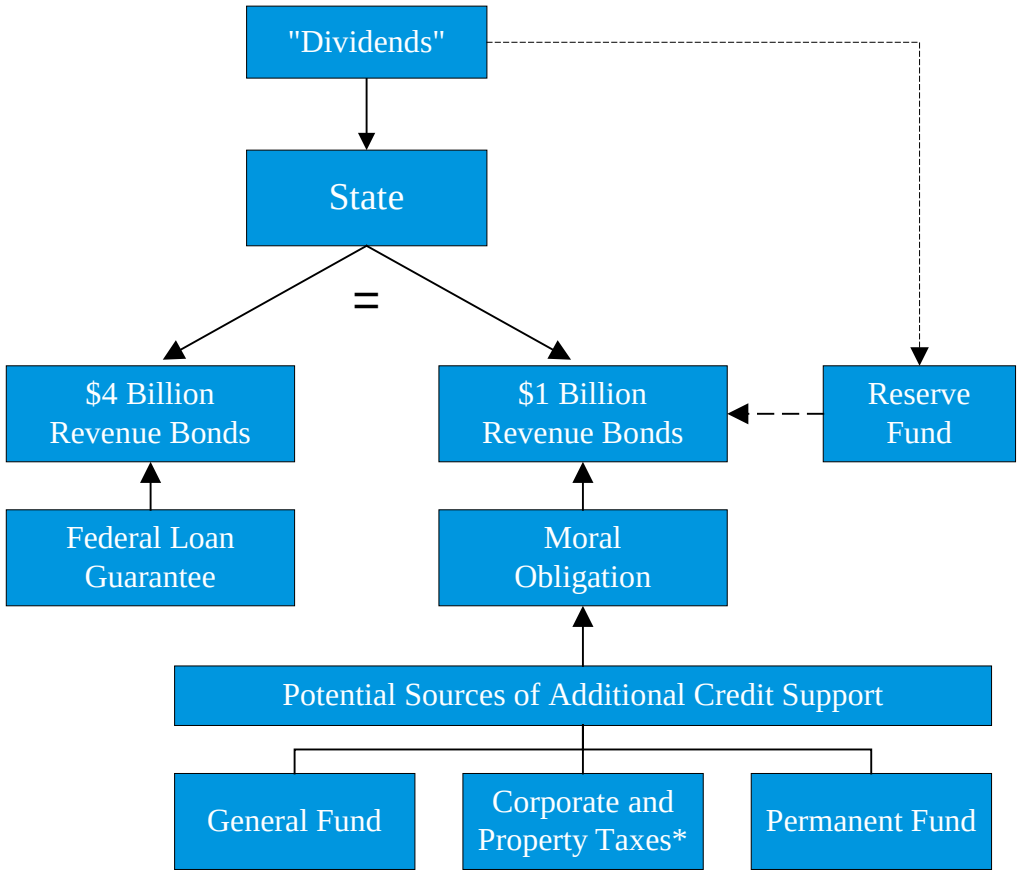
Flow of Funds:



- State and three Sponsors each to subscribe for 25% of pipeline capacity (e.g., 1 Bcf/Day)
- State to receive 25% of gas from Project "in-kind"
- Proceeds from sale of gas will be used to pay pipeline tariff
- All "excess" proceeds (i.e., net revenue) will flow to State
- As long as commodity prices remain above the tariff, the State will generate excess proceeds

The State as an Equity Participant and Shipper — Hypothetical Case

Possible Credit Structure



- State enters into shipping contract for 1 Bcf/Day
- State/State entity issues two series of bonds
  - — $4 billion (taxable) revenue bonds backed by shipping contracts and federal loan guarantee
  - — $1 billion (tax-exempt) revenue bonds backed by shipping contracts, State's moral obligation, and reserve fund (from expected net revenues)
  - — At least 20% of gas to be sold other than through long-term contracts
- Federal loan guarantee supports 80% of Project
- $1 billion financing represents State's equity contribution
- There are several potential sources of additional credit support available to the State

* Alaska Constitution, Article 9, Section 7 prohibits the dedication of the proceeds of any state tax or license to any special purpose, except under certain circumstances.

The State as an Equity Participant and Shipper — Hypothetical Case

- Based upon a standard set of industry assumptions, UBS performed a tariff rate analysis
- The pipeline tariff should be designed to recover all fixed costs, including debt service, return on equity and return of capital, as well as all variable costs including operating costs, maintenance, reserves and taxes
- The estimated base tariff was approximately $1.73*

Excess Revenue to State (Required Draw from DSRF & Moral Obligation)
($ millions)

Commodity Price of Gas in Alberta ($/Mcf)

Pipeline Utilization	$ –	$ 1.00	$ 2.00	$ 3.00	$ 4.00	$ 5.00
100%	$ (632)	$ (267)	$ 98	$ 463	$ 828	$1,193
90%	(569)	(241)	88	416	745	1,073
80%	(506)	(214)	78	370	662	954
70%	(443)	(187)	68	324	579	835
60%	(439)	(160)	59	278	497	716
50%	(439)	(134)	49	231	414	596

- The results summarized above represent a sensitivity analysis, given various levels of pipeline utilization and commodity prices, of the potential excess revenues available to the State
- If commodity prices remain at current levels, the expected excess revenues to the State are substantial and are in addition to incremental increases in tax revenues

* Base Tariff assumptions include the following: $4 billion in debt (80%) and $1 billion in equity (20%); 100% capacity utilization at 1 Bcf/day; total O&M calculated at 2% of net plant ($5 billion at start); level 30-year taxable debt at 7.50% all-in cost of funds; and 12% FERC approved return on equity.

The State as an Equity Participant and Shipper — Hypothetical Case

Expected Benefits to the State

- State frees its "stranded assets"
- State effectively contributes its in-kind gas ("free gas") to buy into 25% of Project as an equity participant
- State's overall risk exposure is limited to its equity stake — $1 billion against total project cost of $20 billion
- Combination of shipping contracts, federal loan guarantees, and State's moral obligation creates a viable financing structure
- Project may generate significant revenues for the State
  - — Equity return of [12%] on invested capital
  - — Excess or net revenues from sale of gas
  - — Incremental tax revenues (e.g., property and corporate)
  - — Additional economic benefits (e.g., job creation)

Potential Risks to the State

- Other Sponsors do not perform on their obligations
- Volume of [equity] gas produced by the Shippers will be insufficient to meet its contractual shipping obligations to the pipeline
- Revenues from the sale of its gas will be less than the required payments for its shipping tariff
- The other pipeline sponsors may place credit requirements upon the State entity designated as the "shipper" on the pipeline
- From a regulatory perspective, with Federal loan guarantees for 80% of Project costs, it may be difficult to have a deemed equity component of greater than 20%

Federal Loan Guarantee — Implications for the State

- It is anticipated that future federal energy legislation may include a federal loan guarantee for the purpose of constructing an Alaskan natural gas transportation project. Important provisions of such legislation may include:
  - — Total loan principal, any part of which may be guaranteed, cannot exceed some fixed dollar amount
  - — Loan requirements (term, size, collateral, etc.) are to be determined by the Secretary of the Energy
  - — Loan guarantee may be limited to a pipeline system that carries natural gas to the border between Alaska and Canada
- Expected benefits of a federal loan guarantee:
  - — Reduces size of State's "risk box"
  - — State's risk exposure is limited to its equity stake of $1 billion
  - — Risk transfer from State to federal government
  - — State benefits from federal government's "AAA" credit
  - — Lower total debt service cost on State's loan
- Potential implications for the State of a federal loan guarantee:
  - — Possible use of tax-exempt financing for the portion of the pipeline that is not federally guaranteed
  - — Canadian portion of pipeline may not have the benefit of the federal loan guarantee
  - — State will have more control over determining the optimal size of its equity participation and, hence, its risk/reward profile

Tax-Exempt Financing Strategy for State's Equity Contribution

- Alaska Railroad Corporation can issue tax-exempt bonds without regard to private activity bonds rules for non-federally guaranteed portions of project cost
- Alternative issuers would be adversely affected by private activity bond rules which could negatively impact credit structure and flexibility
- A financing through the Alaska Railroad Corporation could accommodate virtually any securitization structure:
  - Pure "project financing"
  - Lease from private company (shipper)
  - Revenues from system (shipper payments)
  - Alternative tax/revenue stream
  - Moral obligation/appropriation credit of State
  - Combination of above
- Tax-exempt strategy can be combined with other strategies (i.e., commodity hedge, royalty hold back, or alternative revenue pledge)
- Need to ensure that tax-exempt financing does not impair the basic "business deal"

UBS's Conclusions

A. Optimal Risk Sharing is Critical to the Project's Success

1. Secure federal loan guarantee (or cost overrun protection) for portion of project
   — Transfers a portion of risk to federal government
   — Frees up additional capital markets capacity
   — Lowers borrowing cost relative to taxable corporate deal, lower tariff mitigates potential contingent commodity risk to State
2. Secure non-recourse project financing (tax-exempt or taxable)
   — No State obligation
   — Tax-exempt debt can lower cost for project's debt portion, lower tariff mitigates potential contingent commodity risk to State
3. Secure long term fixed commodity price and through-put contracts from producers/sponsors – enhances marketing of transaction
4. Secure portion of contingent commodity risk protection from Shippers
   — Structure protection on a first loss or parity with State support – reduces contingent commodity risk to State

The key is to get other participants to commit equity first, limit the State's exposure, contribute the State's project-related revenue, contribute associated revenues and then, and only then, consider contributing "outside the box" revenues

UBS's Conclusions

B. State as an Equity Participant

1. State frees its stranded assets
   — Natural gas reserves "freed"
   — Equity returns on invested capital
   — Net revenues from sale of in-kind gas
   — Incremental tax revenue (e.g., property and corporate)
   — Additional economic benefits (e.g., job creation)
2. State effectively contributes its in-kind gas to buy into 25% of Project as an equity participant
3. Effective and appropriate risk sharing amongst State, other equity participants and federal government (on State's portion via loan guarantee)
4. Financing structure is viable and creditworthy
5. From a pure project finance perspective, the pipeline has no commodity risk. The commodity risk will remain with the Shippers and not the Project
6. As the owner of the gas at the inlet of the pipeline, the State would bear 1 bcf/d commodity risk (based upon hypothetical presented). The Project mitigates this risk — it does not increase it
7. Significant upside potential for the State in the form of equity returns on invested capital, net revenues from sale of gas, incremental tax revenues and additional economic benefits

If necessary, the State should look to commit additional resources to Project with a defined absolute and annual level of commitment – this can take the form of debt secured by existing revenue streams, a variable tax regime and/or commitment of other revenues/investments

UBS's Conclusions

C. Prudent Use of Other State Resources (if available and necessary)

1. State closes funding gap through issuance of debt secured by creditworthy tax revenues (property tax associated with gas) with a subordinate pledge of project revenues (tariff)
   - — State's property tax debt would be supported by earmarked tariff charges
   - — Under expected commodity prices, tariff would provide for debt service on property tax bonds
   - — If commodity prices fall, tariff would decline to a pre-established limit, state would defer its collection of this portion of the tariff and pay debt service from property taxes
   - — Results in competitive price to end user through lower tariff and deferral of tariff to State until commodity prices rise
2. Design variable tax regime – State's primary commitment is limited to stranded project revenues
   - — Direct enticement to sponsors to provide long term fixed price contracts by providing annual support via variable severance and corporate tax regimes for producers
   - — Consider royalty "hold-back" to protect portion of equity investment
   - — Asymmetrical tax regime could also ensure that price support via lower taxes can be recouped in a higher commodity price environment
3. Leverage State's other related petroleum revenue streams
   - — New reserve tax - standby pledge
   - — Oil taxes on a "springing lien" away from deal
   - — Other available petroleum revenues
4. Consider other non-project-related revenues to complement project (e.g., Permanent Fund investment or other revenue pledge)

Banking Team Resumes

JAMES W. ZIGLAR, Sr. **(202) 288-8747**
Managing Director and Chief Business Strategist **1285 Avenue of the Americas**
New York, NY 10019

Mr. Ziglar joined UBS as a Managing Director and Chief Business Strategist for the Municipal Securities Group on June 1, 2004. Mr. Ziglar has 23 years of experience in the public finance business as an investment banker and lawyer, including over 10 years with UBS prior to departing in 1998 to serve as Sergeant at Arms of the United States Senate. Most recently, Mr. Ziglar was Distinguished Visiting Professor of Law at George Washington University Law School and a Fellow at Harvard University's John F. Kennedy School of Government Institute of Politics. He was Commissioner of the Immigration and Naturalization Service from August 2001 until his retirement from federal service in November 2002. In addition to his positions as Commissioner of the INS and as Sergeant at Arms of the United States Senate, he has served at various times as Assistant Secretary of the Interior for Water and Science - where he oversaw the operations of the Bureau of Reclamation, the Bureau of Mines and the U.S. Geological Survey, as a law clerk to Supreme Court Associate Justice Harry A. Blackmun, as a congressional and public affairs officer at the Department of Justice, and as an aide to the Chairman of the U.S. Senate Judiciary Committee.

Mr. Ziglar's career in public finance began in 1973 when he joined the New York law firm of Mudge, Rose, Guthrie, Alexander and Ferdon, where he specialized in public securities law. In 1977, he joined O'Connor, Cavanagh, Anderson, Westover, Killingsworth and Beshears as a partner in the Phoenix office, where he managed the firm's public securities practice. Mr. Ziglar worked for 16 years in the investment banking industry as a Managing Director of UBS PaineWebber Inc., as a Senior Vice President of Dillon, Read & Co., and as a Managing Director of Drexel Burnham Lambert. As an investment banker, Mr. Ziglar's focus primarily has been in the areas of water, energy and health care.

Mr. Ziglar earned his undergraduate and law degrees from The George Washington University. He is a member of the bar in New York, Arizona, Virginia and the District of Columbia.

Banking Team Resumes

ROBERT DOHERTY **(212) 713-3640**
Managing Director & Co-Head National Infrastructure Group **1285 Avenue of the Americas**
New York, NY 10019

Mr. Doherty has over 17 years of banking experience – he recently joined UBS Financial Services from another investment bank where his responsibilities included managing the firm's geographic banking relationships. He will bring a tremendously diverse background and relevant expertise to the project, including significant experience in derivative products (interest rate and commodity), corporate securitization, private equity and municipal banking. He has been the lead banker on some of the largest and most complicated municipal transactions completed to date. This experience includes several "billion dollar plus" transactions and projects, including the State of New Jersey's $2.8 billion pension funding transaction which was awarded "Deal of the Year". He recently completed a $1.8 billion taxable transaction for the State of Wisconsin to more efficiently fund the State's pension and retirement systems.

Mr. Doherty received his MBA from the University of Chicago and his undergraduate degree in international politics from Georgetown University's School of Foreign Service.

JOHN COSTAGLIOLA **(415) 954-6898**
Managing Director & Manager of West Coast Infrastructure **1 California Street, 27th Floor**
San Francisco, CA 94111

John Costagliola has 18 years of experience in public finance and leads the Firm's efforts in Alaska. Mr. Costagliola has served as the Financial Advisor to the Municipality of Anchorage since 1993 and is in frequent dialogues with rating agencies on Alaska issues and credit concerns. Mr. Costagliola has very broad experience with electric utilities, water and sewer systems and general government finance and credit issues. He joined UBS in 1993 after seven years with Standard and Poor's Corporation where he was a Director and manager of their utility group in the Western Regional Office. While at S&P, Mr. Costagliola was principal analyst and chaired numerous rating committees within all public finance sectors. He has a Bachelor's degree from Fordham University and is a MSRB principal.

Banking Team Resumes

WILLIAM B. HOLMBERG
Managing Director

(212) 713-3304
1285 Avenue of the Americas
New York, NY 10019

Bill Holmberg is a Managing Director of UBS Financial Services' Municipal Securities Group. Mr. Holmberg has 27 years of experience in the public and corporate finance areas of investment banking. His public finance experience has included revenue bond and general obligation bond financing for water and wastewater treatment, transportation, convention centers, correctional facilities, resource recovery, industrial development, pollution control, housing and public power projects.

Mr. Holmberg has provided both written and oral testimony with respect to municipal finance matters before both houses of Congress and State legislatures. He has served for a number of years on various public finance committees of the Securities Industry Association and the Bond Market Association.

Prior to joining UBS Financial Services, Mr. Holmberg was a Senior Vice President in the Municipal Finance Department of Kidder, Peabody. He has a B.S. degree with honors in Mechanical Engineering from Lafayette College and an M.B.A. degree from Columbia Graduate School of Business.

CHARLES M. DAVIS
Managing Director

(713) 331-4675
1000 Louisiana Street
Houston, TX 77002

Chuck Davis is a managing director in the Houston office of UBS Investment Bank. He is primarily responsible for natural gas pipeline and gas utility companies. Mr. Davis' primary focus over the years has been providing strategic advice to energy companies. He has spent the majority of his time working with natural gas and midstream companies. He was involved in many of the largest mergers in the natural gas sector including the sale of Noram, CNG, Sonat and Coastal. He has also been responsible for numerous divestitures in the natural gas sector.

Mr. Davis earned his B.B.A. with highest honors from the University of Texas and graduated from Harvard Business School as a Baker Scholar. He began his career in First Boston's energy M&A group in 1984 and was a founding member of the firm's Houston office. In 1993, he joined Merrill Lynch's Energy group in Houston and was named head of Merrill Lynch's Dallas office in 1997. He joined UBS Warburg in 2002.

Banking Team Resumes

CHRIS CALGER
Managing Director

(203) 719-8724
677 Washington Boulevard
Stamford, CT 06901

Chris Calger joined UBS Energy in February 2002 and is responsible for long-term structured products and services. In this capacity, Mr. Calger originates, structures and executes natural gas, electricity and crude oil agreements and related price risk management contracts. His coverage area includes natural gas producers, pipeline companies and government owned utilities.

Prior to joining UBS Energy, Mr. Calger worked for Enron North America in its wholesale energy trading group. He was Managing Director of Western Origination and worked for over 8 years in Calgary, Alberta and Portland, Oregon. In this role, he executed numerous long term commodity contracts and transportation agreements with producers, large industrial consumers and government owned utilities. In addition, Mr. Calger invested debt and equity in several energy companies and successfully managed the development, price risk management and monetization of over 1500MW of natural gas-fired generation.

Mr. Calger is a Chartered Financial Analyst and holds a Bachelor of Science degree from the University of Vermont and a Master of Management degree from Northwestern University.

JAMES SCOTT
Managing Director

(212) 713-9024
1285 Avenue of the Americas
New York, NY 10019

Jim Scott joined UBS Financial Services in 1997 and has 22 years of experience in public finance with leading underwriting and financial advisory firms. He has executed more than $15 billion of financings, primarily for electric utility issuers such as the Southern California Public Power Authority, the New York Power Authority, the Nebraska Public Power District, the Washington Public Power Supply System, the Municipal Electric Authority of Georgia, the City of Anaheim Public Utility Department and the City of Muscatine, Iowa. He has more than 200 transactions to his credit, including the first floating-to-fixed rate swap-based refunding, the first multi-purpose issue allocation rule refunding, and other large, complex refundings including the use of derivative products, senior/subordinate bonds, and cross-over refunding and advance refunding issues sold contemporaneously as multiple series.

He has an M.B.A. from Columbia University, where he was elected to the national business honor society, and a BA from the University of Connecticut.

Banking Team Resumes

JOE E. FORRESTER
Managing Director

(212) 713-6298
1285 Avenue of the Americas
New York, NY 10019

Mr. Forrester joined UBS Financial Services in April 1999 after eight years in investment banking, first at CS First Boston and then at Merrill Lynch & Co. Prior to entering investment banking, Mr. Forrester was a municipal finance lawyer for over 18 years, specializing in public finance transactions presenting novel tax questions.

Mr. Forrester received a B.A. from Tulane University, a J.D. from the University of Virginia School of Law and an LL.M. in Taxation from New York University School of Law. Mr. Forrester is a member of the New York State Bar Association and a former co-chairman of the Bar Association's Section of Taxation Committee on Tax Exempt Bonds.

JOSEPH V. MONITTO
Managing Director

(212) 713-3386
1285 Avenue of the Americas
New York, NY 10019

Mr. Monitto joined UBS Financial Services in 1988 and serves as Manager of Municipal Financial Products. He has served as Senior Managing Underwriter or Financial Advisor on transactions aggregating in excess of $15 billion. Mr. Monitto has played a pivotal role in refunding programs and derivative issuance for many of UBS Financial Services' issuers. Mr. Monitto is a structuring specialist who analyzes and implements innovative finance techniques to meet client goals such as tender option bonds, cash optimization strategies, selective redemption programs, restructuring refundings, forward deliver bonds, interest rate swaps and other quantitatively intensive derivative products. Prior to joining UBS Financial Services, Mr. Monitto was employed at New York State Housing Finance Agency and served in both the treasury and debt issuance areas. Mr. Monitto is an honors graduate of the State University of New York and received his MBA with honors from the Graduate School of Management, Boston University.

Banking Team Resumes

BRAD GEWEHR **(212) 713-3267**
Managing Director **1285 Avenue of the Americas**
New York, NY 10019

Mr. Gewehr joined UBS Financial Services in March 1998 as Director of Municipal Research. In addition to providing research for UBS Financial Services' retail and institutional investors, Mr. Gewehr and his staff have assisted many of UBS Financial Services' banking clients in developing effective credit rating and investor relations strategies. Immediately prior to joining UBS Financial Services, Mr. Gewehr was a Managing Director in the Public Finance Group of Moody's Investors Service. He supervised a staff of analysts responsible for assigned and maintaining ratings on municipal tax-backed, utility revenue, and lease credits in 26 states, including California, New York, Florida, and Illinois. As a senior member of Rating Committee, he participated in rating decisions for major credits throughout the United States. Brad also led analytical specialty teams covering the water and wastewater and state revolving fund sectors.

Prior to joining Moody's in 1991, Mr. Gewehr was a Project Manager and Transportation Analyst with the Port Authority of NY & NJ. He holds an MBA in Finance from New York University and a BA from Amherst College.

WILLIAM SCHLICHTING **(212) 713-2880**
Managing Director and Manager **1285 Avenue of the Americas**
New York, NY 10019

Mr. Schlichting has twenty-eight years of experience in the municipal securities industry. He is the manager of the National Syndicate Department and is responsible for all of UBS Financial Services' negotiated and competitive transactions as well as the risk management of the division. In that role, he has overseen the underwriting of over $170 billion of senior managed transactions since 1995. Mr. Schlichting is a member of UBS's Capital Commitment Committee, Pre-Capital Commitment Committee for high yield transactions, Risk Management Committee, and the Municipal Bond Department Operating Committee.

Mr. Schlichting has been with UBS Financial Services since 1988 and his other responsibilities have included Manager of the Bond Department, Manager of Institutional Sales, and Manager of Competitive Underwriting. Mr. Schlichting is a member of the New York Bond Club and past member of its Board of Governors. Mr. Schlichting holds a Bachelor of Science Degree in Business from Ithaca College in New York.

Banking Team Resumes

JOHN P. FEERY
Managing Director

(212) 713-2880
1285 Avenue of the Americas
New York, NY 10019

Mr. Feery has 19 years of experience in the Municipal Securities industry. Mr. Feery is the lead underwriter for complex municipal transactions both taxable and tax-exempt.

As MD in our Syndicate Department his major area of responsibility is the development of a marketing program for our clients' financing which includes coordinating with the issue and borrower, identifying probable buyers, and setting pricing levels, while working closely with the retail division, derivative area, reinvest desk and Taxable Fixed Income Group. Mr. Feery advises our clients regarding market conditions and economic developments which could effect pricing levels. He is instrumental in explaining salient features of an issue to investors.

Mr. Feery is credited with structuring the first taxable convertible zero coupon municipal issue and the first dual super-sinker. He is Vice Chairman of UBS Financial Services' Municipal Credit Committee. Mr. Feery joined UBS Financial Services in 1984 after three years of financial analysis and municipal bond experience with two New York money center banks. Mr. Feery holds a B.S. in Accounting from Providence College.

ROBIN P. SWEENY
Managing Director

(212) 713-1075
1285 Avenue of the Americas
New York, NY 10019

Ms. Sweeny is a Managing Director of the Municipal Securities Group, and is the National Institutional Sales Manager. Her twenty-two years of experience working with institutional and individual investors nationwide on all types of credit, structure and markets, enables her to maximize institutional investor participation on all transactions. Her extensive background includes Secondary Market Trader, Regional Institutional Sales Manager and National Retail Sales Manager. Ms. Sweeny attended Ohio Wesleyan University.

Banking Team Resumes

RHAHIME A. BELL
Managing Director

(212) 713-6146
1285 Avenue of the Americas
New York, NY 10019

Rhahime Bell is Managing Director and Head of the Municipal Derivatives Group. He focuses on providing risk management advice to municipal, healthcare, utility and corporate clients. Mr. Bell is responsible for structuring derivative transactions (including swaps, caps, floors and swaptions) in order to hedge interest rate and tax risk.

Prior to joining UBS Financial Services in 1999, Mr. Bell was a Vice-President in the Global Derivatives Group at JP Morgan where he traded the tax-exempt swap portfolio. In addition, Mr. Bell worked in the Emerging Markets Derivatives Structuring Group where he advised corporate and governmental entities in Argentina, Chile and Mexico on interest rate and currency risk management. To date, Mr. Bell has negotiated in excess of $15 billion notional in derivative and reinvestment transactions.

Mr. Bell graduated from Georgetown University in 1991 with a dual degree in Finance and International Management.

TOM YANG
Vice President

(415) 954-5997
1 California Street, 27th Floor
San Francisco, CA

Mr. Yang joined UBS Financial Services in 1998 as a member of the Transportation Finance Group based in San Francisco. He is responsible for originating, structuring and pricing debt transactions for West Coast transportation issuers. Mr. Yang is currently the day-to-day banker for Tri-County Metropolitan Transportation District of Oregon (Tri-Met) and is working with the Tri-Met in applying for a Full Funding Grant Agreement for the District's $400 million North Side light rail extension. He was instrumental in securing this transaction; having previously served as Tri-Met's leasing advisor while with another firm. Mr. Yang was the lead technical banker for Alameda Corridor Transportation Authority's $1.163 billion inaugural bond issue in January 1999.

Mr. Yang's senior managed experience includes an inaugural issue for Fresno County Transportation Authority, two transactions for Tri-Met, a forward refunding for John Wayne Airport in the County of Orange, a forward refunding for Los Angeles County Metropolitan Transportation Authority, a solid waste system refunding for the County of Orange, three water and wastewater financings for the City of Modesto, an advance refunding for the Redevelopment Agency of the City and County of San Francisco and commercial paper programs for the East Bay Municipal Utility District and the Intermountain Power Agency.

Mr. Yang graduated with High Honors from the University of California, Berkeley with a degree in Mechanical Engineering.

Banking Team Resumes

MARK T. KIM
Associate

(212) 713-3686
1285 Avenue of the Americas
New York, NY 10019

Mr. Kim joined UBS in 2002 and is an Associate in the National Infrastructure Group. Mr. Kim's experience includes structuring a senior managed $622 million (insurance recycling) refunding for the Long Island Power Authority (LIPA) in connection with a $587 million swaption entered into between UBS and LIPA. More recently, Mr. Kim has focused on structuring and analyzing pension obligation bond issues and other taxable transactions for clients at the state and local level. Prior to joining UBS, Mr. Kim served as a Staff Attorney for the Federal Election Commission (FEC) in Washington, D.C.

Mr. Kim received his Ph.D. and M.P.P. in Public Policy from Harvard University; J.D. in Public Law from Cornell Law School; and B.A. in Philosophy from Northwestern University.

WES OGBURN
Associate

(415) 954-6896
One California Street, Suite 2700
San Francisco, CA 94111

Mr. Ogburn joined UBS in 2002 and has three years of public finance experience. Mr. Ogburn has worked with a number of Alaska clients, including the Municipality of Anchorage, Anchorage Water and Wastewater System, Alaska International Airports System, and Alaska Municipal Bond Bank, as well as other transportation issuers such as the San Diego Regional Airport Authority, and Sacramento Airport Authority.

Mr. Ogburn received his B.S. from the University of North Carolina.

Alternative Business Models

Closing the Funding Gap With State Tax-Revenue Backed Bonds

- State issues bonds upfront, secured by project revenues (tariff)
  - — Upfront State contribution would enhance the viability of other senior project bonds
  - — Net effect is a deferral of certain [tax-receipts] in low commodity price environment and recapture of [taxes] in a high commodity price environment
  - — State's exposure is limited to annual debt service on bonds
- Mechanics of transaction are straightforward
  - — State's debt would be supported by [earmarked] tariff charges
  - — Under expected commodity prices, tariff would provide cash flow for debt service on bonds
  - — If commodity prices fell, tariff could decline to a pre-established limit, with the State deferring collection of this portion of the tariff and paying debt service from other tax revenue sources
  - — Resulting in competitive gas price to end user by lower tariff and deferral of tariff to State until commodity prices rise
- Amount of credit support could be substantial depending on amount, nature and term of [tax] pledged
  - — If tax revenues are tapped in a low price environment, payment of tariff is deferred, not necessarily foregone
  - — State would recapture its contribution as commodity prices rose

Alternative Business Models

Variable Tax Regime Option — "Synthetic Price Protection"

- In essence, the State could utilize a variable tax regime to provide synthetic cash flow support or commodity price protection (i.e., use its stranded asset to support project)

- Variable tax regime can take many forms and payment mechanisms in a low commodity price environment
  - — Formula variance for severance, royalty and corporate income taxes based upon commodity prices (commodity prices drop — tax goes down, prices increase above a certain level — asymmetric adjustment)
  - — Variable tax associated only with North Slope natural gas
  - — [Pledge] of new "Reserve Tax" to support bond transaction
  - — [Pledge] of oil taxes on a springing lien to the transaction

- Can incorporate a "clawback" provision to equalize revenue to the State over time given periodic price volatility

- Limits the State's exposure to the "project box"

- Up to $296 million of annual price protection is available from "incremental tax revenue" at $2.00/mmbtu at the wellhead

- State does not have to tap sources outside of the project for this price support