

BUILDING A WORLD OF DIFFERENCE®



BLACK & VEATCH



Net Present Value (NPV) Analysis

June 10, 2008

Key Conclusions

- 4.5 Bcf/d TransCanada Proposal has Positive NPV Benefits to All Stakeholders
- Tariffs for Smaller Pipeline Configurations Increase by 13% to 21% Relative to the 4.5 Bcf/d Proposal Base Case
- NPV for Key Stakeholders Indicates Positive NPV for the Conservative Base Case
- NPV Results are Sensitive to Many Factors with Commodity Prices being the Most Significant
 - Producer NPV Remains Positive with Low Market Price Assumptions
- Production from Proven Reserves Drive Positive Stakeholder NPV
- Smaller Initial Pipeline Capacity and Contract Period for Smaller Pipeline Configurations Reduce Reserve Risk Relative to the Proposal Base Case

Impact of the Gasline: Cash flows and NPV calculated are the difference between oil+gas and oil only operations.

Oil + Gas \$\$

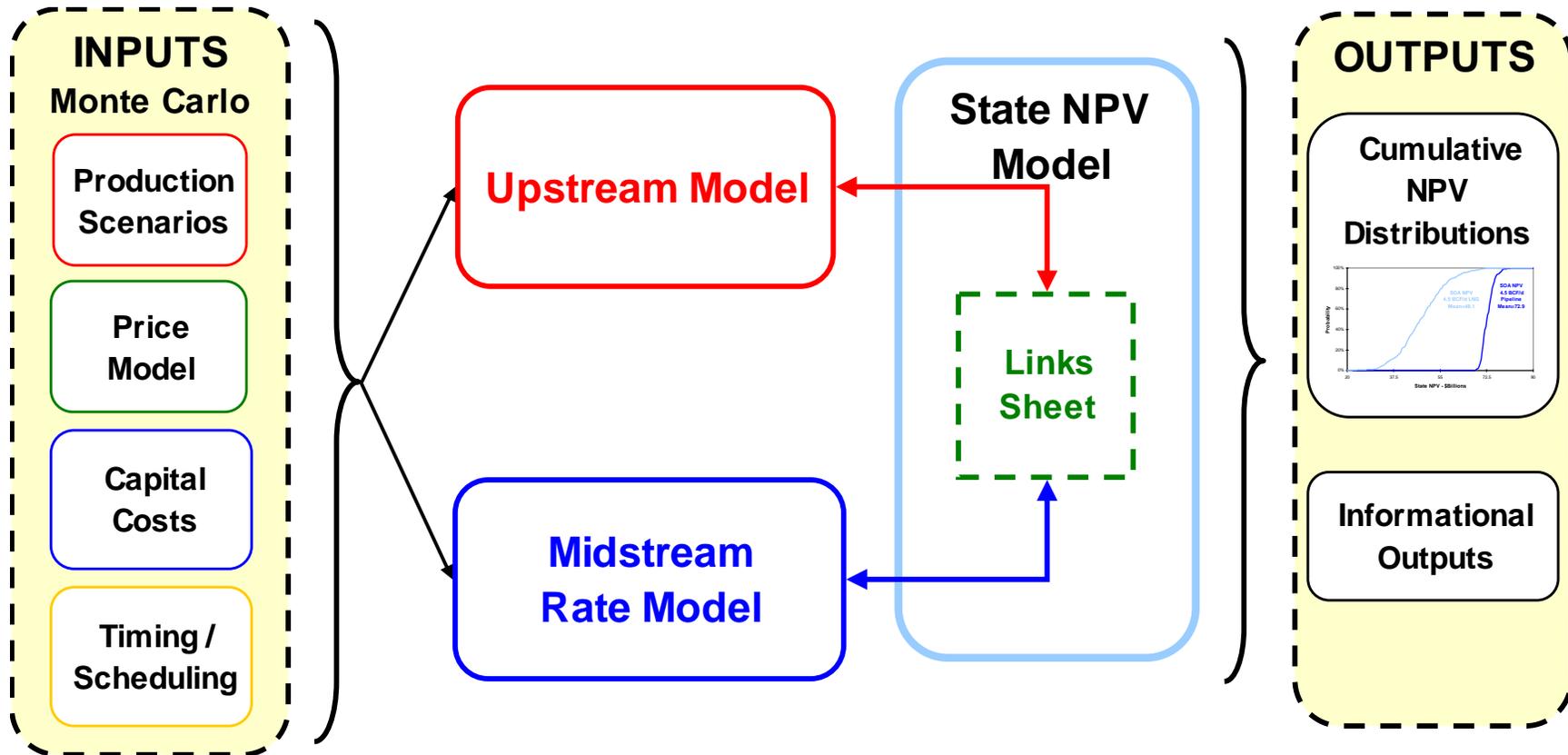
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Oil Only \$

=

Cash Flows from Gas \$

The NPV Modeling Approach Utilized by Black & Veatch



Overview of Natural Gas Price Assumptions Utilized in the NPV Analysis

- Gas delivered to different locations has different prices: Henry Hub vs. AECO
- Prices dependent on the supply/demand balance and pipeline infrastructure
- Forecasts are required to evaluate the project from 2020 to 2045+
- Relied on range of forecasts
 - EIA
 - Wood Mackenzie
 - B&V
 - Others
- Wood Mackenzie is the base case for analysis
 - Independent market assessment
 - Projects an AECO price

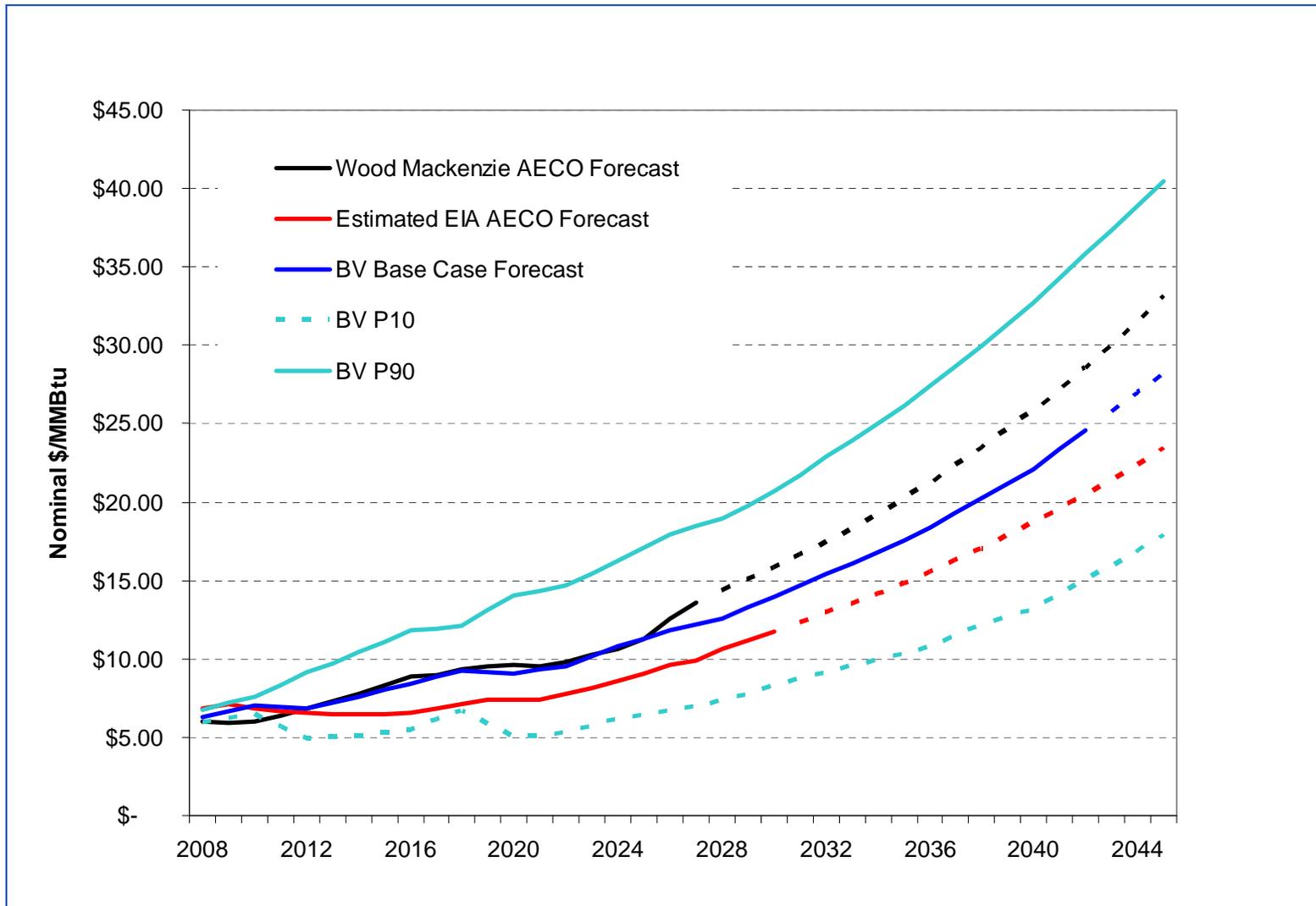
Understanding the Factors that Lead to Future Prices

- Forecasted prices are “point” estimates, all dependent on a specific set of assumptions
- None are expected to be on the dot “correct”
- Price uncertainty and associated risks could be better illustrated using a forecasted price distribution:

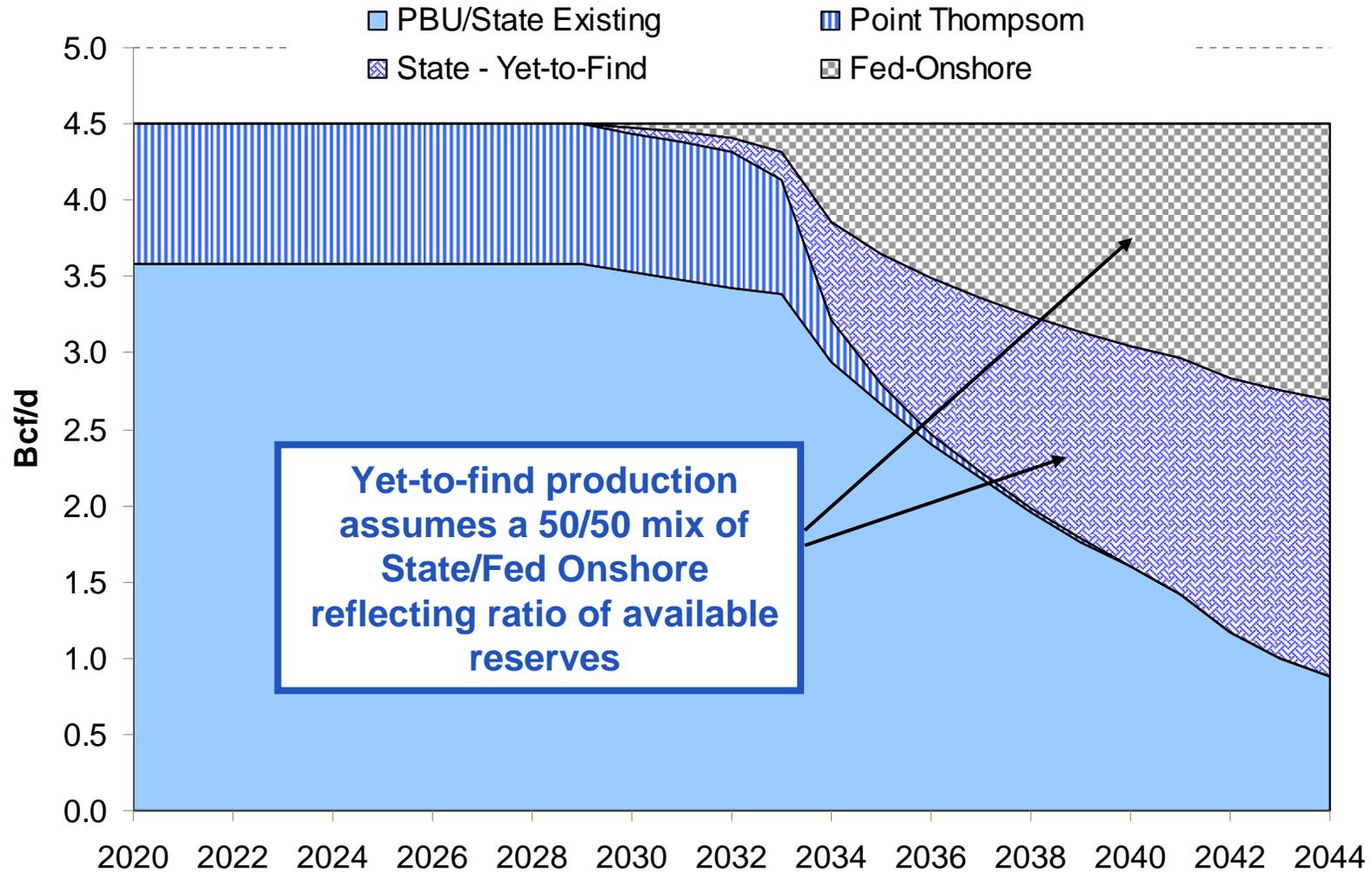


- Black & Veatch assumes that the majority of price risks comes from uncertainty in fundamental factors:
 - Finding & development costs
 - Technological improvement
 - LNG imports
 - Power generation demand
 - US industrial demand
 - CDN industrial demand

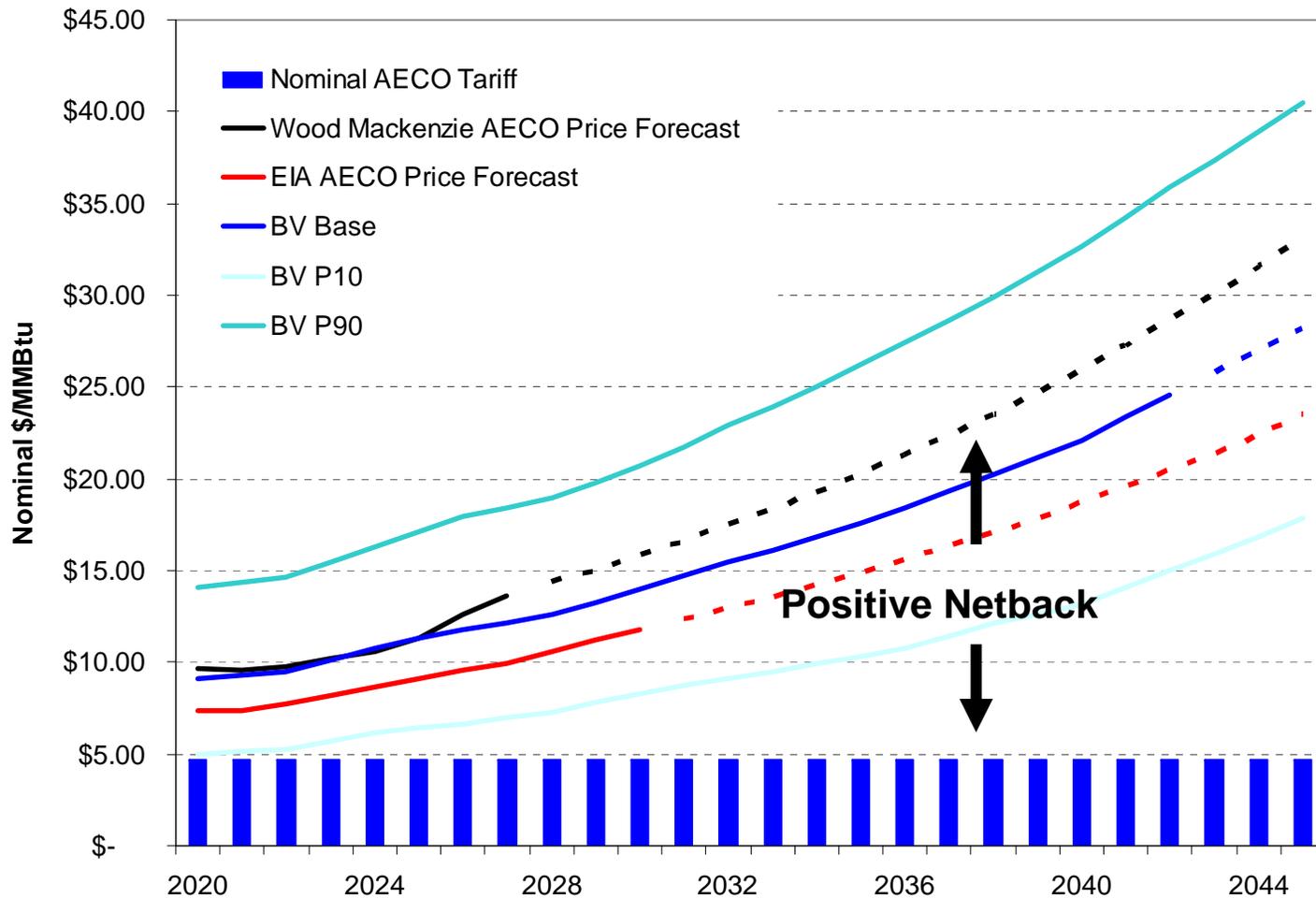
Real Price Growth at AECO is Expected Under All Price Forecast Scenarios due to Increasing Costs



Production Assumptions: 4.5 Bcf/d Proposal Base Case

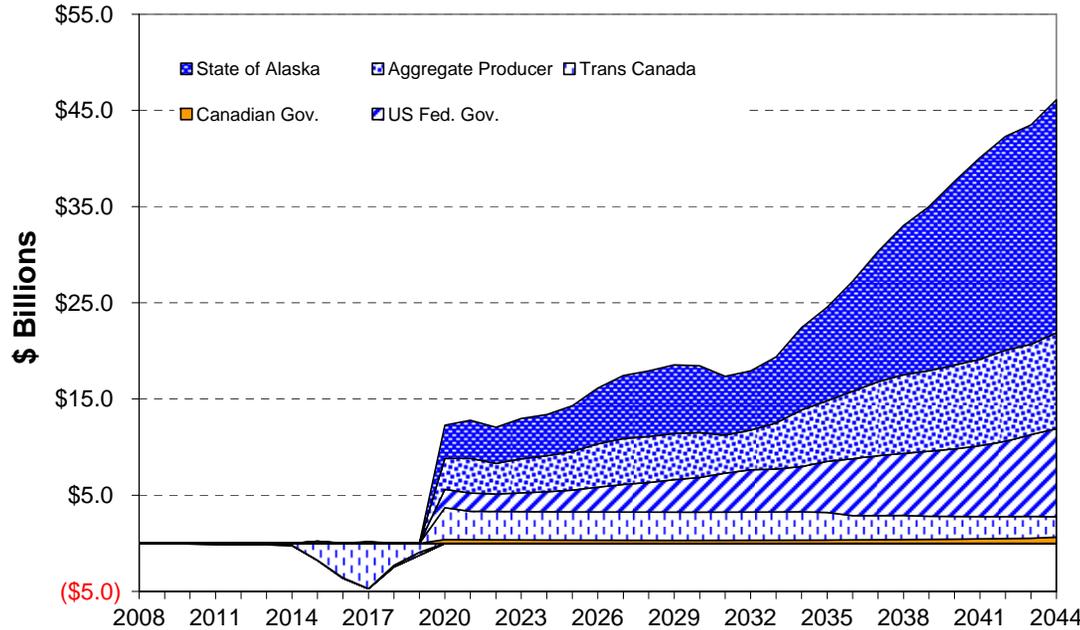


Positive Netbacks Are Expected Under All Price Forecasts



Cash flows from 4.5 Bcf/d Proposal Base Case

Cash Flows to Stakeholders

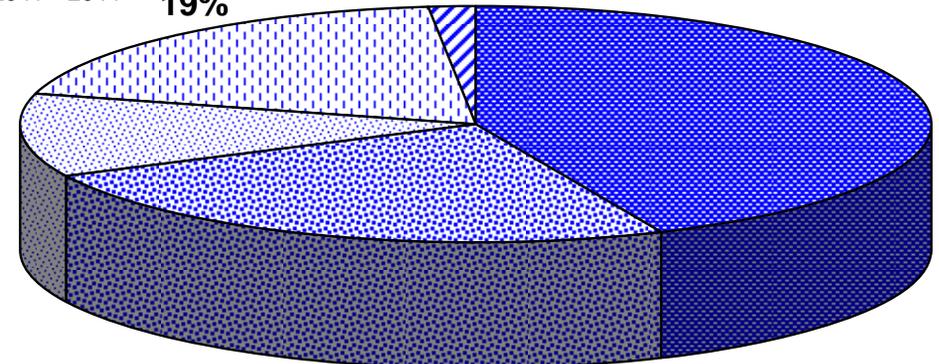


TransCanada
\$69
11%

U.S. Gov
\$116
19%

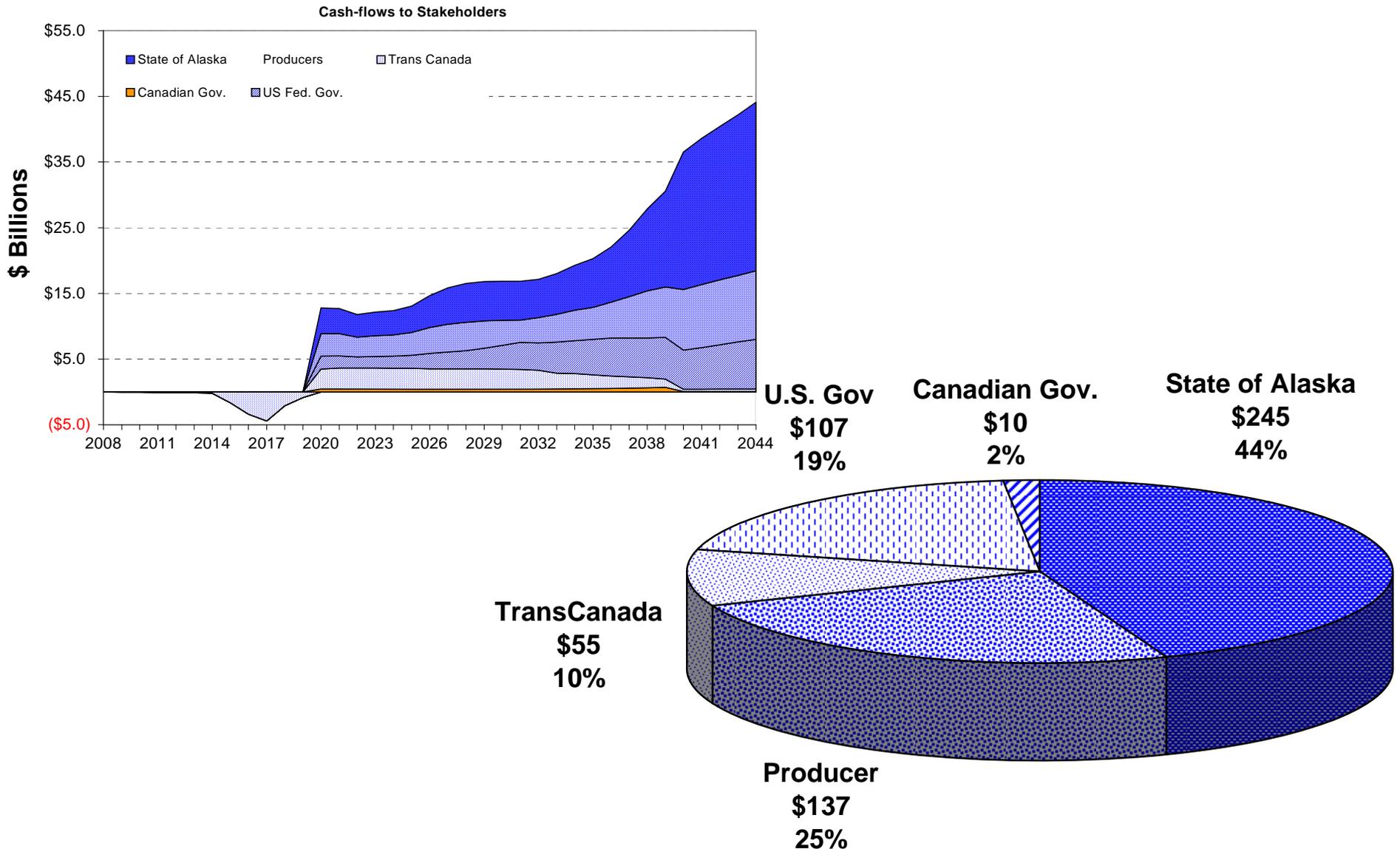
Canadian Gov.
\$9
2%

State of Alaska
\$262
44%

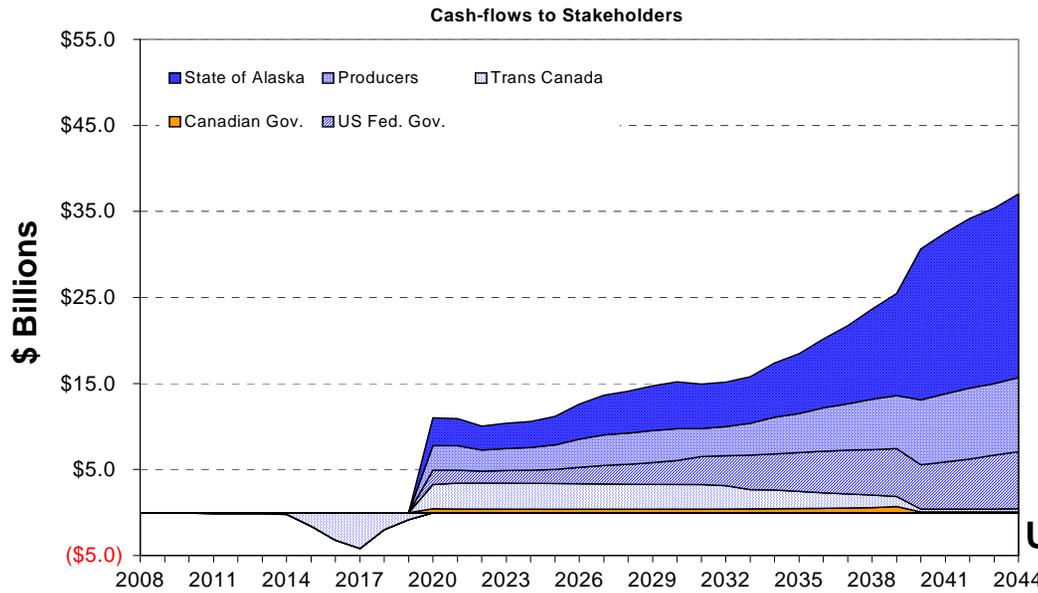


Producer
\$148
24%

4.0 Bcf/d Conservative Base Case Cash Flows



3.5 Bcf/d Low Volume Sensitivity Case



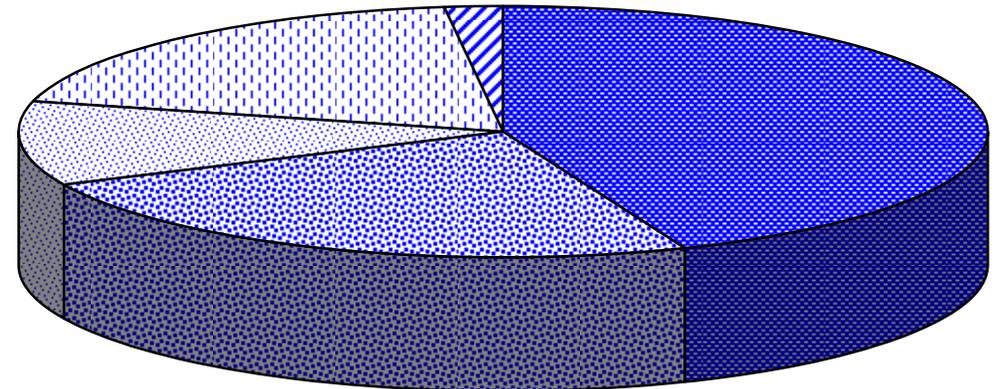
U.S. Gov
\$91
19%

Canadian Gov.
\$9
2%

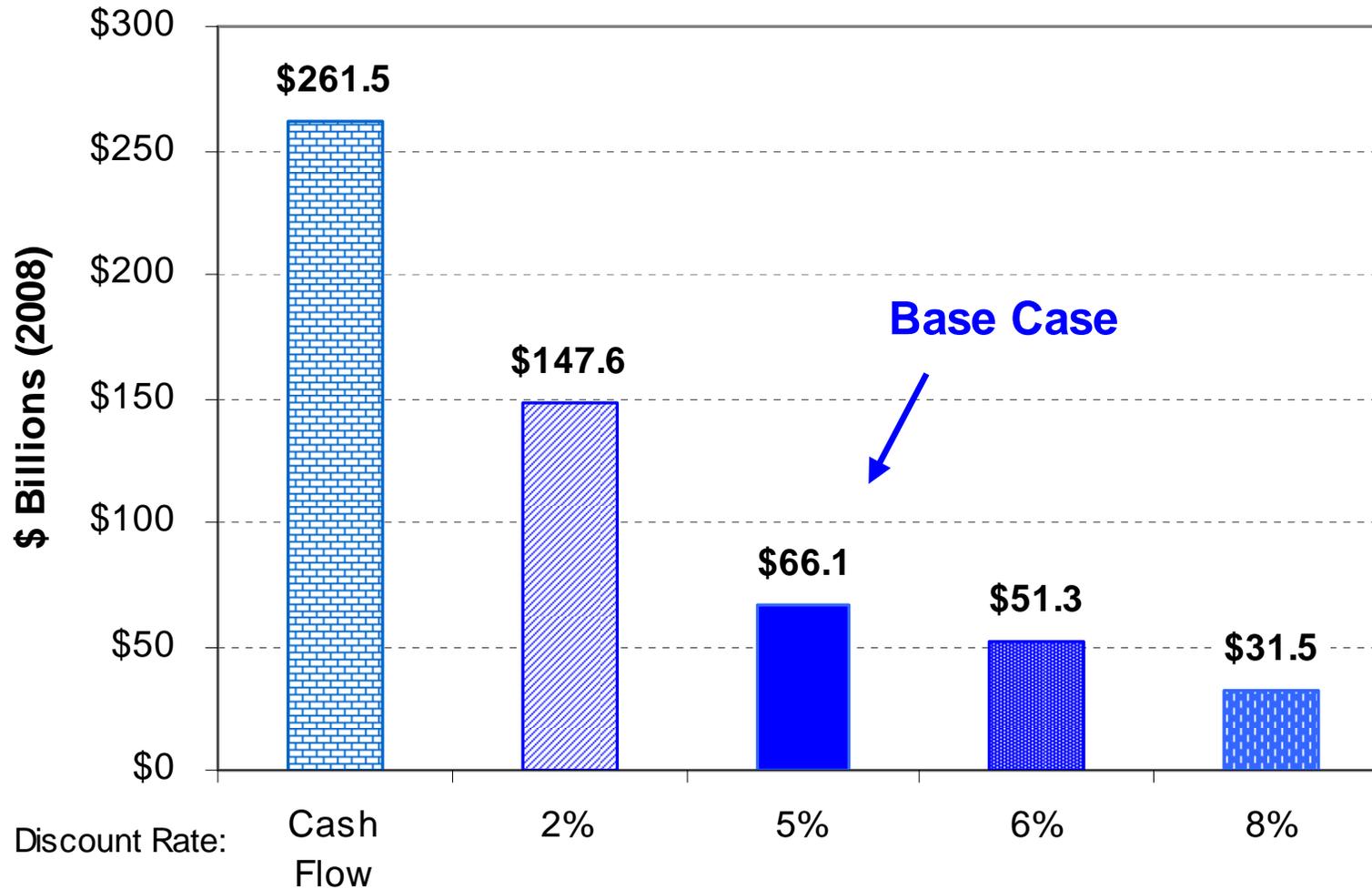
State of Alaska
\$209
44%

TransCanada
\$52
11%

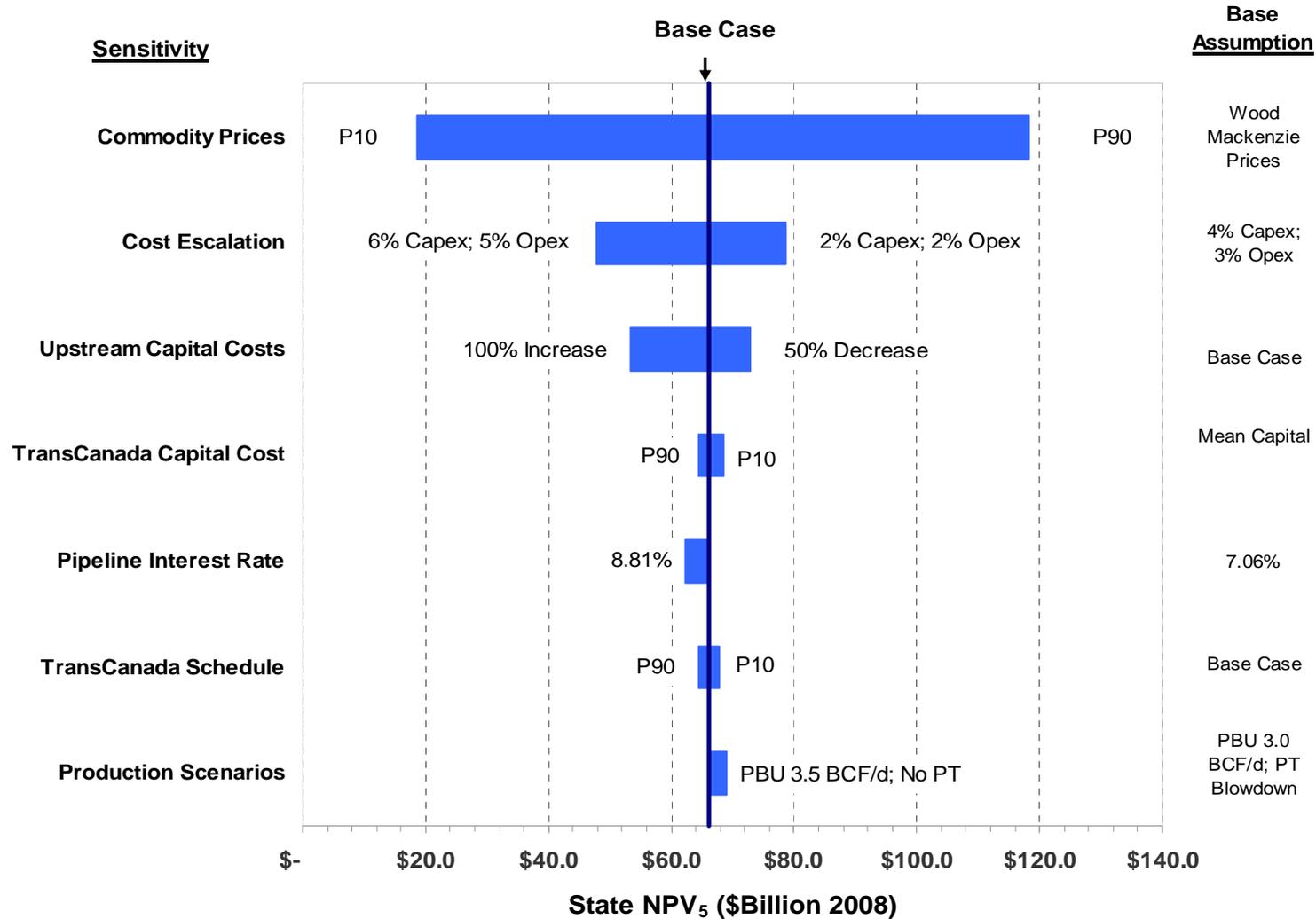
Producer
\$116
24%



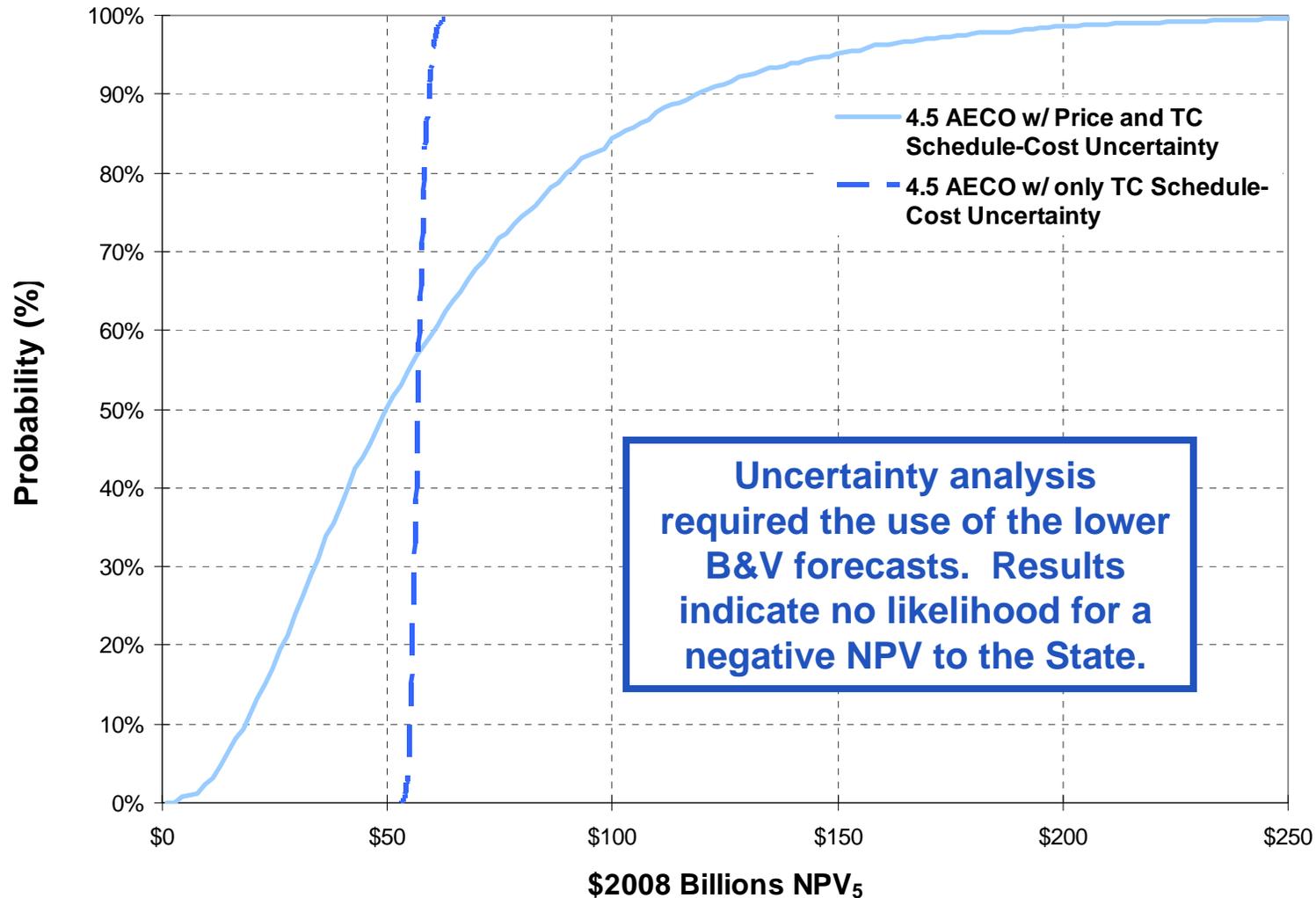
Expected State of Alaska NPV₅ is \$66.1 billion



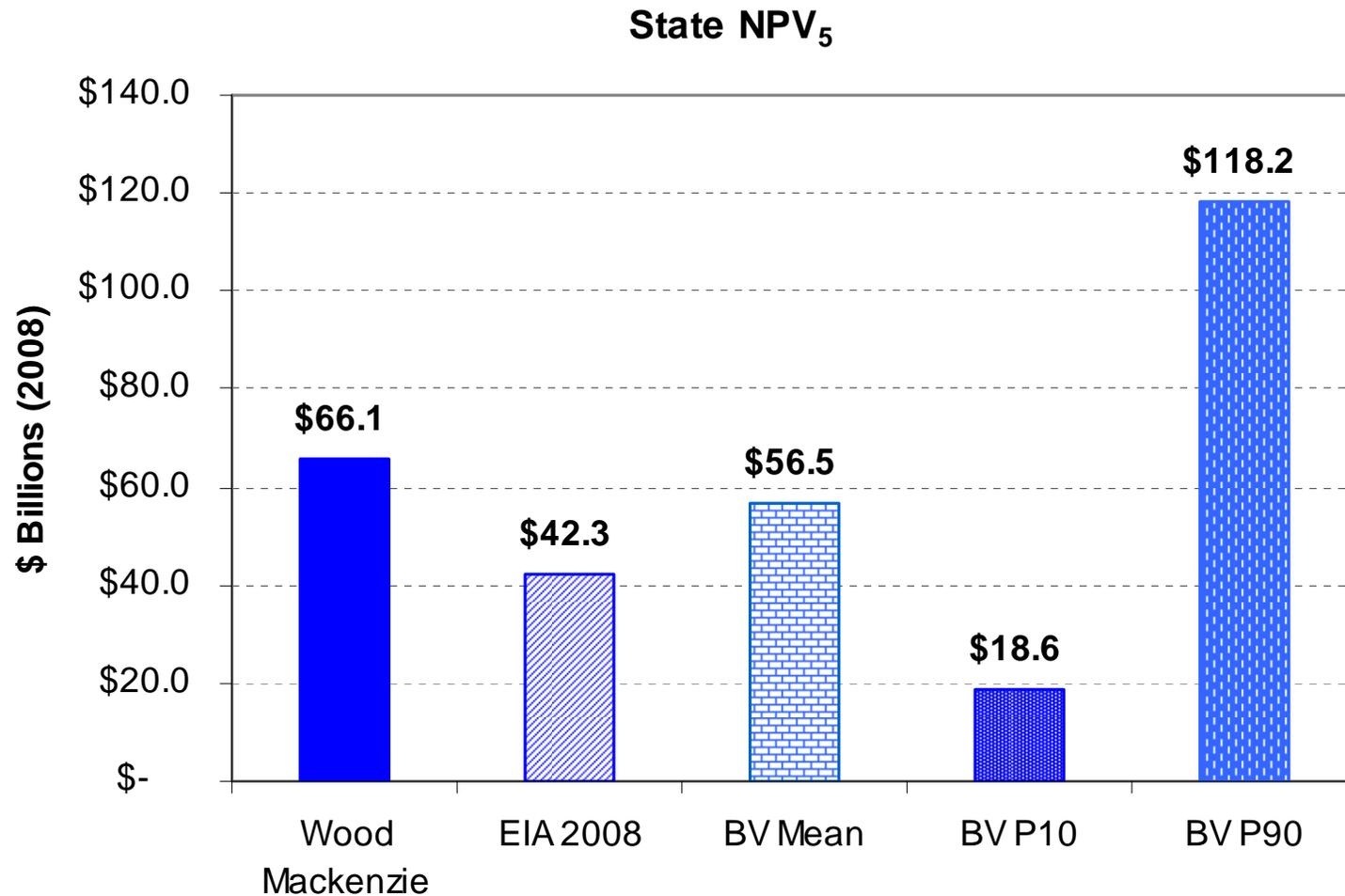
Price is a Key Driver to Variations in the NPV₅ to the State of Alaska



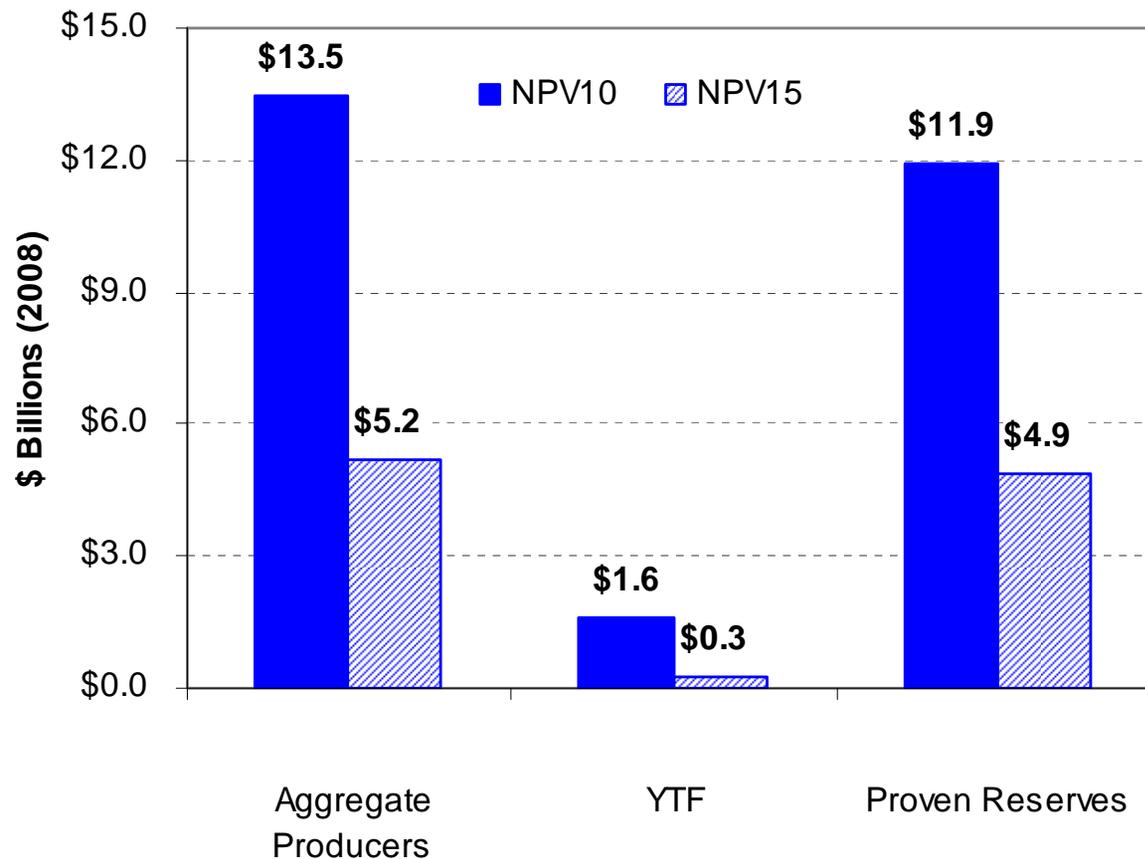
The impact from price uncertainty swamps estimated capital cost and schedule uncertainty.



NPV for the State is Expected to be Positive Under all Price Scenarios

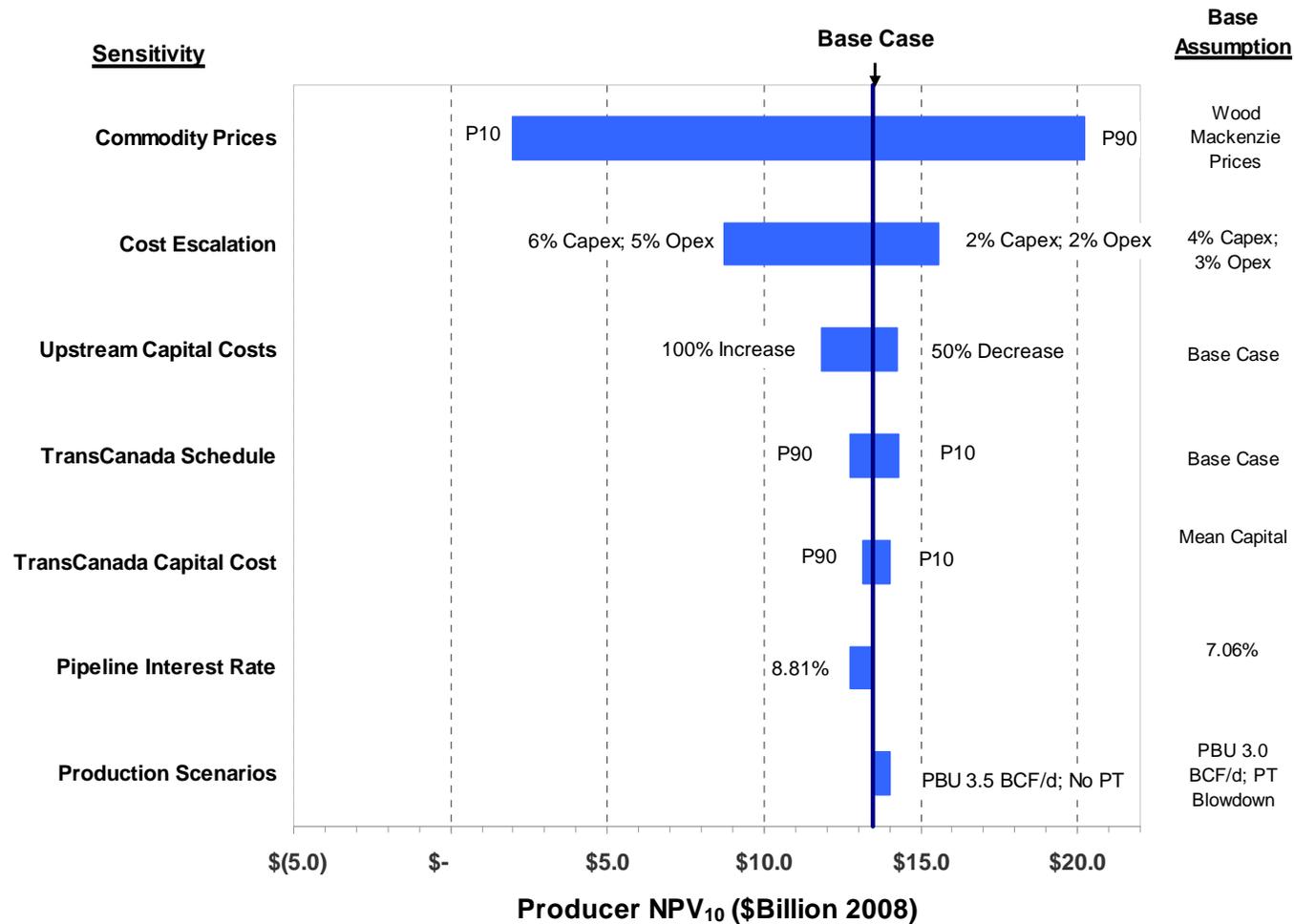


Like the State, NPV for the Producers is Expected to be Substantial under Base Case Assumptions

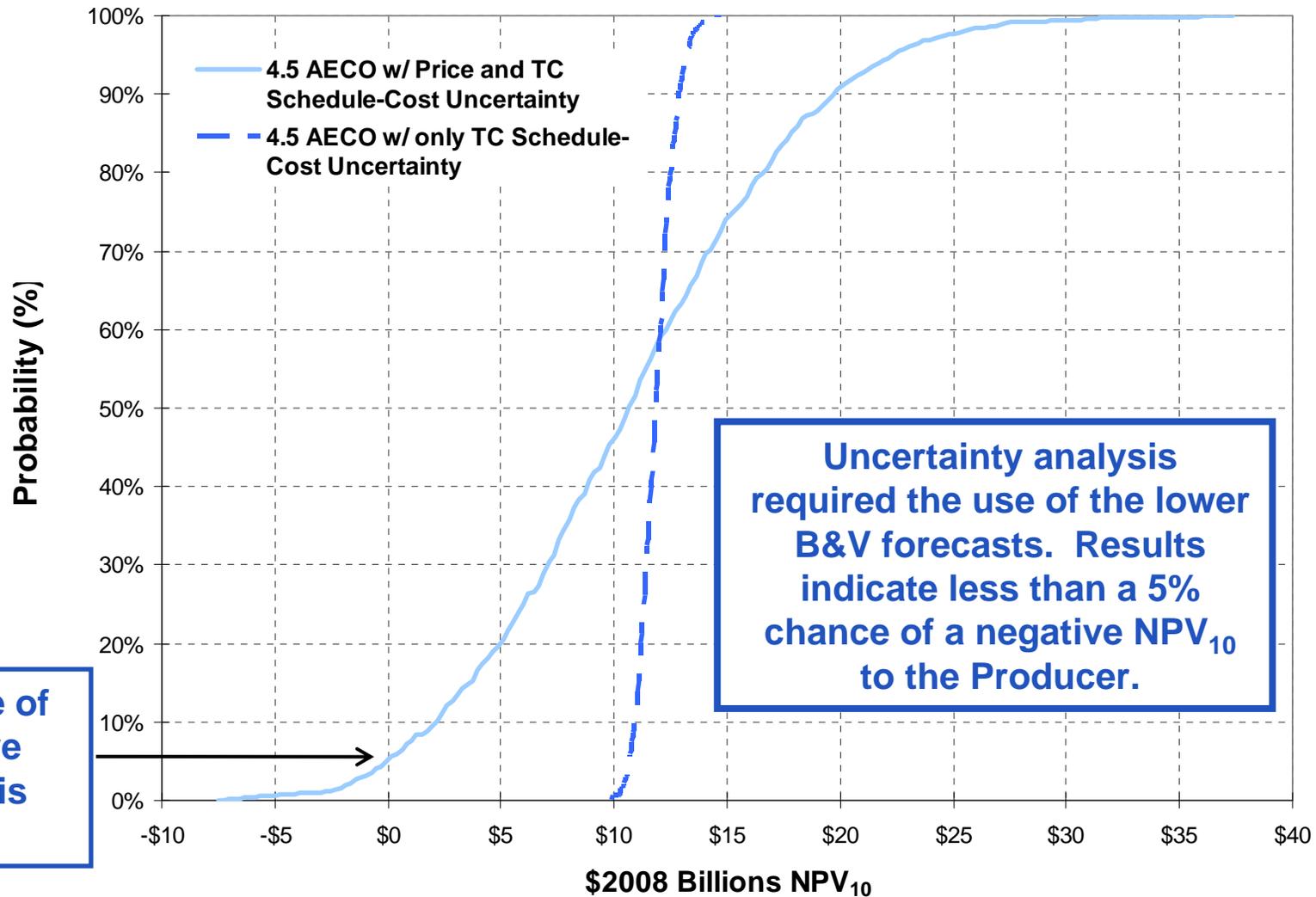


- Existing reserves provide the greatest amount of NPV benefit to the producers due to the low expected capital outlay required to flow into the Gasline.
- YTF NPV is understated due to the analysis life of 25 years. If the analysis is expanded to 35 years, YTF NPV improves to \$3.9 billion at a 10% discount rate.

Producer Sensitivity to Key Variables is Similar to the State

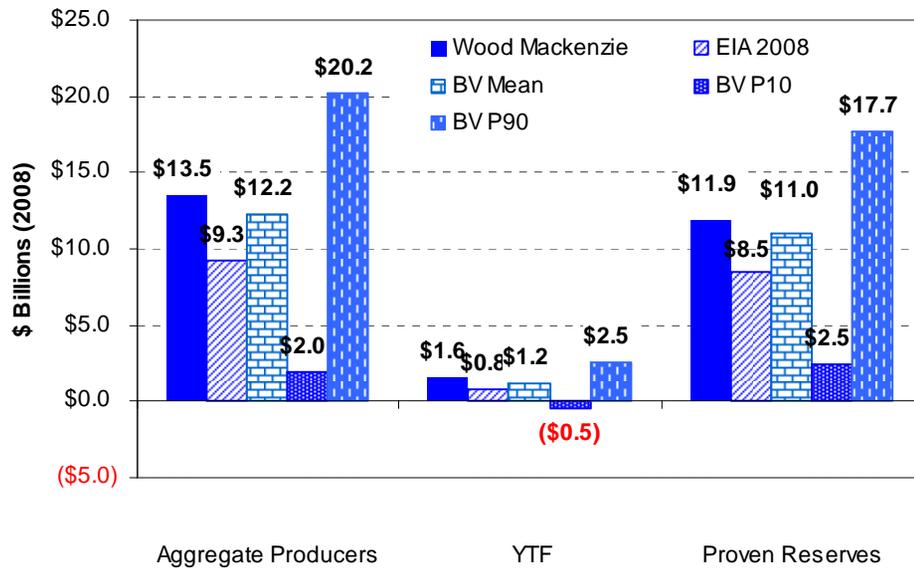


The producers have a very low likelihood for a negative NPV₁₀ from low prices, no likelihood from cost scope risk.

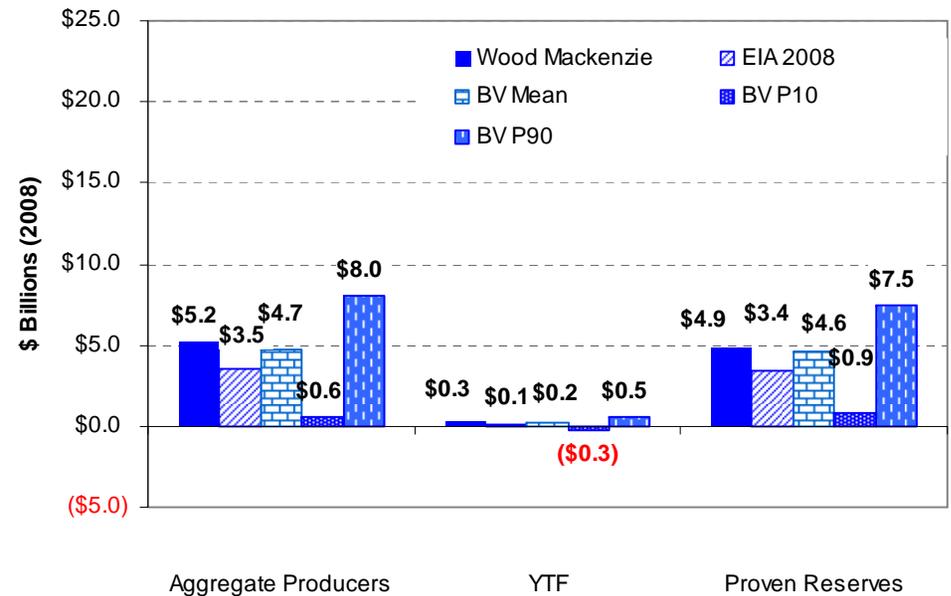


NPV for the Producers is Expected to be Positive Under all Price Scenarios

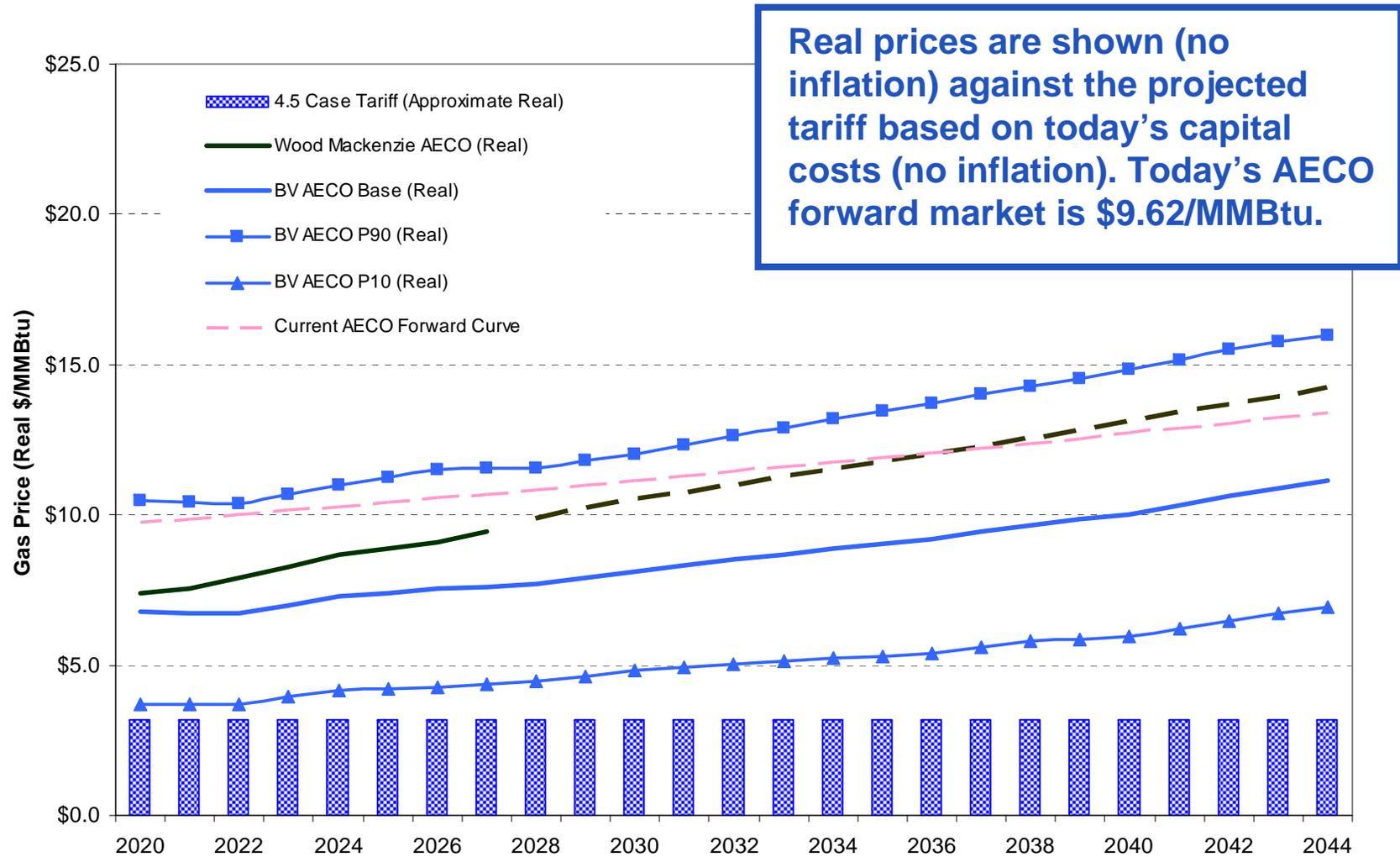
Producer NPV₁₀



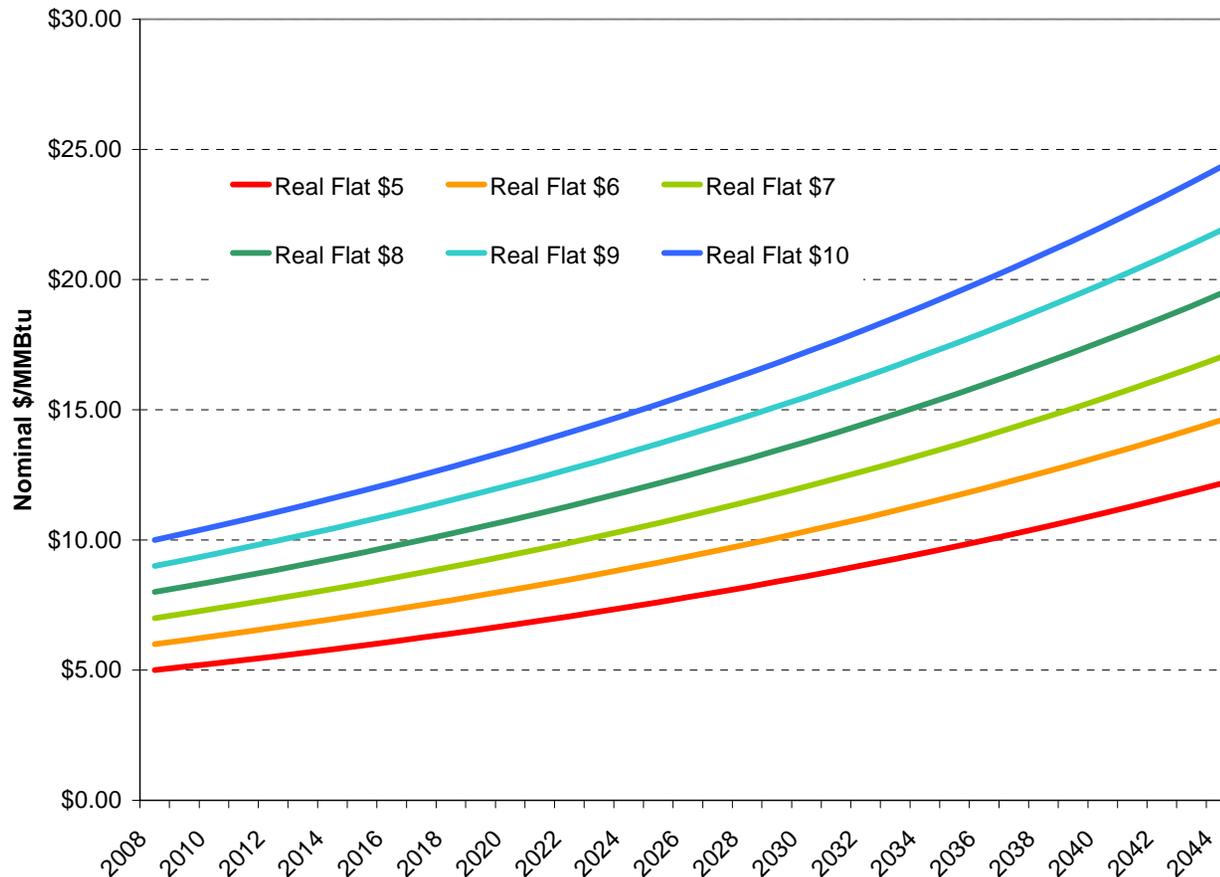
Producer NPV₁₅



Project Cash Flows are Favorable if Built Today



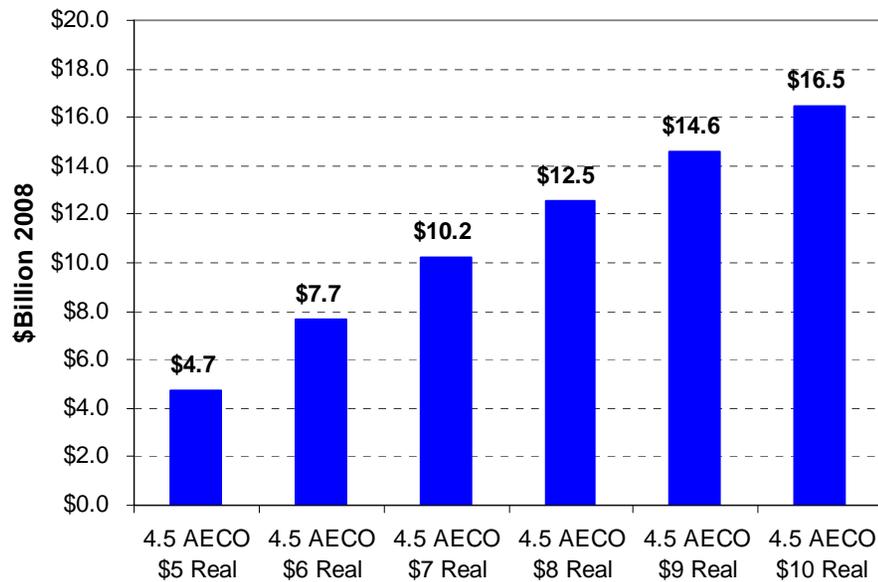
Analysis of Impact of Price Levels - Flat Real Prices



- Analysis investigated the impact of price levels on project economics
- Flat real prices levels from \$5/MMBtu to \$10/MMBtu were considered for natural gas price at AECO
- 2.5% inflation assumed to estimate dollars of the day prices

Price levels have a significant impact on Producer NPV. NPV₁₀ remains positive with real prices in \$5-\$10/MMBtu range.

Aggregate Producer NPV₁₀

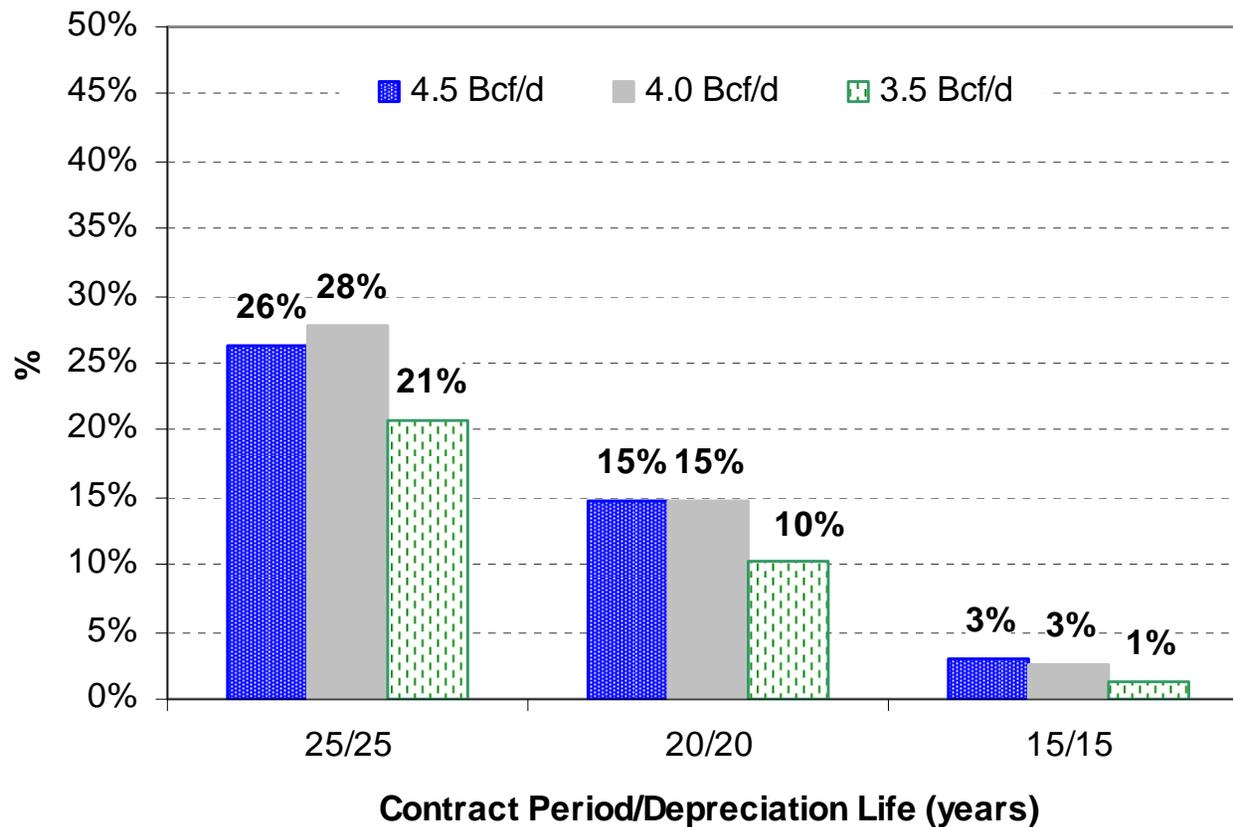


Aggregate Producer NPV₁₅

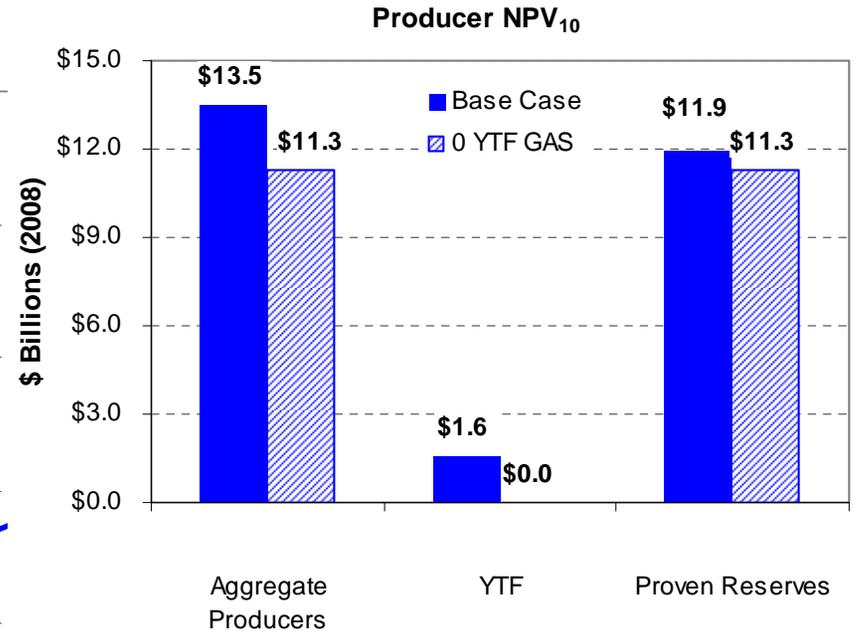
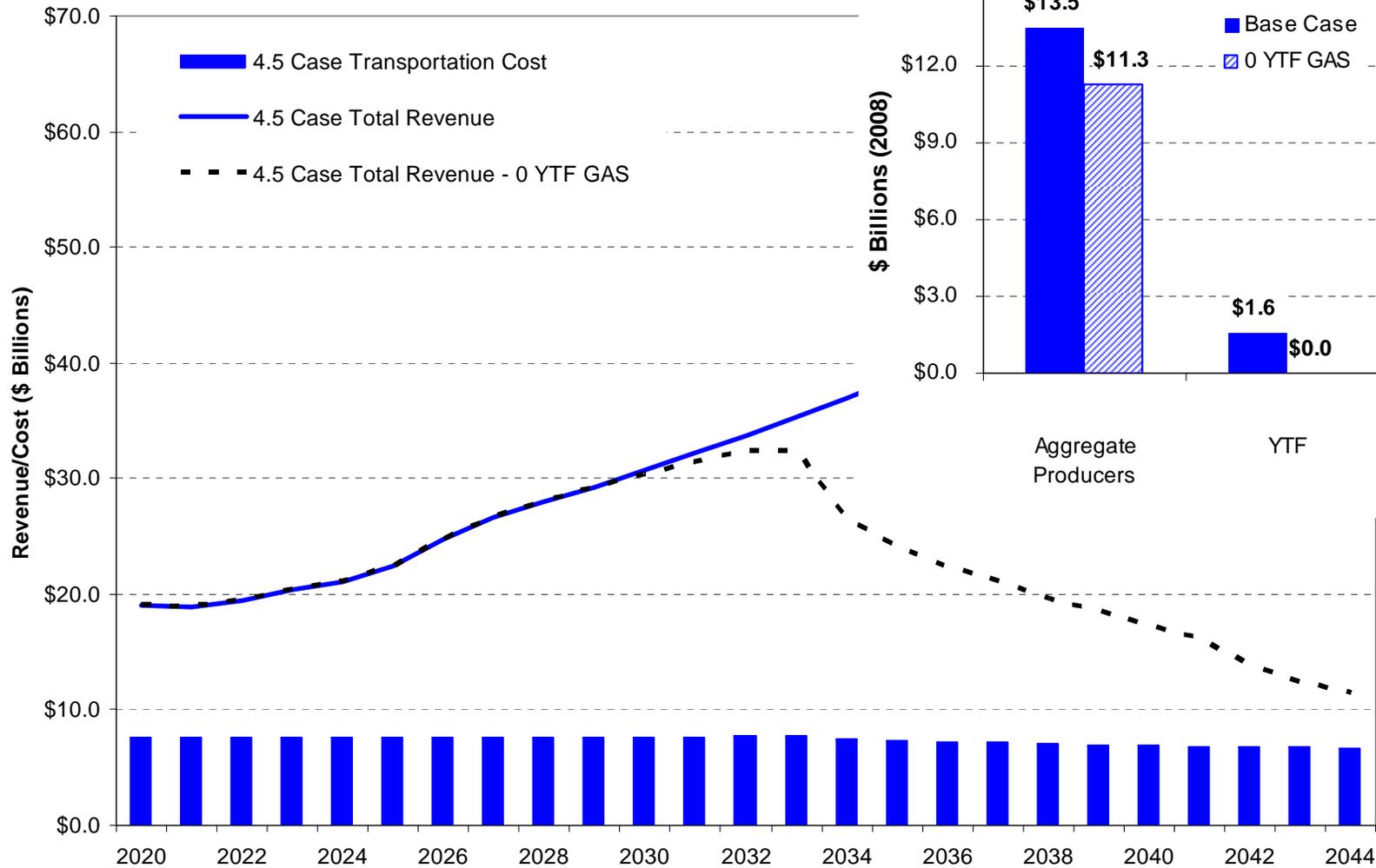


YTF Gas Required to Keep Pipeline Full under Different Contract Periods and for Different Pipeline Capacities

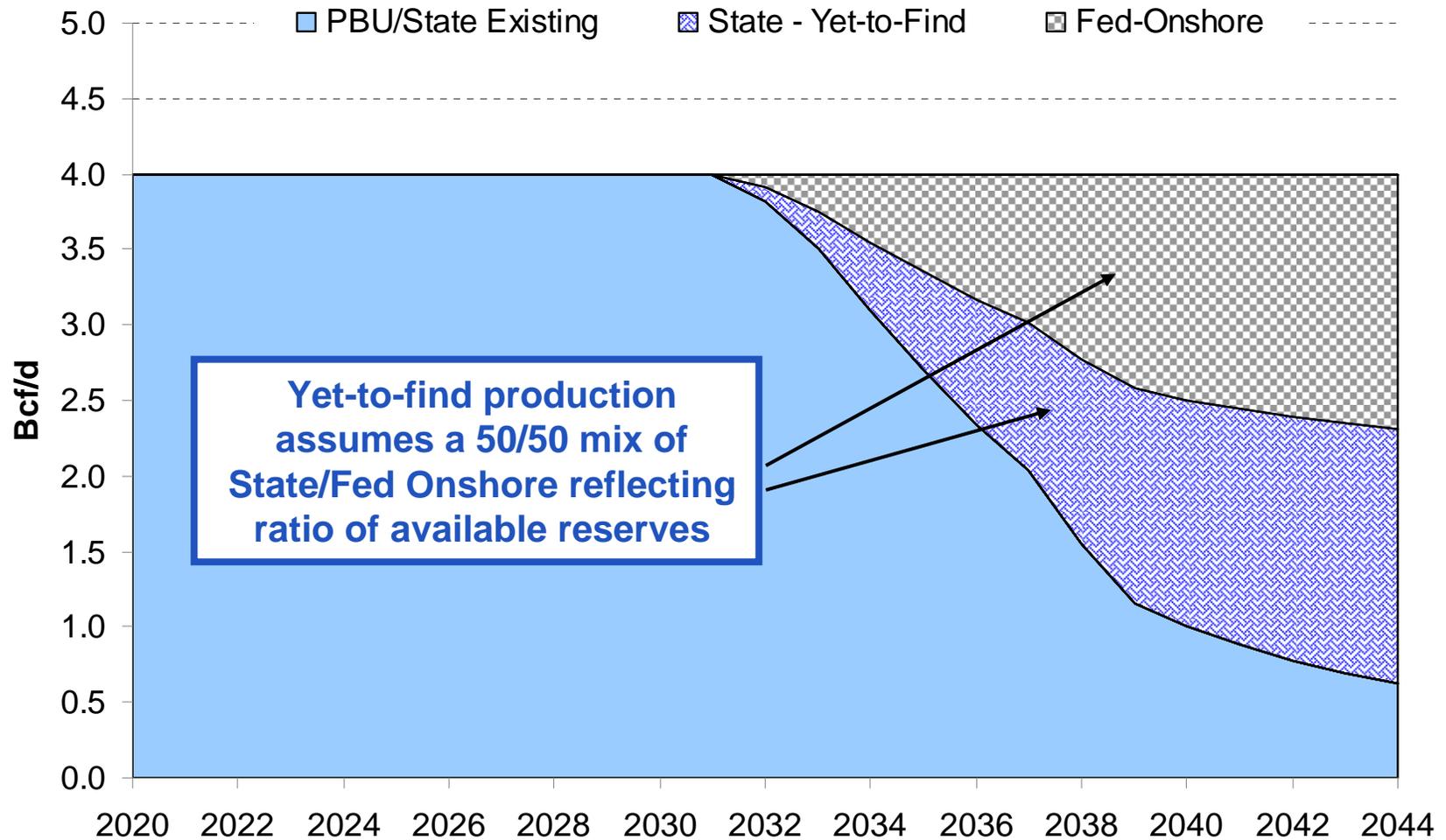
% of Contract Volume Requiring YTF Gas



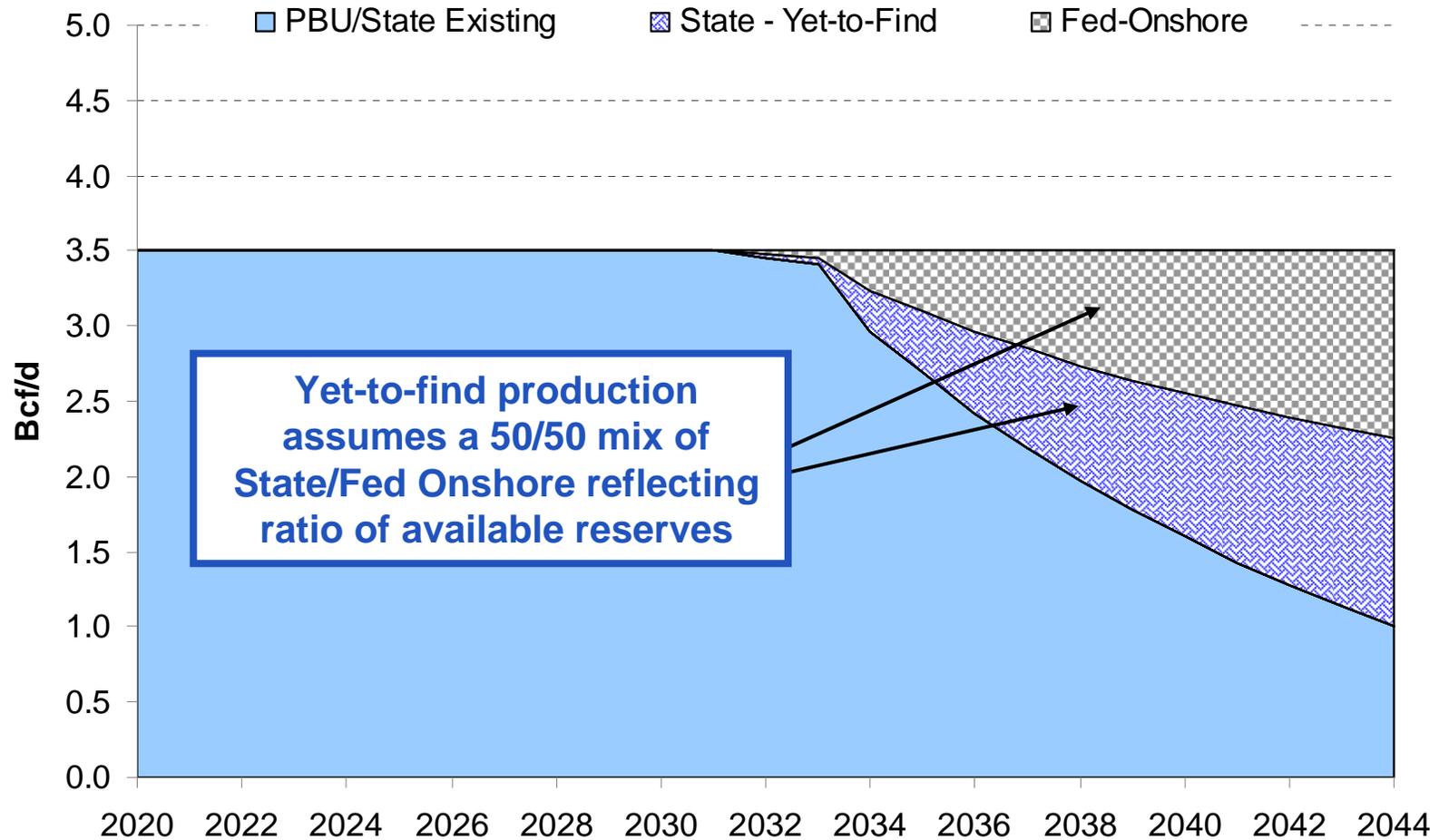
Producer NPV is Expected to Remain Positive if No YTF Gas is Produced



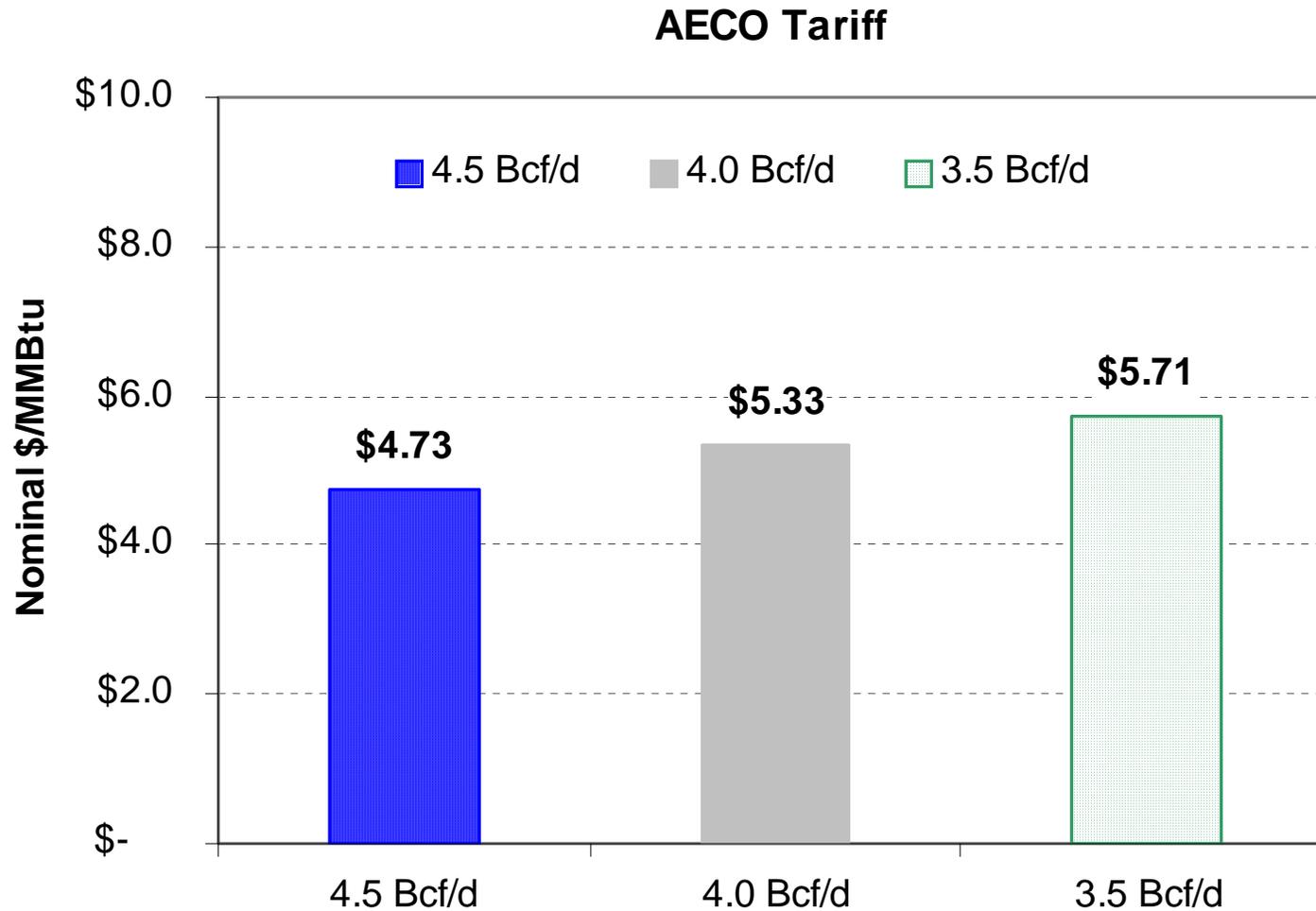
Production Assumptions: 4.0 Bcf/d Case



Production Assumptions: 3.5 Bcf/d Case

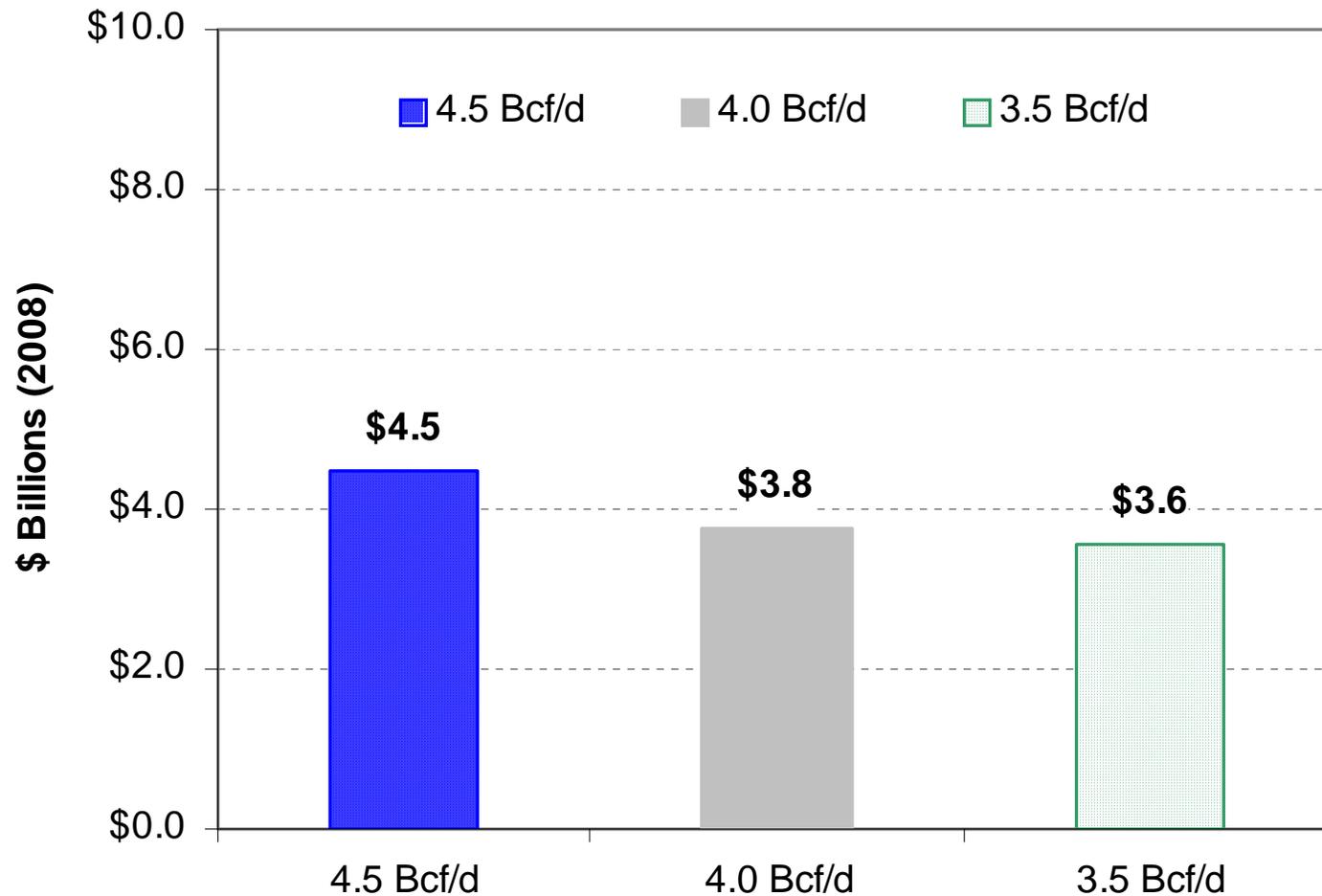


Expected Tariffs from the North Slope to the AECO Market

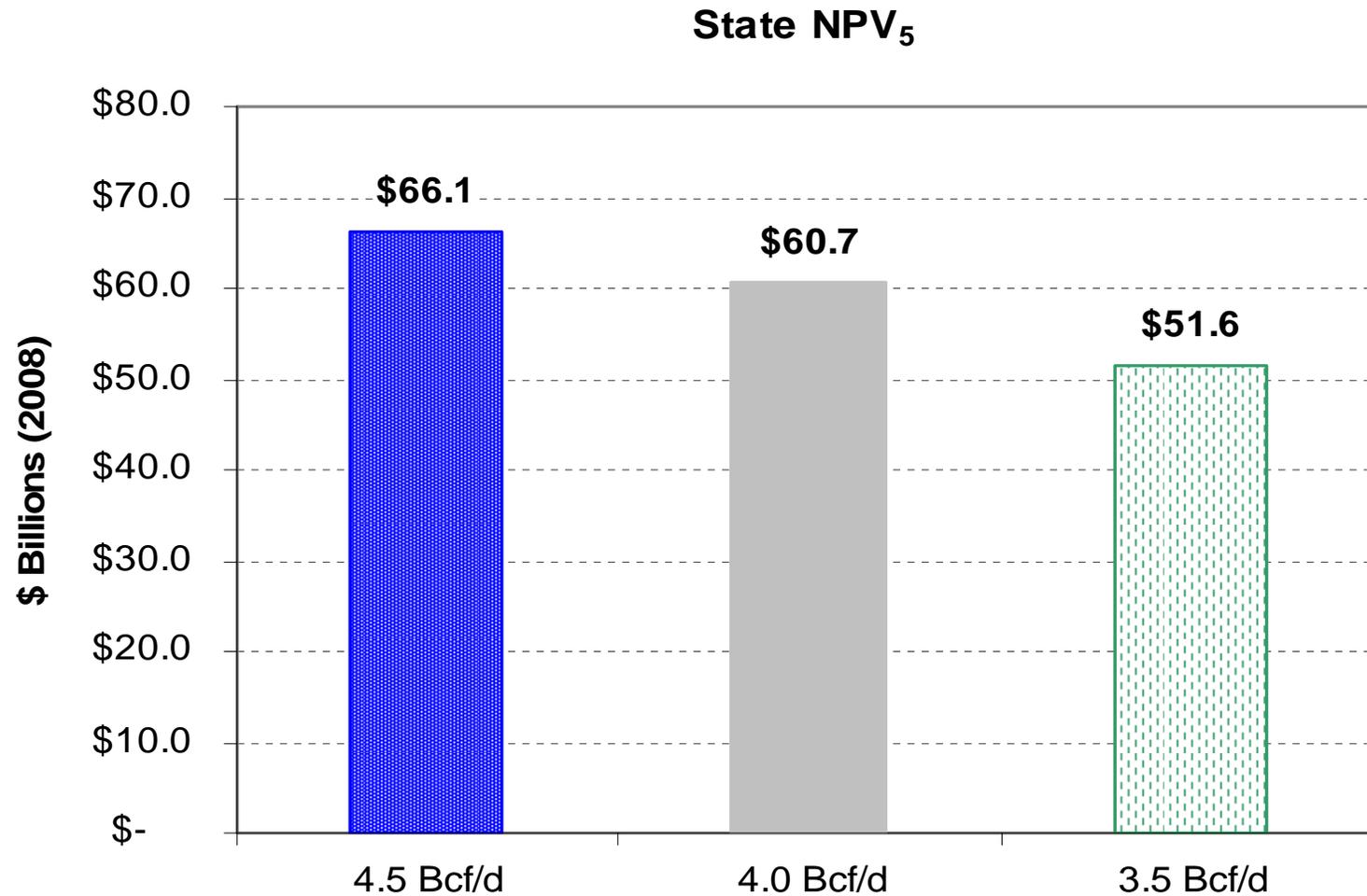


TransCanada NPV_{8.8} is Significant under Proposed Terms and Base Case Assumptions

TransCanada NPV_{8.8}



The State's NPV₅ Project is Lower with Lower Project Capacity but Remains Significant

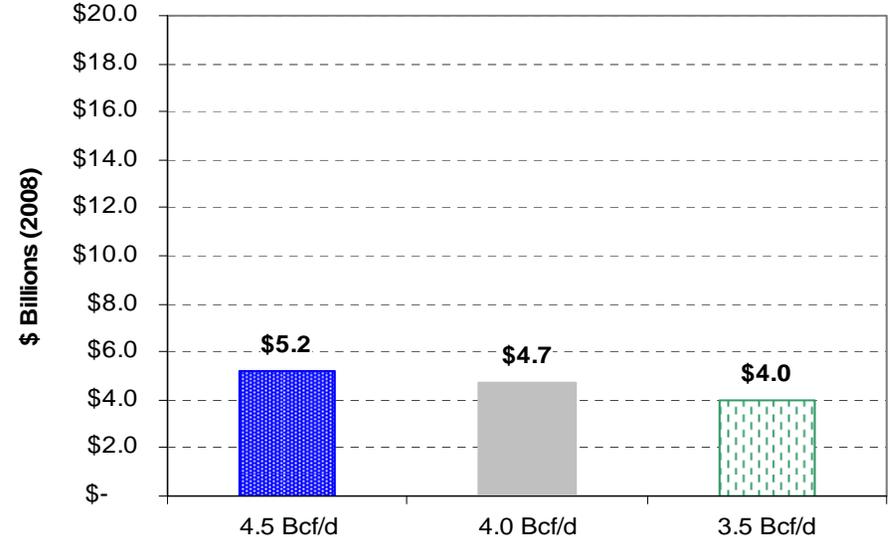


Producer NPV Shows a Similar Trend When Compared to the State and TransCanada

Aggregate Producer NPV₁₀



Aggregate Producer NPV₁₅



Why does a delay increase State NPV₅?

- Why does a delay increase State NPV₅?
 - Prices increase
 - Progressivity for production taxes increases as prices rise
 - Production Tax in 2020 = ~25%
 - Production Tax in 2045 = ~50%
- Could a delay cause a decrease in the State NPV₅?
 - Yes, if prices increase at a lower rate than the baseline Wood Mackenzie prices, then a project delay would cause a decrease in the State NPV₅