The Alaska Gasline Port Authority LNG Project

"The Future is on the Line"

AGPA
ALASKA GASLINE PORT AUTHORITY

Resource Development Council

November 3rd, 2005

Project Team

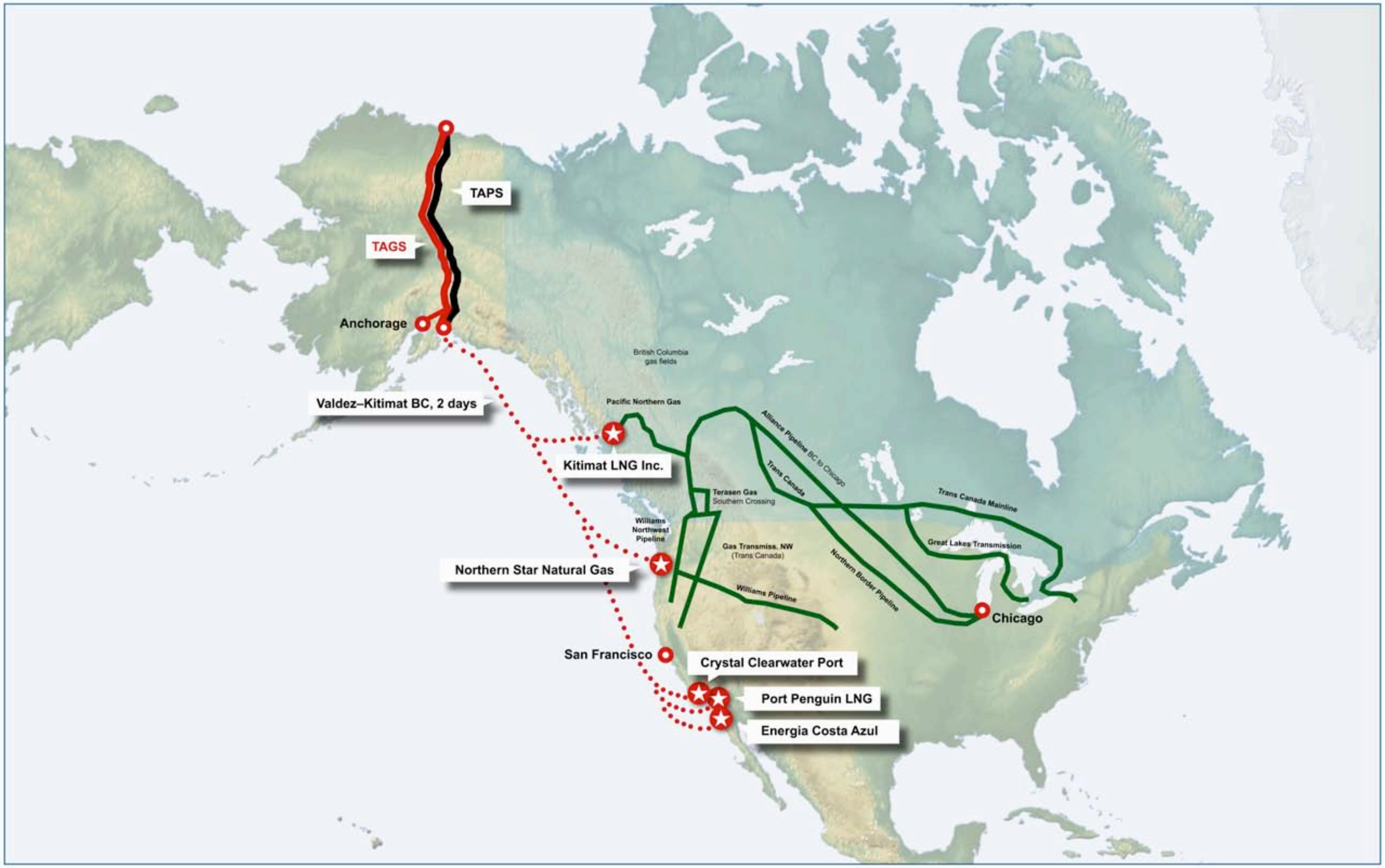
- **Alaska Gasline Port Authority (AGPA)**
  - Formed in 1999 by the North Slope Borough, Fairbanks North Star Borough and the City of Valdez
  - Voter approval in each municipality averaged 80%
- **Yukon Pacific Corporation (YPC)**
  - YPC was founded in 1982 by two former governors of Alaska, William Egan and Walter Hickel, for the purpose of commercializing Alaska's vast reserves of natural gas
  - Since 1982, YPC has worked towards permitting this project and has acquired significant senior permits necessary for this project and collected valuable data necessary for this project.
  - In January 2005, the AGPA acquired the exclusive right to purchase YPC in its entirety.
- **Bechtel Corporation**
  - One of the world's premier engineering, construction, and project management companies
  - Headquarted in San Francisco with 40 offices around the world
  - No. 1 ranked U.S. contractor six years running
  - Has completed more than 22,000 projects in 140 countries

Project Team (continued)

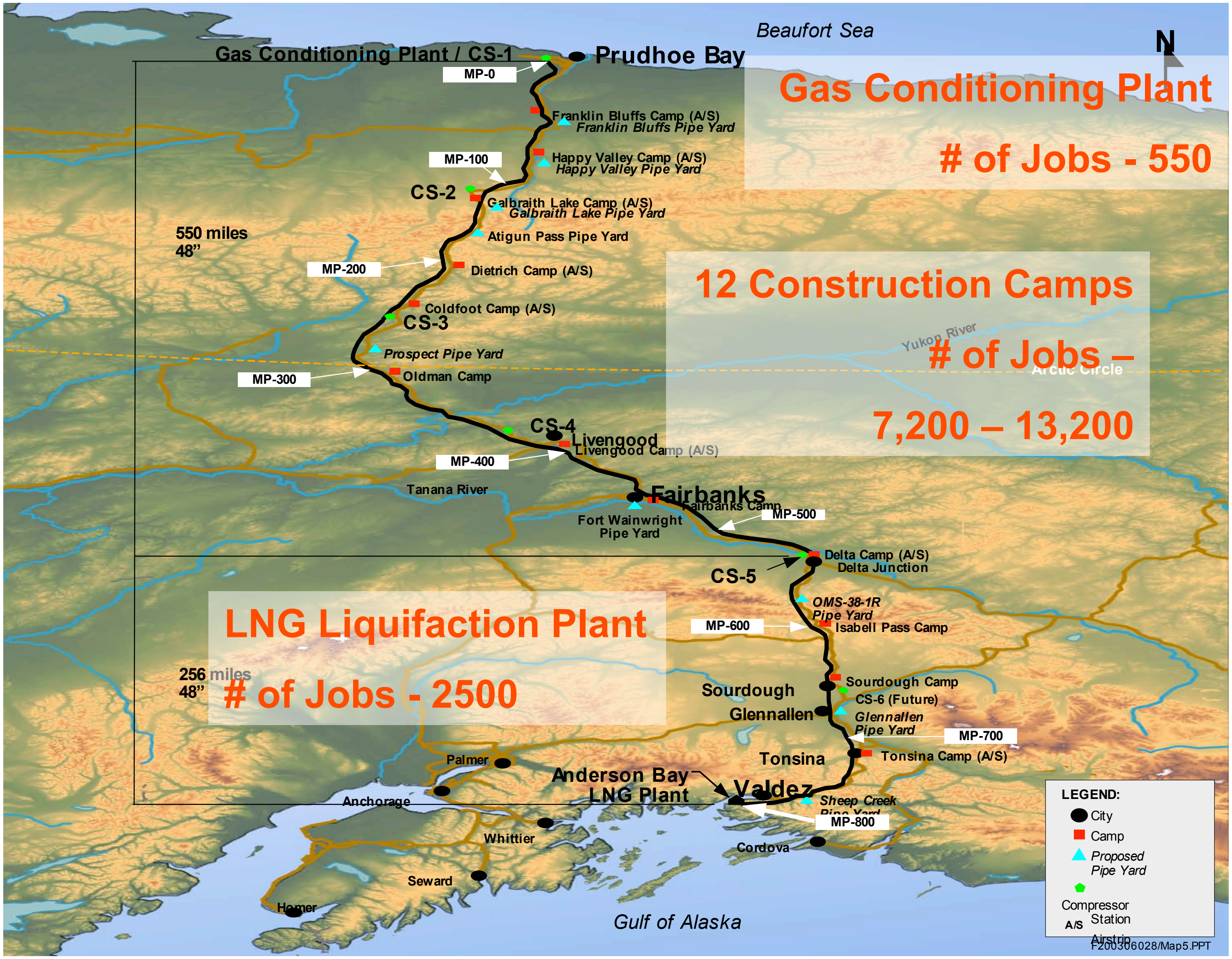
- **Taylor DeJongh**
  - Independent specialist merchant banking firm
  - Provides capital solutions to its energy, oil and gas, and infrastructure clients globally
  - Structured, negotiated and financed $50 billion of international capital placements in 75 countries
  - Advised on eleven “Deals of the Year” over the past 5 years
  - Ranked consistently in the top 10 financial advisors globally since 1995
  - Named “2003 Oil & Gas Financial Advisor of the Year”
- **Greengate LLC**
  - Provides independent financial advisory services in the energy and infrastructure sectors worldwide
  - Specializing in project and structured finance, restructurings and recapitalizations, asset acquisitions and divestitures
  - The Greengate team has significant transaction experience in power, oil and gas, LNG, pipelines, petrochemicals, infrastructure, telecommunications

II. The Alaska LNG Project

The Alaska LNG Project: Description



The Alaska Gasline Route (Prudhoe Bay to Valdez)



Gas Conditioning Plant

# of Jobs - 550

12 Construction Camps

# of Jobs – 7,200 – 13,200

LNG Liquifaction Plant

# of Jobs - 2500

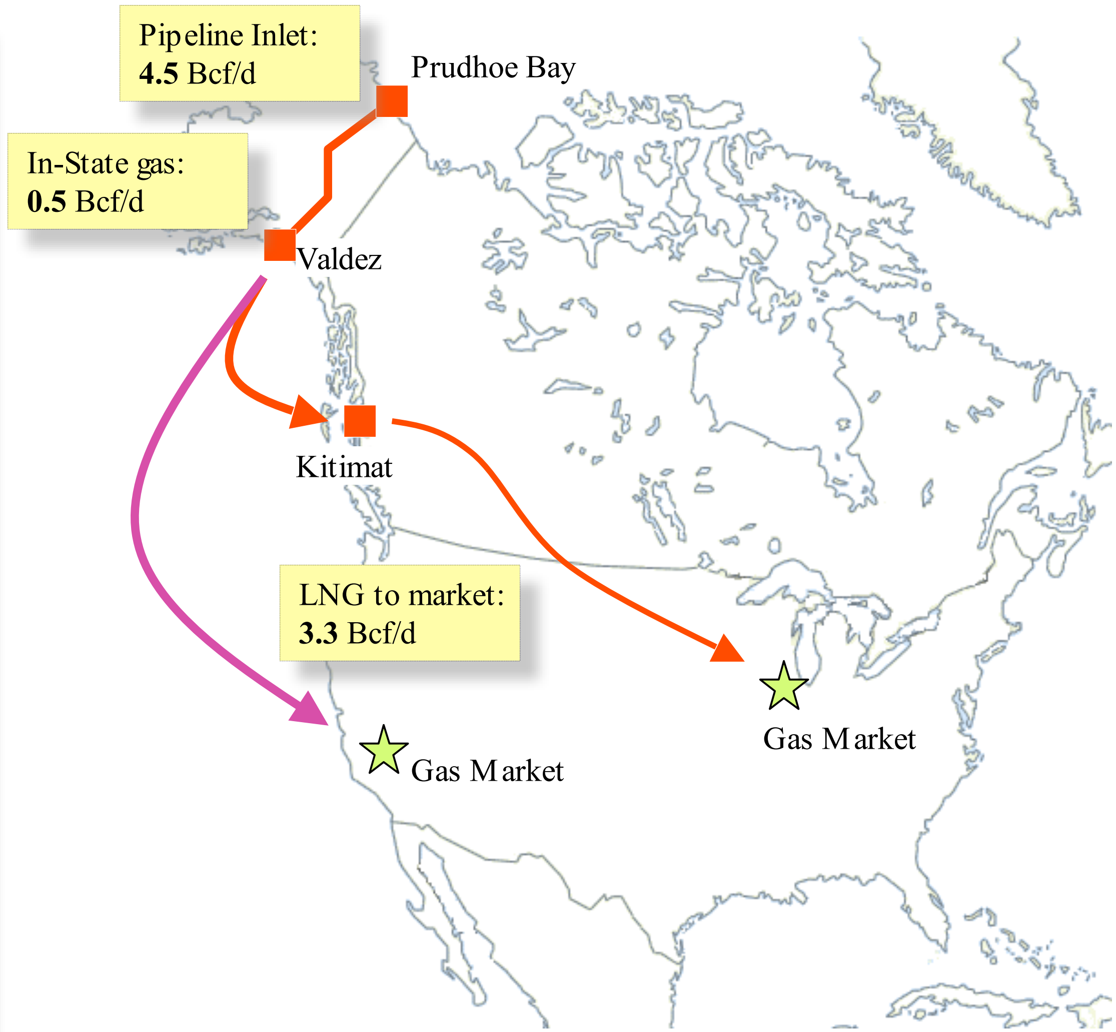
YPC Permits

- The Port Authority has an exclusive option to purchase YPC and its portfolio of senior permits along with all project data collected since 1982. Following is a list of these twelve permits, in the order in which they were received. All permits remain valid today.

- FERC Declaratory Order Regarding its TAGS Jurisdiction (May 27, 1987)
- Presidential Finding Approving Export of Alaska Natural Gas. (January 12, 1988)
- Coastal Zone Consistency Determination (January 20, 1988)
- TAGS Project-wide Final EIS (June, 1988)
- Ahtna Corporation Right of Way Agreement (October 14, 1988)
- Federal Pipeline ROW Grant (October 17, 1988)
- State of Alaska Conditional ROW Lease (December 10, 1988)
- DOE/OFE Authorization for Export of Natural Gas (Order 350) (November 16, 1989)
- DOE/OFE Confirmation of Order 350 (March 8, 1990)
- Anderson Bay (LNG Terminal) Final EIS (March, 1995)
- FERC Authorization for Siting LNG/MT Facility (May 22, 1995)
- Anderson Bay LNG/MT Facility Air Quality (PSD) Permit (August 5, 1997)

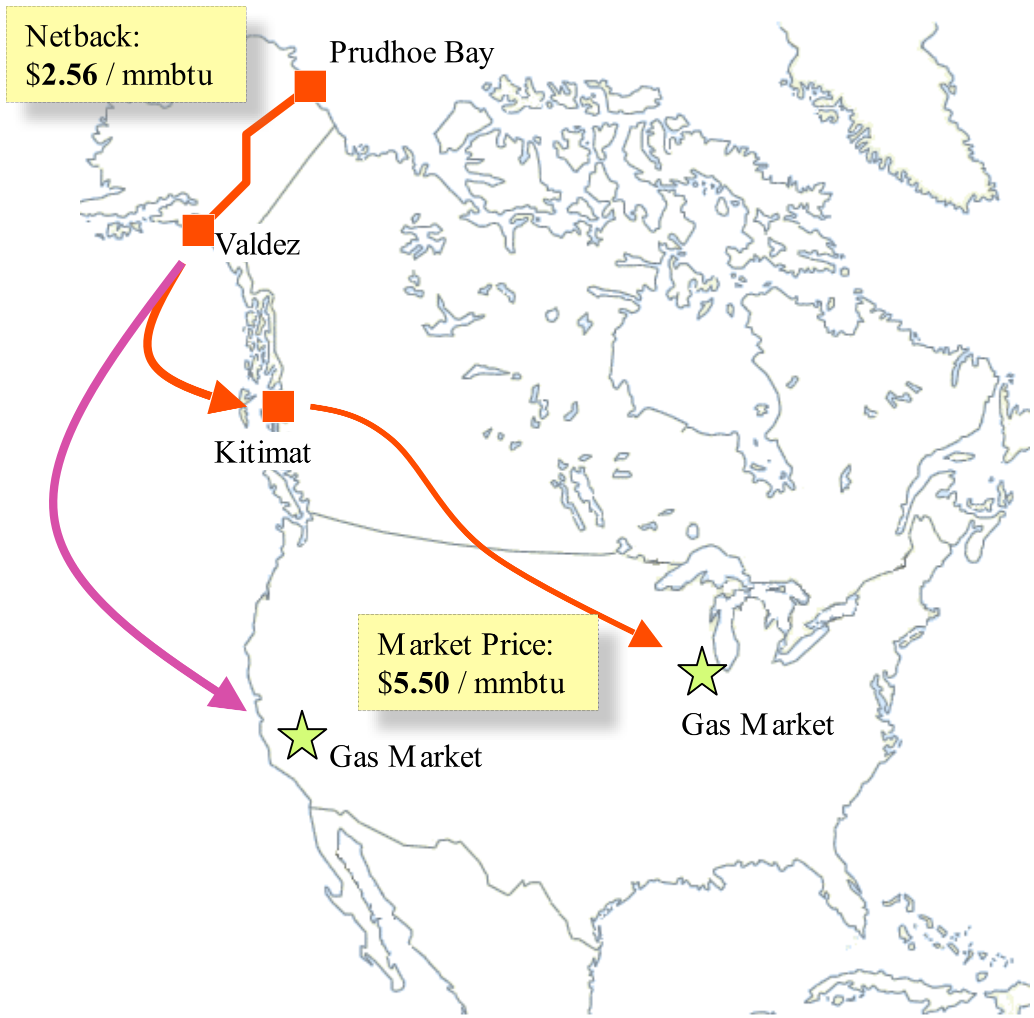
Base Case: Full Project Development Volumes

- The AGPA gas transportation project assumes a phased development, reaching full capacity at 4.5 Bcf/d.
- The volume phasing allows for a rapid development of an initial phase to capture Midwestern markets in a short time horizon.
- The initial phase will deliver 1.1 Bscfd of LNG to the Kitimat terminal
- Volume is increased to the base case level of 4.5 Bcf/d through expansion of the liquefaction facilities and additional pipeline compression.



Base Case: Pro Forma Netback Results

- Assumed Lower 48 price index (Henry Hub) in 2011: $5.50/MMbtu
- Base Case netback price at the pipeline inlet is projected to be $2.56/MMBtu
- Annual netback revenue to gas suppliers: $4.9 billion



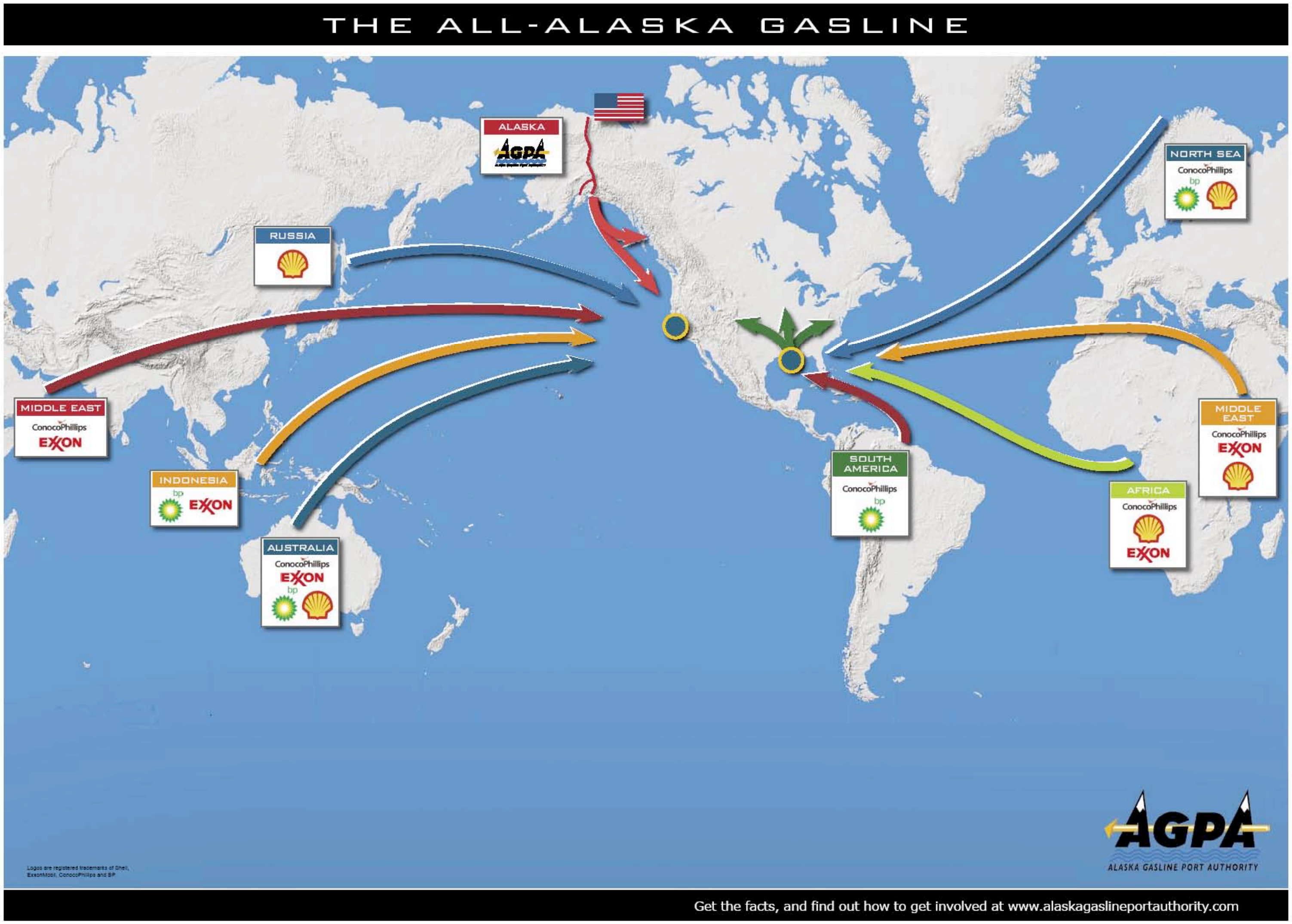
The Challenge

- The remaining obstacle to the Port Authority's project is obtaining gas from the North Slope Producers.
  - Under the lease and unit agreements Prudhoe and Point Thomson producers have a duty to drill and produce gas in a diligent manner in compliance with the State approved development plan.[1]
  - It is universally recognized that a lessee cannot refuse to sell gas and has an implied duty to market gas in a reasonably diligent manner.[2]
- So far, the response to an offer to buy has been that the Producers may build a project in the future that may generate a higher netback to them. AGPA believes that a refusal to sell based on the possibility of a Producer-owned project at some undefined point in the future and based on still to be obtained concession requests from the State is not justified.

[1] DNR Lease Form No. DL-1 ¶ 20 (Revised Oct. 1963); Prudhoe Bay Unit Agreement § 4.2; Baxley v. State of Alaska, 958 P.2d 422, 427 1998 ("All of the State's oil and gas leases contain an implied covenant for lessees to diligently explore and develop their leases.").

[2] Cole v. Petroleum Co. v. U.S. Gas & Oil Co., 41S.W.2d 414, 415-417 (Tex. 1931) (a leading case). See also, Wolfe v. Texas Co., 83 F.2d 425, 432 (10th Cir.), cert. denied, 299 U.S. 553 (1936); Craig v. Champlin Petroleum Co., 300 F.Supp. 119, 125 (W.D. Okla. 1969), aff'd, 421 F.2d 236 (10th Cir. 1970); Davis v. Cramer, 808 P.2d 358, 361 (Col. 1991); Daughetee v. Ohio Oil Co., 263 Ill. 518, 523, 105 N.E. 308 (Ill. 1914); Gilmore v. Superior Oil Co., 192 Kan. 388, 392, 388 P.2d 602, 606 (Kan. 1964); Carroll Gas & Oil Co. v. Skaggs, 231 Ky. 284, 21 S.W.2d 445, 447 (Ky. Ct. App. 1929); Caskey v. Kelly Oil Co., 737 So.2d 1257, 1261 (La. 1999); Severson v. Barstow, 103 Mont. 526, 63 P.2d 1022, 1024 (Mont. 1936); Townsend v. Creekmore-Rooney Co., 358 P.2d 1103, 1104 (Okla. 1960); Berry Energy Consultants v. Bennett, 175 W.Va. 92, 97 33 S.E.2d 823, 828 (W. Va. 1985); Tana Oil & Gas Corp. v. Bates, 978 S.W.2d 735, 739 (Tex. App. 1998); W.L. Summers, 2 The Law of Oil and Gas § 400; Richard W. Hemingway, The Law of Oil and Gas § 8.9(c).

The Race to Capture the North American Gas Market



Compelling Project Dynamics

- Delivers Alaskan gas to Midwest and West Coast Markets by 2011:
  - 4 to 6 years earlier than a potential Producer project
  - Gas to Southcentral Alaska by 2012
  - Will result in lower and more stable gas prices in the Lower 48 United States
- Uses existing North American natural gas transmission infrastructure
- Many senior permits for the AGPA gasline construction are in place
- Updated engineering and design numbers are in place
- Maximum use of Alaska's resources for the maximum benefit of Alaskans including project revenue sharing with Alaskan communities.
- Gas acquisition is the last remaining issue

AGPA Accomplishments

- (a) IRS ruling - $50 Billion benefit
- (b) Bechtel cost estimate – updated as of May, 2005 – fixed price
- (c) Taylor DeJongh – Greengate -- Economic Model
- (d) Y-line Concept
- (e) Stranded Gas Development Act Application
- (f) $18 Billion Federal Loan Guarantee
- (g) Sempra LNG
- (h) Purchase of YPC – January, 2005
- (i) Jones Act issue resolved
- (j) MOU with Receiving Terminals (5)
- (k) Gas Market (2)
- (l) Gas for Southcentral by 2012 (ANGDA)
- (m) Path of least resistance