STATE OF ALASKA

SEAN PARNELL, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES & DEPARTMENT OF REVENUE

ALASKA GASLINE INDUCEMENT ACT (AGIA)

January 31, 2014

To: All Members of the Alaska State Legislature

Included with this letter is a report from the Department of Revenue (DOR) and the Department of Natural Resources (DNR), submitted in accordance with reporting requirements under the Alaska Gasline Inducement Act (AGIA).

AS 43.90.400(d) of AGIA requires the DOR and DNR Commissioners to submit a report to the legislature within the first 10 days of each regular session on the status of reimbursements from the AGIA reimbursement fund. This report must include a list of all disbursements made from the AGIA fund during the preceding fiscal year, a written justification for each disbursement, and the projected amount of money that will be required for future disbursements during each of the next three fiscal years.

This report is focused on information specific to AGIA fund disbursements. This report and other AGIA-licensed project resources are available on the AGIA website, at http://www.gasline.alaska.gov/.

We hope that you find this information useful. If we can be of further assistance, please do not hesitate to contact us directly.

Sincerely,

Angela M. Rodell, Commissioner
Department of Revenue

Joseph R. Balash, Commissioner
Department of Natural Resources

Attachment: AGIA Fund Disbursement Report, January 31, 2014

AGIA Fund Disbursement Report
Department of Revenue and Department of Natural Resources
January 31, 2014

Executive Summary

This report was produced by the Department of Revenue (DOR) and the Department of Natural Resources (DNR) pursuant to AS 43.90.400(d) of the Alaska Gasline Inducement Act ("AGIA" or "the Act"). The statute requires that the Commissioners of DOR and DNR, within 10 days after the convening of each regular session, "shall submit to the legislature a report that lists all the disbursements from the [AGIA reimbursement] fund during the preceding fiscal year with a written justification for each disbursement and the projected amount of money that will be required for reimbursements in each of the next three fiscal years."

For background purposes the following section of this report will provide a brief history of the project since the passage of AGIA in 2007. Within the current reporting period the most significant event was the advancement made by Alaska Pipeline Project Parties, the Producers, TC Alaska and State agencies working together on a single effort. The advancements and gas commercialization efforts remain in a transition phase and are discussed in greater detail below. The background section concludes with an overview of the reimbursement process and a discussion of the AGIA Reimbursement Information System (AIRS).

The final portion of this report addresses the specific statutory reporting requirements of AS 43.90.400(d) describing the current status of the AGIA fund disbursements, requested reimbursements and the latest estimates on project expenditures.

In 2013, TC Alaska and the North Slope Producers engaged in essential activities, made significant progress on project milestones, and met the benchmarks set forth by Governor Parnell on January 16, 2013. On June 11, 2013 the Commissioners of the Department of Revenue and Natural Resources approved TC Alaska's Project Plan Amendment (**PPA 1A),** which noted that the Licensee had made significant progress toward meeting the Project Plan Amendment **(PPA 1)** approval conditions. On December 12, 2013, the Commissioners also approved TC Alaska's second Project Plan Amendment **(PPA 1B)** which was a limited extension of the previous project plan amendments approved in June 2013 **(PPA 1A).** TC Alaska's Project Plan Amendment **(PPA 1B)** allows the Licensee to perform additional work from approximately January 1, 2014 until the end of June 2014. The project plan amendments set forth the mechanism to continue to provide reimbursements to the Licensee based upon the approved project work plans.

The FY 2014 forecast for future reimbursements to the Licensee are based on the PPA 1B and project work plan that expires on June 30, 2014. No AGIA appropriations are forecast for FY 2015 as the project is expected to advance under a new commercial agreement. The remaining AGIA funding of approximately $37MM is sufficient to bring the project to a stable close and transition to State participation in Alaska LNG (AKLNG). The FY 2014 reimbursements are based on the January 2014 Budget Report from TC Alaska reflecting AGIA termination as of June 30, 2014.

Background

AGIA was passed by the Legislature in May of 2007 to encourage construction of a natural gas pipeline from Alaska's North Slope. The Act instructed the DOR and DNR Commissioners to solicit applications for a license to receive certain inducements from the State. After review of the submitted applications, the Commissioners recommended that a license be jointly issued to TransCanada Alaska Company, LLC, and Foothills Pipe Lines Ltd (for purposes of this report, jointly referred to as "TC Alaska" or "Licensee"). The recommendation was approved by the legislature on August 1, 2008 and the license was issued and signed by the Commissioners on December 5, 2008.

In May 2009, TC Alaska joined with ExxonMobil to form the Alaska Pipeline Project (APP). From April 30 to July 30, 2010 the APP conducted the first open season to commercialize Alaska North Slope natural gas. Two project options were proposed, both originating at Prudhoe Bay. One option was for a pipeline terminating in Valdez, Alaska and the other option was for a pipeline extending to the Alberta border. Significant interest was expressed in the Alberta option, which advanced to the federal permitting phase in mid-2012.

In January 2012, the Project entered into a transition period. In the January 2012 State of the State address, Governor Parnell laid out important benchmarks for a gasline project in Alaska's interests. The Governor's benchmarks were: for the AGIA Licensees and Alaska North Slope (ANS) Producers to align under AGIA for the project; settle the Point Thomson litigation; conduct consolidation discussions between the Alaska Gasline Development Corporation (AGDC) project and the APP project; and harden numbers on an LNG project and provide an associated work schedule. These benchmarks were met through the third quarter of 2012.

On May 12, 2012, the Licensees requested approval of Project Plan Amendment PPA 1 in which the Alberta option was ramped down to pursue an alternative that included a gas pipeline and related midstream facilities to deliver ANS natural gas to an LNG terminal located in South Central Alaska. Initially, the alternative was called the "SCLNG" (South Central LNG) project but is now referred to as the "AKLNG" (Alaska LNG) project.

For the first time in this project's history, the APP and the major Alaska North Slope (ANS) Producers (ExxonMobil, BP, and ConocoPhillips) aligned under the AGIA framework, explored and developed a concept for an LNG project and associated pipeline through the state to tidewater in South Central Alaska. Project work on the Alberta option remains on hold. The Licensees and ANS Producers selected Kenai, Alaska as the LNG facility site during this phase. The PPA 1 work plan and budget were effective through June 30, 2013. Project expenditures for the transition are reflected in this calendar year 2013 disbursement report. The Licensees noted in the first PPA that they would pursue a staged approach to the project amendments to align with the potential technical and commercial development. Please see the "Approval of AGIA Licensee's Project Plan Amendment" letter dated May 2, 2012 for PPA 1, **attachment A**.

On June 11, 2013, the Commissioners of the Departments of Revenue and Natural Resources approved TC Alaska's request for a Project Plan Amendments PPA 1A. The plan amendments were essential because they provided TC Alaska the authority to amend its work plan to explore the opportunities for an LNG project alternative with the major North Slope Producers and established specific requirements for TC Alaska pertaining to reimbursement for project expenditures. This amendment allowed the project to complete one of the Governor's benchmarks, a 2013 summer field season. The PPA 1A approval included two project plan amendments. First was the performance of field work on the midstream section component of the project through December 15, 2013 and secondly, was the extension of the FERC filing deadline by one year to October 31, 2015. Project expenditures for PPA 1 are reflected in this calendar year 2013 disbursement report. Please see the "Approval of AGIA Licensee's Project Plan Amendment" letter dated June 11, 2013 for PPA 1A, from the Office of the Commissioners for the Department of Revenue and Department of Natural Resources in **attachment *A.***

And lastly, on December 12, 2013 the Commissioners of the Departments of Revenue and Natural Resources approved TC Alaska's request for Project Plan Amendment PPA 1B. The Licensees and ANS Producers have selected an Alaska LNG (AKLNG) concept. They are planning on-going work to support a potential AKLNG project including preliminary Pre-FEED focus studies and the 2014 field season planning work for the midstream pipeline components. While the 2014 planning work is being carried out, minimal effort on the existing elements of the Alaska-Alberta project to preserve rights is expected. Effective date for PPA 1B is from January 1, 2014 through June 30, 2014. Please see the "Approval of AGIA Licensee's Project Plan Amendment" letter dated December 12, 2013 for PPA 1B, from the Office of the Commissioners for the Department of Revenue and Department of Natural Resources in **attachment *A.*** Forecast project expenditures for PPA1B are included in this report. The reimbursements associated with PPA 1B will be included in the January 2015 Disbursement Report.

Since the last report, the PPA 1A and PPA 1B continue to provide for the alignment of the ANS Producers, the State and the AGIA Licensee. The project plan amendments describe the State's significant near term expectations and timelines for TC Alaska and North Slope Producers. Over the last year, the project made significant unified progress and has submitted reimbursement claims for the remnant of Alberta option costs, for refining technical and execution (construction) definition of the pipeline, the gas treatment plant located in Prudhoe Bay, refining the Alaska pipeline route, and Alaska regulatory work.

In exchange for commitments related to the project schedule, tariffs, and future expansions, the AGIA licensee is entitled to receive certain inducements from the State, including, subject to appropriation, up to $500MM in reimbursements from the AGIA reimbursement fund for qualified expenditures.[1] Transition discussions for moving the Alaska Pipeline Project knowledge, experience, and information forward into the next phase took place during the last year. It is expected that commercialization efforts for Alaska North Slope (ANS) natural gas will transition out of AS 43.90 and into a multi-party coordinated effort by the time fiscal year 2015 begins. When this begins, AGIA expenditures will cease as outlined in the Memorandum of Understanding (MOU) and the PPA 1B between the State and TransCanada. To date, $330MM of the $500MM has been appropriated to the AGIA Fund. The remaining $170MM in authorization will not be requested for appropriation. The current amount in the AGIA fund (approx. $37MM) will be expended to close out AGIA. The AGIA license monitoring and compliance activities will no longer be required. Future gas commercialization efforts will be evaluated and discussed over the remainder of 2014 including legislation introduced by the Governor as House Bill 277/Senate Bill 138.

The information included in this report focuses on reimbursements issued from the AGIA Fund during from January 1 through December 31, 2013, to the AGIA Licensee, TC Alaska. For purposes of confidentiality under AGIA, disbursements are summarized at the cost category level.

Reimbursement Process

Subject to appropriation, a license issued under AS 43.90 entitles the Licensee or its designated affiliate to receive reimbursements up to $500MM for qualified project expenditures made during the seven year period immediately following the date that the license was awarded.

Qualified expenditures are those which have been paid by the Licensee, and are determined to be directly and reasonably related to advancing the project, with the exception of overhead, lobbying and litigation costs, civil or criminal penalties or fines, or any expenditures for assets or work product acquired or developed by the licensee before the license was issued.[3] Prior to the close of the first open season, reimbursements to TC Alaska could not exceed 50% of its

[1] "Qualified Expenditures" are defined in AS 43.90.110(c) and 15 AAC 90.030

qualified expenditures. TC Alaska's initial open season concluded on July 30, 2010. After that date, reimbursements to TC Alaska cannot exceed 90% of its qualified expenditures.[2]

In order to receive reimbursement from the State, the Licensee must submit supporting information for all expenditures in a form prescribed by DOR. This information is submitted on a monthly basis, with "Requests for Reimbursement" being filed each quarter. This regular flow of information allows the DOR to review information on a consistent basis.

The monthly compilation, submission and review process is detailed, time intensive and lengthy for TC Alaska (the Licensee) and the State. TC Alaska must associate and identify "each" expenditure to a qualified activity and each must contain sufficient descriptive supporting documentation explaining how it directly relates to that specific activity. A qualified expenditure is a cost that is incurred after the license is issued, and is directly and reasonably related to the following qualified activities:

1. Pursuing firm transportation commitments in a binding open season,
2. Securing financing for the project,
3. Obtaining a certificate of public convenience and necessity from the Federal Energy Regulatory Commission, or
4. Satisfying a requirement of an agency with jurisdiction over the project.

The due diligence review and financial determination of the qualified expenditures is performed by the DOR on a monthly basis. Regular communications and coordination between the State and TC Alaska ensure the reimbursement process continues to move forward.

Information gathered through the monthly monitoring field visits support the high level due diligence review performed by the Technical Pipeline Monitor. The due diligence review and reimbursement review involves evaluating information and documentation relating to TC Alaska's claim for reimbursement. The purpose of the due diligence review is to facilitate a recommendation to the AGIA License Administrator as to whether a particular claim should be paid by the State under the AGIA statutes and regulations. This systematic joint review effort gathers the critical facts and descriptive information which is most relevant to the making of the informed decision as to whether each transaction is an actual and reasonable expenditure directly and reasonably related to a qualified activity that has been paid by TC Alaska.

Once the due diligence review is completed, the recommendations are reviewed and the reimbursement determination decisions are made by the AGIA License Administrator, who may approve , deny, or take exception to expenditures which do not meet the statutory or

[2] AS 43.90.110(a)(1)(A) and (B)

regulatory requirements for qualified expenditures, or for which there is insufficient information to make a determination. If additional information is needed, the AGIA License administrator requires that information be submitted prior to issuing a final reimbursement determination.

On a quarterly basis, the AGIA License Administrator issues a Notice of Reimbursement and generates a reimbursement payment. The AGIA Information Reimbursement System (AIRS) automatically sends the detailed reports of the approved qualified expenditures to be reimbursed as well as the unreimbursed exceptions and pending expenditures requiring additional information to the Licensee upon completion of the monthly review process. The Licensee responds to the exceptions taken by submitting the additional information at any time and the review process continues.

The DOR has triple review of claims for reimbursement expenditures through the due diligence review, the License Administrator review, and the annual audit. The ultimate goals of the due diligence and financial reviews are to provide reasonable assurance that the reimbursement being considered is for qualified expenditures and to ensure professional care is being conducted in these activities.

Once the AGIA License Administrator has issued a final reimbursement determination, the Licensee may appeal the determination to the Commissioner of DOR for expenditures which it contends meet the definitions for qualified expenditures outlined in the statutes and regulations.

In regard to the current reimbursement process, TC Alaska submits monthly expenditures through AIRS and supporting documentation for State review. Every quarter, it submits an invoice as the claim for reimbursement. This invoice is submitted approximately 45 days after the close of a quarter. The State's reimbursement process takes approximately 45 days to review the third month of expenditures and generate reimbursement.

AGIA Reimbursement Information System

The AGIA Information Reimbursement System (AIRS) is an automated system in which project expenditure data is collected, tracked, reviewed, and reported by the State. The AIRS system went live on January 1, 2012 and completely replaced the manual Excel-based reimbursement system in place since 2009. During FY 2013, the Open Exception Module for use by TC Alaska was implemented that allows them to easily view and respond to open exception transactions at any time. The module eliminated the quarterly wait time and historical manual processes. Review and reimbursement efficiencies were realized during the past year for the DOR and TC Alaska staff. The majority of historical exceptions were resubmitted and reimbursed in a timely manner.

A DOR task order for $133,500 in FY 2013 funded the remaining AIRS project development work and part of the annual system maintenance. The DOR Tax Division's IT Department provided limited resource support with assistance from Resource Data Inc. (RDI) throughout the year. During FY 2013 and through FY 2014, DOR's IT resources were fully dedicated to the implementation of the Tax Revenue Management System (TRMS) and the AIRS maintenance, minor enhancements, and reporting support was procured for $150,000. Minimal AIRS maintenance funding is anticipated for FY 2015 as the use of this system will close out over the next year.

The AIRS system accommodates complex, high transaction volume, processes exceptions on a real-time basis, expedites DOR's review time, and processes the payment requests through to the Administrative Services Division. Current work for the AIRS system includes reporting system enhancements, system maintenance and continued support for both DOR staff and TC Alaska.

The DOR and TC Alaska anticipate issuing final reimbursement payments in the August 2014 timeframe followed by the final annual AGIA audit in the fall of 2014. Use of the AIRS system will continue until the last audit report work and financial reporting are completed in December 2014.

AGIA Fund Disbursements

To date, the State has reimbursed TC Alaska a total of $293,334,135 from the beginning of the project for activity through the third quarter (3Q) of 2013. The project expenditures incurred during FY 2013 were reimbursable at the 90% rate. The Alaska pipeline project underwent another year in a transition phase. FY 2013 reimbursements were forecast at $100MM, with reimbursed actuals of $79MM resulting in $21MM under forecast due to reduced project spending. For FY 2014, $34MM was reimbursed. Quarterly reimbursement payments are current with the next (4Q 2013) reimbursement anticipated to take place in March 2014.

From inception to date, TC Alaska has submitted approximately $384MM in gross expenditures for State review. Approximately $114MM in gross expenditures has been qualified at the 50% rate and $57MM reimbursed. Approximately $270MM in gross expenditures has been qualified at the 90% rate of which $237MM has been reimbursed and $6MM is Held in Reserve. As of December 31, 2012, the State had taken exception to approximately $46MM in gross expenditures and had $2.5MM Held in Reserve pending final audit. During 2013, TC Alaska was reimbursed for historical exceptions as final resolution was concluded and the AIRS Exception Module was fully operational. The State reviewed a large number of open exception supporting documents and worked closely with TC Alaska to reduce the open exception invoices. Exceptions are part of the normal review process and many of the previous exceptions were subsequently resolved when additional information was provided. Most exceptions when resolved can now be reimbursed in the following month if determined to be qualified expenditures. Resolution has also been reached on the $5.9MM Held in Reserve and reimbursement is expected in March 2014.

A list of total disbursements by fiscal year (FY) made during FY 2013 through FY 2014 and a projected amount of money required for future disbursement during the next fiscal year can be found on **Table 2** in the Financial Reports beginning on page 14. **Table 2** is on fiscal year basis to comply with AS 43.90.400(d) and reconciles with the State's budgeting and funding processes.

The AGIA Reimbursement Summary Reports in **Table 3** through **Table 5a** are on a calendar year (CY) basis to coincide with the annual audit cycle and for tax reporting purposes.

Table 2 – AGIA Disbursement and Forecast Summary is a list of all reimbursements by year and is on a fiscal year basis to align with the State's budgeting and funding processes.

Table 3 - AGIA Reimbursement Summary by Year below provides a summary of all expenditures claimed and reimbursed by year from inception in December 2008 through December 31, 2013.

Table 3a – **AGIA Reimbursement Summary by Month** is the same summary of expenditures claimed and reimbursed shown by month and quarter.

Table 4 – AGIA Reimbursements by Project Region provide a summary of reimbursements on work performed in the Alaska region and Canada region.

Table 5 – AGIA Reimbursements by CBS Cost Category provides reimbursements broadly categorized into major cost classifications based on information provided by TC Alaska. The cost breakdown structure (CBS) are project accounting codes used to more clearly categorize the types of project costs being incurred.

Table 5a – AGIA Reimbursements by CBS Cost Category by Project Region is the same summary of expenditures reimbursed by CBS cost category and indicates the types of costs in the Alaska region and Canada region.

Requested Reimbursement and Reimbursement Forecast

Project expenditures bringing AGIA to a close are forecast in this disbursement report. As of December 31, 2013, State reimbursement payments for project activity through (3Q) 2013 are current. Due to the transition of the project, expenditures remained low for (3Q) 2013. Looking forward, the department anticipates receiving additional monthly filings with expenditures for the 2013 summer field season and for the planning associated with the upcoming 2014 summer field season approved under PPA 1B.

At this time, the State has received and is currently reviewing the October 2013 AGIA monthly filing with gross expenditures of $5MM. TC Alaska expects to submit four (4Q) 2013 reimbursement claims for approximately $9MM by January 31, 2014 with reimbursement taking place in March of 2014.

In addition to the (4Q) 2013 reimbursement claims, the State anticipates it will receive, review and reimburse the PPA1B requests for (1Q) 2014 and for open exceptions on or before June 30, 2014. With the project focus shifting to LNG, TC Alaska has forecast expenditures for (4Q) 2013 and concluding by (2Q) 2014 based on AGIA coming to a close. It assumes the major gasline effort may advance to another commercial form in FY 2015 with separate funding mechanisms.

Table 2 contains the AGIA Reimbursement Forecast Summary for the remainder of FY 2014 through early FY 2015. The forecasted reimbursement payout for the remainder of FY 2014 is approximately $24MM and includes reimbursement for (4Q) 2013, (1Q) 2014, adjustments, and for the Held in Reserve amounts. The LNG option related expenditures included in the TC forecast during (4Q) 2013 and are forecast to be reimbursed in FY 2014. TC Alaska's January 2014 Budget Report forecast encompasses the close of AGIA by June 30, 2014. The (2Q) 2014 AGIA filing will be reimbursed during FY 2015 using the existing AGIA funding.

The FY 2014 AGIA appropriation approved was for $25MM, and as of December 31, 2013, the remaining AGIA Fund balance is approximately $37MM. Based on the termination of AGIA, the current spending plan thru June 30, 2014 caps total reimbursements at $330MM. Within the standard reimbursement cycles and the adjustments that are approved, the anticipated AGIA Fund balance is estimated to be approximately $12MM at the end of FY 2014. The State has forecast reimbursement of TC Alaska's projected costs for (4Q) 2013 and (1Q) 2014 prior to the end of FY 2014. The final AGIA quarterly filing for (2Q) 2014 and remnant invoices will be reimbursed in early FY 2015. Based on the current spending plan, the $25MM appropriation for FY 2014 is sufficient to bring AGIA to a close as expeditiously as possible. No additional funding requests will be made.

For FY 2015, there is no AGIA appropriation request in the Governor's December 14, 2013 proposed budget. For FY 2015, the State has reimbursement claim estimates due to timing differences associated with receiving the last of the FY 2014 claims for reimbursements The State's FY 2015 reimbursement forecast for (2Q) 2014 concludes with TC Alaska's forecast contained in **Table 1** below.

Estimated Project Spending

The figures in **Table 1**[3] are based on TC Alaska's January 2014 Budget Report, received by the Department of Revenue on January 23, 2014. It shows the projected amount of money required for reimbursement during the next fiscal year for expenditures through June 30, 2014.

Table 1[3]

Fiscal Year Basis*	Pre-License	Thru June 2009	Thru June 2010	Thru June 2011	Thru June 2012	Thru June 2013	Thru June 2014		Thru June 2015	TOTAL
	Reimbursement Paid									
Total Annual	$4,100	$20,402	$102,137	$161,171	$151,799	$35,359	$55,000			$529,969
TC/EM	$4,100	$15,775	$63,642	$73,634	$47,092	-$1,584	$18,288			$220,947
State of Alaska	$0	$4,627	$38,495	$87,537	$104,707	$35,134	$59,493		$0	$329,993
Total Cumulative	$4,100	$24,502	$126,639	$287,811	$439,610	$474,969	$529,969		$0	$529,969
TC/EM	$4,100	$19,875	$83,517	$157,151	$204,243	$202,659	$220,947		$0	$220,947
State of Alaska	$0	$4,627	$43,122	$130,659	$235,366	$270,500	$329,993		$0	$329,993

Annual Audit

During 2013, additional audit fieldwork was necessary and resolution was achieved bringing closure to the Calendar Year (CY) 2010 and CY 2011 annual audits. The CY 2012 annual audit of TC Alaska was also completed by Martindale Consultants, Inc. during 2013. The fieldwork was performed in June 2013 and the draft report was completed in December 2013. For the audit period, the auditors reviewed approximately $130MM in gross expenditures to ensure eligibility under AGIA and applicable regulations. TC Alaska had received approximately $77MM in State matching funds between January 1 and December 31, 2012. The CY 2012 annual audit covered reimbursements by the State for gross expenditures claimed for activity conducted from (4Q) 2011 through (4Q) 2012.

The scope of the annual audit was to assess the adequacy of TC Alaska's internal controls and accounting process in relation to the identification and submission of qualified expenditures, to determine if the licensee was in compliance with applicable statutes and regulations, and to determine if the costs submitted for reimbursement complied with AGIA. The goal of the audit was to identify areas of improvement for the Department of Revenue and TC Alaska, make recommendations, and facilitate corrections to the reimbursement process.

Adding to the experience gained in last three years of audits, Martindale conducted interviews with personnel from both the State and TC Alaska, to build on their understanding of the applicable laws, reimbursement process, and duties of involved individuals. Major vendor contracts and invoices were reviewed and reconciled with those examined during earlier parts

[3] Numbers are based on TC Alaska's 1Q 2014 Budget Report. Comparative spending after 2010 reflects a change in the state's matching contribution from 50/50 to 90/10, following the close of the Open Season on July 31, 2010.

of the reimbursement process. For a significant portion of company labor expenditures, the auditors reviewed job duties to ensure they were performing qualified functions, verified hours billed were reasonable and accurate, and audited labor costs qualified for reimbursement using current and historical labor documentation.

For FY 2014, the AGIA audit contract was funded with $125,000 included in the Natural Gas Commercialization component for the DOR in the Governor's FY 2014 budget, $25,000 from the Department of Revenue Commissioner's Office budget, and a $30,000 RSA from the Department of Natural Resources. The DOR exercised the second of two optional one year contract extensions and added the $30,000 for early field work performed and for undergoing an extensive resolution process for previous years.

For FY 2015, extension of the existing contract will be necessary to complete the final audit work associated with the last reimbursements anticipated to take place by August 30, 2014.

As AGIA comes to a close the total gross expenditures for CY 2013 and partial CY 2014 are approximately $100MM, the Department will coordinate with TC Alaska to combine the audits and perform fieldwork in August 2014 with a December 2014 completion. CY 2013 reimbursements are approximately $71MM and CY 2014 is forecast at approximately $12MM. Non-qualifying gross expenditures spent by the Licensee are not submitted for reimbursement. The reimbursements to be audited will cover a project expenditure activity period from (1Q) 2013 through (2Q) 2014, with disbursements at the 90% rate.

The CY 2013/CY 2014 audit will require a minimal number of auditors to complete, as the transaction volume and reimbursement amounts for two years are less than in any single previous year. However, unforeseen additional fieldwork, travel, and resolution of complex issues may require additional audit time. The objective of the Department is to complete the audit work efficiently and expeditiously. Final funding of $125,000 for the AGIA annual audit is included in the Natural Gas Commercialization component of the Governor's FY 2015 budget. TC Alaska and the State continue to work toward resolving technical issues as they arise, and to work towards advancement of the audit process.

Financial Reports by Calendar Year

Table 2: AGIA Disbursement and Forecast Summary

Table 3: AGIA Reimbursement Summary by Year

Table 3a: AGIA Reimbursement Summary by Month

Table 4: AGIA Reimbursement Summary by Project Region

Table 5: AGIA Reimbursements by CBS Cost Category

Table 5a: AGIA Reimbursements by CBS Cost Category by Project Region

Table 2

AGIA Disbursement and Forecast Summary

FY 2013 Actuals and FY 2014 to FY 2015 Forecast

Disbursement Summary			
FY	**Reference**	**Reimbursement Amount**	**Date Paid**
Total Paid FY10		**$4,358,982**	
Total Paid FY11		**$56,830,339**	
Total Paid FY12		**$119,394,922**	
FY13	1Q 2012 AGIA Quarterly Filing	$19,052,998	8/10/12
FY13	4Q 2008 - 4Q 2010 Exceptions Adjustment Filing	$249,867	9/11/12
FY13	4Q 2011 Exceptions Adjustment Filing	$991,439	9/18/12
FY13	2Q 2012 AGIA Quarterly Filing	$21,600,603	10/19/12
FY13	1Q 2012 Exceptions Adjustment Filing	$280,095	11/29/12
FY13	3Q 2012 AGIA Quarterly Filing	$9,716,646	3/7/13
FY13	4Q 2012 AGIA Quarterly Filing	$4,323,622	3/15/13
FY13	Feb 2013 Adjustment Filing 162	$2,728,713	3/26/13
FY13	Feb 2013 Adjustment Filing 164	$736,464	4/25/13
FY13	Feb 2013 Adjustment Filing 165	$98,319	4/29/13
FY13	1Q 2013 AGIA Quarterly Filing	$1,684,246	6/11/13
FY13	May 2013 Adjustment Filing 173	$896,891	6/11/13
FY13	CY2010 AGIA Audit Reimbursement	$152,014	6/11/13
FY13	CY2011 AGIA Audit Reimbursement	$4,957,409	6/11/13
FY13	CY 2012 Preliminary AGIA Audit Reimbursement	$11,326,373	6/11/13
Total Paid FY13		**$78,795,702**	
FY 14	Mar 2013 Adjustment Filing 167	$4,124,731	7/8/13
FY 14	May 2013 Adjustment Filing 174	$2,803,958	7/9/13
FY 14	May 2013 Adjustment Filing 175	$421,537	7/10/13
FY 14	May 2013 Adjustment Filing 176	$1,516,892	7/12/13
FY 14	June 2013 Adjustment Filing 179	$1,408,550	7/12/13
FY 14	June 2013 Adjustment Filing 180	$373,288	7/12/13
FY 14	Aug 2013 Adjustment Filing 182	$486,822	9/13/13
FY 14	2Q 2013 AGIA Quarterly Filing	$2,701,475	11/22/13
FY 14	Nov 2013 Adjustment Filing 187	$365,770	12/6/13
FY 14	Dec 2013 Adjustment Filing 188	$1,257,451	12/10/13
FY 14	3Q 2013 AGIA Quarterly Filing	$4,339,177	12/9/13
FY 14	Dec 2013 Adjustment Filing 189	$447,756	12/13/13
FY 14	Dec 2013 Adjustment Filing LTI DBRA	$45,339	12/17/13
FY 14	Dec 2013 Adjustment Filing 191	$2,692,844	12/18/13
FY 14	CY 2010 and CY 2011 AGIA Reimbursement	$10,968,599	1/7/14
Total Paid to Date FY14		**$33,954,189**	
Grand Total Paid to Date		**$293,334,134**	

Reimbursement Forecast Summary			
FY	**Reference**	**Reimbursement Amount**	**Estimated Pay Date**
FY 14	Prior Year Adjustments	$6,000,000	March 2014
FY 14	4Q 2013 AGIA Filing	$9,000,000	March 2014
FY 14	1Q 2014 AGIA Filing	$9,000,000	June 2014
Total Forecast Payout FY 2014		**$24,000,000**	
FY 15	2Q 2014 AGIA Filing	$12,665,866	August 2014
Total Forecast Payout FY 2015		**$12,665,866**	
Total AGIA Inducement		**$330,000,000**	

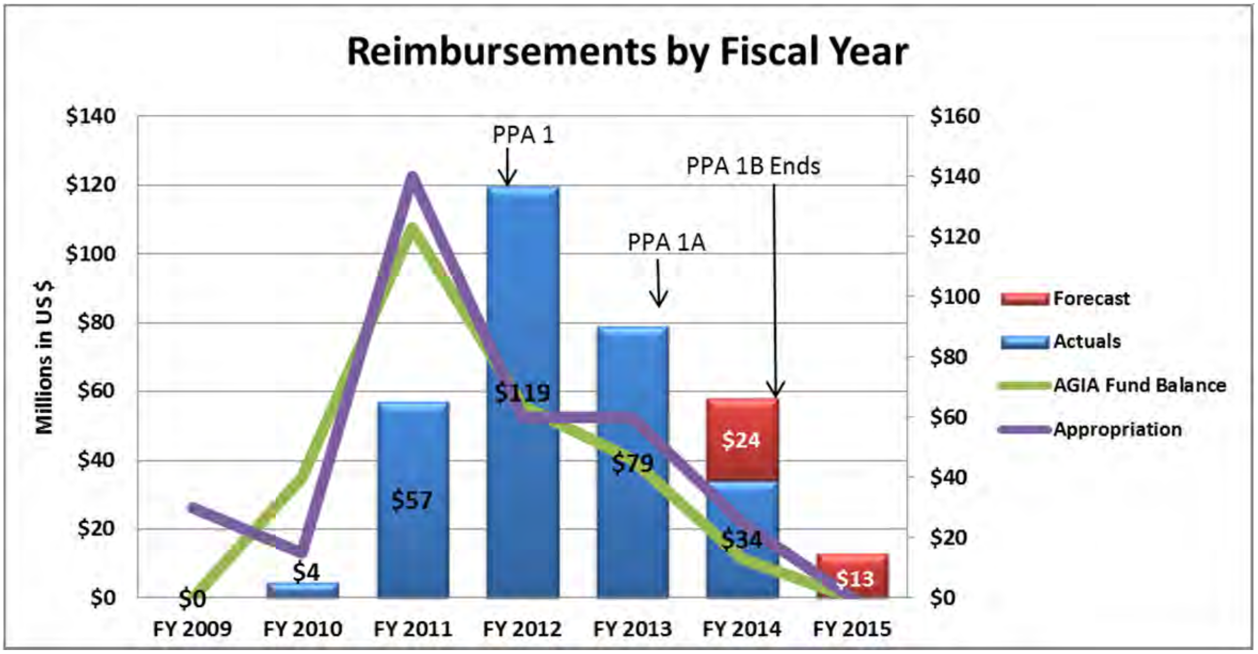


Table 2 AGIA Disbursement and Forecast Chart by Fiscal Year

Table 3

AGIA Reimbursement Request Summary by Year

As of Quarter Ending September 30, 2013

Reflects reimbursement payments thru January 7, 2014

Year	Quarter	Month	Total Claimed Gross Expenditures	Total Gross Exceptions	Total Approved Gross Qualified Expenditures	Total Qualified Expenditures Available for Reimbursement at 50% & 90%	Less Qualified Reimbursement Held in Reserve	Reimbursed Qualified Expenditures
2013	1Q	January	$ 1,195,869	$0	$ 1,195,869	$ 1,076,282	($ 62,235)	$ 1,014,047
		February	$ 848,936	($ 9,425)	$ 839,511	$ 755,560	($ 84,817)	$ 670,743
		March	$ 642,889	$0	$ 642,889	$ 578,601	($ 44,844)	$ 533,757
	1Q Total		$ 2,687,694	($ 9,425)	$ 2,678,269	$ 2,410,442	($ 191,895)	$ 2,218,547
	2Q	April	$ 1,181,831	$0	$ 1,181,831	$ 1,063,648	($ 66,052)	$ 997,596
		May	$ 1,179,619	$0	$ 1,179,619	$ 1,019,839	($ 63,556)	$ 956,283
		June	$ 1,122,596	$0	$ 1,122,596	$ 1,010,337	($ 193,577)	$ 816,760
	2Q Total		$ 3,484,047	$0	$ 3,484,047	$ 3,093,824	($ 323,185)	$ 2,770,639
	3Q	July	$ 1,134,489	$0	$ 1,134,489	$ 1,021,041	($ 192,327)	$ 828,713
		August	$ 3,290,584	($ 1,650)	$ 3,288,934	$ 2,993,329	($ 209,994)	$ 2,783,335
		September	$ 3,767,869	($ 395,018)	$ 3,372,851	$ 3,035,566	($ 190,282)	$ 2,845,285
	3Q Total		$ 8,192,943	($ 396,668)	$ 7,796,275	$ 7,049,936	($ 592,603)	$ 6,457,333
2013 Total			**$ 14,364,684**	**($ 406,094)**	**$ 13,958,590**	**$ 12,554,202**	**($ 1,107,684)**	**$ 11,446,519**
2012 Total			**$ 84,762,970**	**($ 241,823)**	**$ 84,521,148**	**$ 76,055,318**	**($ 3,325,399)**	**$ 72,729,919**
2011 Total			**$ 150,142,080**	**($ 65,418)**	**$ 150,076,663**	**$ 134,749,407**	**($ 1,528,761)**	**$ 133,220,646**
2010 Total			**$ 80,876,353**	**$0**	**$ 80,876,353**	**$ 49,148,187**	**$0**	**$ 49,148,187**
2009 Total			**$ 53,493,480**	**$0**	**$ 53,493,480**	**$ 26,746,639**	**$0**	**$ 26,746,639**
2008 Total			**$ 84,450**	**$0**	**$ 84,450**	**$ 42,225**	**$0**	**$ 42,225**
Total Since Inception Date			**$ 383,724,016**	**($ 713,334)**	**$ 383,010,682**	**$ 299,295,980**	**($ 5,961,844)**	**$ 293,334,135**

Table 3a

AGIA Reimbursement Request Summary by Month

As of Quarter Ending September 30, 2013

Reflects reimbursement payments thru January 7, 2014

Year	Quarter	Month	Total Claimed Gross Expenditures	Total Gross Exceptions	Total Approved Gross Qualified Expenditures	Total Qualified Expenditures Available for Reimbursement at 50% & 90%	Less Qualified Reimbursement Held in Reserve	Reimbursed Qualified Expenditures
2013	1Q	January	$ 1,195,869	$0	$ 1,195,869	$ 1,076,282	($ 62,235)	$ 1,014,047
		February	$ 848,936	($ 9,425)	$ 839,511	$ 755,560	($ 84,817)	$ 670,743
		March	$ 642,889	$0	$ 642,889	$ 578,601	($ 44,844)	$ 533,757
	1Q Total		$ 2,687,694	($ 9,425)	$ 2,678,269	$ 2,410,442	($ 191,895)	$ 2,218,547
	2Q	April	$ 1,181,831	$0	$ 1,181,831	$ 1,063,648	($ 66,052)	$ 997,596
		May	$ 1,179,619	$0	$ 1,179,619	$ 1,019,839	($ 63,556)	$ 956,283
		June	$ 1,122,596	$0	$ 1,122,596	$ 1,010,337	($ 193,577)	$ 816,760
	2Q Total		$ 3,484,047	$0	$ 3,484,047	$ 3,093,824	($ 323,185)	$ 2,770,639
	3Q	July	$ 1,134,489	$0	$ 1,134,489	$ 1,021,041	($ 192,327)	$ 828,713
		August	$ 3,290,584	($ 1,650)	$ 3,288,934	$ 2,993,329	($ 209,994)	$ 2,783,335
		September	$ 3,767,869	($ 395,018)	$ 3,372,851	$ 3,035,566	($ 190,282)	$ 2,845,285
	3Q Total		$ 8,192,943	($ 396,668)	$ 7,796,275	$ 7,049,936	($ 592,603)	$ 6,457,333
2013 Total			**$ 14,364,684**	**($ 406,094)**	**$ 13,958,590**	**$ 12,554,202**	**($ 1,107,684)**	**$ 11,446,519**
2012	1Q	January	$ 9,785,584	($ 8,153)	$ 9,777,432	$ 8,799,689	($ 465,842)	$ 8,333,848
		February	$ 11,651,075	($ 125,965)	$ 11,525,110	$ 10,372,601	($ 522,240)	$ 9,850,360
		March	$ 9,354,439	($ 1,635)	$ 9,352,804	$ 8,417,525	($ 502,743)	$ 7,914,781
	1Q Total		$ 30,791,099	($ 135,754)	$ 30,655,345	$ 27,589,815	($ 1,490,825)	$ 26,098,989
	2Q	April	$ 7,504,857	($ 44,866)	$ 7,459,992	$ 6,713,995	($ 464,567)	$ 6,249,428
		May	$ 14,573,284	($ 27,187)	$ 14,546,097	$ 13,091,491	($ 380,014)	$ 12,711,477
		June	$ 6,696,506	($ 15,185)	$ 6,681,321	$ 6,013,190	($ 264,349)	$ 5,748,840
	2Q Total		$ 28,774,647	($ 87,238)	$ 28,687,410	$ 25,818,675	($ 1,108,930)	$ 24,709,745
	3Q	July	$ 10,546,196	($ 10,267)	$ 10,535,930	$ 9,482,338	($ 192,637)	$ 9,289,701
		August	$ 2,770,897	($ 4,107)	$ 2,766,790	$ 2,490,111	($ 170,028)	$ 2,320,083
		September	$ 5,443,299	($ 3,539)	$ 5,439,760	$ 4,895,785	($ 103,069)	$ 4,792,716
	3Q Total		$ 18,760,392	($ 17,912)	$ 18,742,480	$ 16,868,233	($ 465,733)	$ 16,402,500
	4Q	October	$ 1,867,734	($ 919)	$ 1,866,815	$ 1,666,406	($ 96,393)	$ 1,570,013
		November	$ 2,756,928	$0	$ 2,756,928	$ 2,481,236	($ 86,828)	$ 2,394,408
		December	$ 1,812,170	$0	$ 1,812,170	$ 1,630,954	($ 76,690)	$ 1,554,264
	4Q Total		$ 6,436,832	($ 919)	$ 6,435,913	$ 5,778,595	($ 259,911)	$ 5,518,684
2012 Total			**$ 84,762,970**	**($ 241,823)**	**$ 84,521,148**	**$ 76,055,318**	**($ 3,325,399)**	**$ 72,729,919**
2011 Total			**$ 150,142,080**	**($ 65,418)**	**$ 150,076,663**	**$ 134,749,407**	**($ 1,528,761)**	**$ 133,220,646**
2010 Total			**$ 80,876,353**	**$0**	**$ 80,876,353**	**$ 49,148,187**	**$0**	**$ 49,148,187**
2009 Total			**$ 53,493,480**	**$0**	**$ 53,493,480**	**$ 26,746,639**	**$0**	**$ 26,746,639**
2008 Total			**$ 84,450**	**$0**	**$ 84,450**	**$ 42,225**	**$0**	**$ 42,225**
Total Since Inception Date			**$ 383,724,016**	**($ 713,334)**	**$ 383,010,682**	**$ 299,295,980**	**($ 5,961,844)**	**$ 293,334,135**

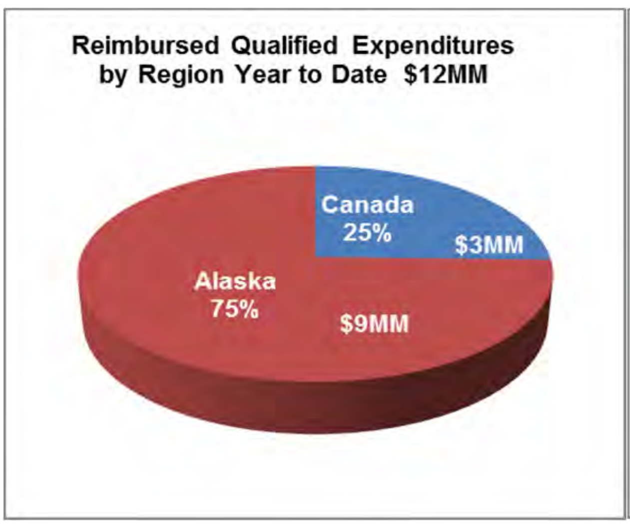
Table 4

AGIA Reimbursement Request Summary by Project Region

As of Quarter Ending September 30, 2013

Reflects reimbursement payments thru January 7, 2014

Year	Project Region	Total Claimed Gross Expenditures	Total Gross Exceptions	Total Approved Gross Qualified Expenditures	Total Qualified Expenditures Available for Reimbursement at 50% & 90%	Less Qualified Reimbursement Held in Reserve	Reimbursed Qualified Expenditures
2013	Alaska	$ 11,039,171	($ 406,094)	$ 10,633,077	$ 9,554,895	($ 1,018,718)	$ 8,536,177
	Canada	$ 3,325,513	$0	$ 3,325,513	$ 2,999,308	($ 88,966)	$ 2,910,342
2013 Total		**$ 14,364,684**	**($ 406,094)**	**$ 13,958,590**	**$ 12,554,202**	**($ 1,107,684)**	**$ 11,446,519**
2012	Alaska	$ 51,276,723	($ 148,782)	$ 51,127,940	$ 46,001,424	($ 2,298,125)	$ 43,703,299
	Canada	$ 33,486,248	($ 93,041)	$ 33,393,207	$ 30,053,894	($ 1,027,274)	$ 29,026,620
2012 Total		**$ 84,762,970**	**($ 241,823)**	**$ 84,521,148**	**$ 76,055,318**	**($ 3,325,399)**	**$ 72,729,919**
2011	Alaska	$ 101,927,030	($ 44,146)	$ 101,882,884	$ 91,365,610	($ 1,021,822)	$ 90,343,788
	Canada	$ 48,215,051	($ 21,272)	$ 48,193,779	$ 43,383,797	($ 506,939)	$ 42,876,858
2011 Total		**$ 150,142,080**	**($ 65,418)**	**$ 150,076,663**	**$ 134,749,407**	**($ 1,528,761)**	**$ 133,220,646**
2010	Alaska	$ 53,224,630	$0	$ 53,224,630	$ 31,875,152	$0	$ 31,875,152
	Canada	$ 27,651,722	$0	$ 27,651,722	$ 17,273,035	$0	$ 17,273,035
2010 Total		**$ 80,876,353**	**$0**	**$ 80,876,353**	**$ 49,148,187**	**$0**	**$ 49,148,187**
2009	Alaska	$ 39,529,302	$0	$ 39,529,302	$ 19,764,682	$0	$ 19,764,682
	Canada	$ 13,964,177	$0	$ 13,964,177	$ 6,981,957	$0	$ 6,981,957
2009 Total		**$ 53,493,480**	**$0**	**$ 53,493,480**	**$ 26,746,639**	**$0**	**$ 26,746,639**
2008	Alaska	$ 51,569	$0	$ 51,569	$ 25,785	$0	$ 25,785
	Canada	$ 32,880	$0	$ 32,880	$ 16,441	$0	$ 16,441
2008 Total		**$ 84,450**	**$0**	**$ 84,450**	**$ 42,225**	**$0**	**$ 42,225**
Total Since		**$ 383,724,016**	**($ 713,334)**	**$ 383,010,682**	**$ 299,295,980**	**($ 5,961,844)**	**$ 293,334,135**



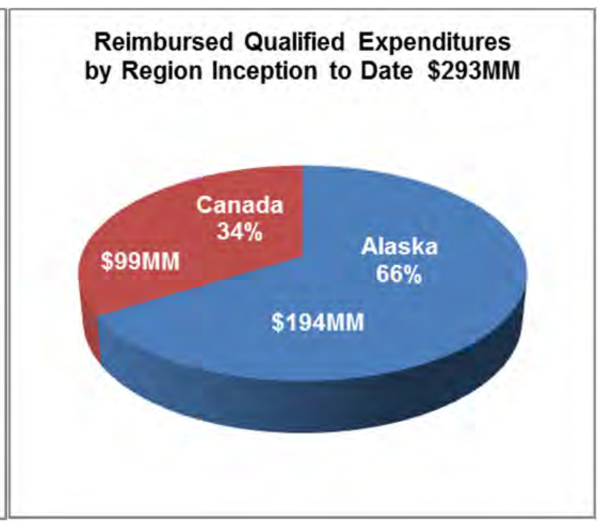


Table 5

AGIA Reimbursement by CBS Cost Category

As of Quarter Ending September 30, 2013

Reflects reimbursement payments thru January 7, 2014

CBS Categories	Reimbursed Qualified Expenditures						
	2008	2009	2010	2011	2012	2013	ITD
General Expenses	$9,850	$512,831	$881,175	$1,248,306	$5,430,307	$184,227	$8,266,696
Pipeline Related	$29,153	$12,801,578	$22,575,482	$40,944,103	$21,748,306	$1,489,688	$99,588,310
Gas Treatment Plant Related	$3,222	$9,062,994	$11,949,996	$32,546,802	$13,199,204	$707,389	$67,469,607
Environmental, Regulatory, Land	$0	$3,111,904	$11,364,366	$53,882,541	$28,550,417	$2,591,627	$99,500,855
Legal	$0	$1,257,331	$2,377,167	$4,598,894	$2,601,309	$338,968	$11,173,669
LNG	$0	$0	$0	$0	$1,200,376	$1,388,473	$2,588,848
Summer Field Work	$0	$0	$0	$0	$0	$4,023,158	$4,023,158
PreFEED Planning	$0	$0	$0	$0	$0	$722,990	$722,990
Total	**$ 42,225**	**$26,746,639**	**$ 49,148,187**	**$133,220,646**	**$ 72,729,918**	**$ 11,446,519**	**$ 293,334,135**

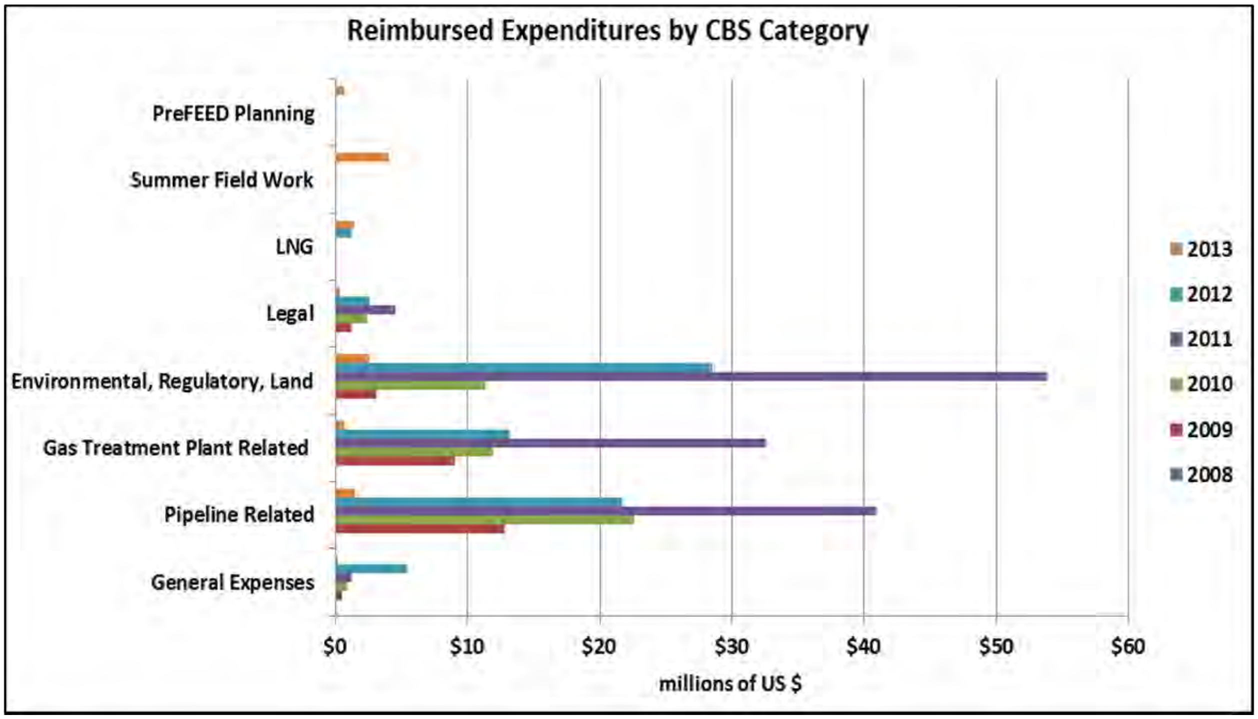


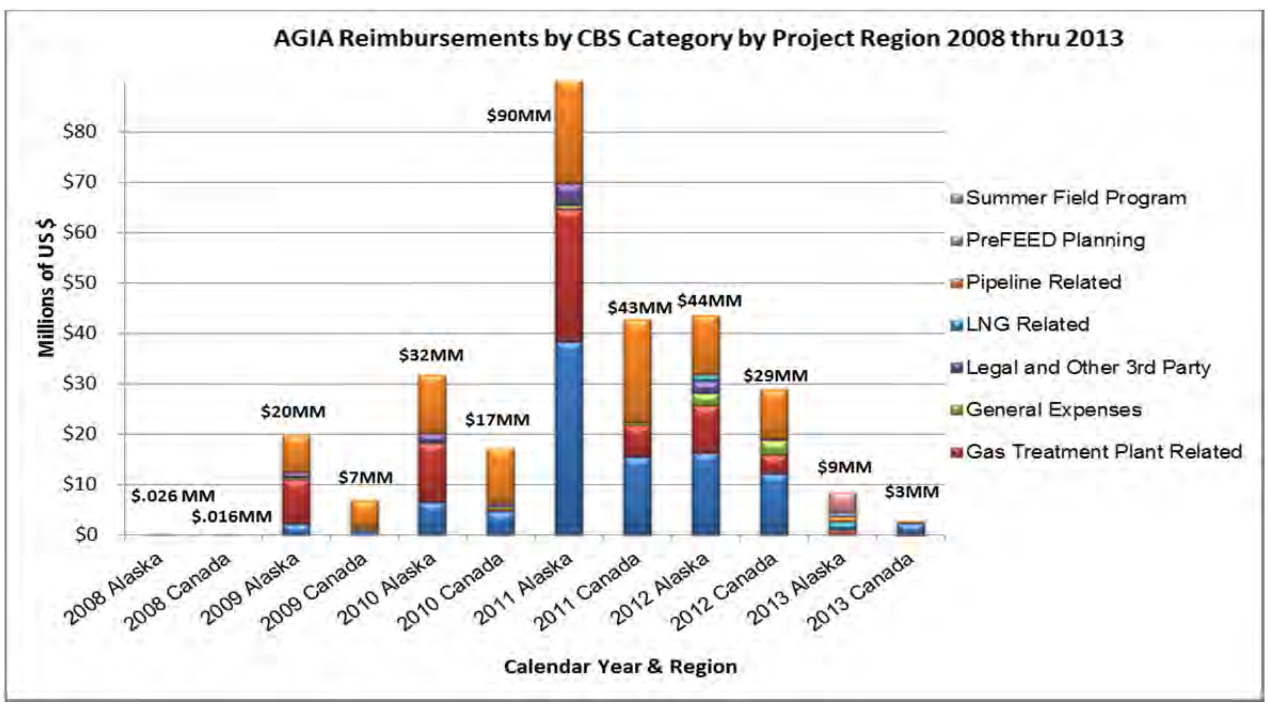
Table 5a

AGIA Reimbursements by CBS Cost Category by Project Region

As of Quarter Ending September 30, 2013

Reflects reimbursement payments thru January 7, 2014

	Reimbursed Qualified Expenditures						
CBS Categories	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**ITD**
General Expenses							
Alaska	$6,855	$298,776	$280,128	$787,298	$2,524,870	$121,052	$4,018,979
Canada	$2,995	$214,055	$601,047	$461,008	$2,905,437	$63,175	$4,247,717
Total	**$9,850**	**$512,831**	**$881,175**	**$1,248,306**	**$5,430,307**	**$184,227**	**$8,266,696**
Pipeline Related							
Alaska	$15,708	$7,255,363	$11,582,186	$20,587,852	$11,940,407	$1,078,230	$52,459,747
Canada	$13,445	$5,546,215	$10,993,296	$20,356,251	$9,807,899	$411,458	$47,128,564
Total	**$29,153**	**$12,801,578**	**$22,575,482**	**$40,944,103**	**$21,748,306**	**$1,489,688**	**$99,588,310**
Environmental, Regulatory, Land							
Alaska	$0	$2,279,156	$6,608,840	$38,317,596	$16,286,088	$158,266	$63,649,945
Canada	$0	$832,748	$4,755,526	$15,564,945	$12,264,329	$2,433,361	$35,850,910
Total	**$0**	**$3,111,904**	**$11,364,366**	**$53,882,541**	**$28,550,417**	**$2,591,627**	**$99,500,855**
Legal and Other 3rd Party							
Alaska	$0	$1,072,117	$1,801,787	$4,322,020	$2,286,102	$339,133	$9,821,159
Canada	$0	$185,214	$575,380	$276,874	$315,207	-$165	$1,352,510
Total	**$0**	**$1,257,331**	**$2,377,167**	**$4,598,894**	**$2,601,309**	**$338,968**	**$11,173,669**
Gas Treatment Plant Related							
Alaska	$3,222	$8,858,875	$11,602,210	$26,329,023	$9,465,457	$707,389	$56,966,175
Canada	$0	$204,119	$347,785	$6,217,780	$3,733,748	$0	$10,503,433
Total	**$3,222**	**$9,062,994**	**$11,949,996**	**$32,546,802**	**$13,199,204**	**$707,389**	**$67,469,607**
LNG Related							
Alaska	$0	$0	$0	$0	$1,200,376	$1,388,473	$2,588,848
Total	**$0**	**$0**	**$0**	**$0**	**$1,200,376**	**$1,388,473**	**$2,588,848**
Summer Field Program							
Alaska	$0	$0	$0	$0	$4,023,158	$4,023,158	$8,046,317
Total	**$0**	**$0**	**$0**	**$0**	**$4,023,158**	**$4,023,158**	**$722,990**
PreFEED Planning							
Alaska	$0	$0	$0	$0	$0	$ 722,990	$722,990
Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$722,990**	**$722,990**
Grand Total	**$42,225**	**$26,736,022**	**$47,716,298**	**$127,021,461**	**$62,733,242**	**$11,446,519**	**$293,334,134**



THE STATE of ALASKA

GOVERNOR SEAN PARNELL

Department of Natural Resources
Joe Balash, Commissioner
Department of Revenue
Angela Rodell, Commissioner

December 12, 2013

Mr. Tony Palmer
Vice President, Major Projects Development
TransCanada Pipelines Limited
450 lst Street S.W.
Calgary, Alberta, T2P-5Hl Canada

Re: Approval of AGIA Licensees' December 9, 2013 Request for Project Plan Amendments

Dear Mr. Palmer:

We are in receipt of the December 9, 2013 request by TransCanada Alaska Company, LLC ("TC Alaska") and Foothills Pipe Lines Ltd. (jointly, the "Licensees" or "TransCanada") for approval of project plan amendments ("PPA Request #1B") under section 210 of the Alaska Gasline Inducement Act.[1] As discussed herein, we grant approval of PPA Request #1B to the extent necessary to perform additional work from approximately January 1, 2014, through the end of June, 2014, as further described in the work plan, time line and budget set forth in Appendix A of your application ("2014 Work").

By way of background, in the past two years Governor Parnell has laid out important benchmarks in his State of the State addresses that have sought to maintain and accelerate progress on Alaska gas commercialization and to ensure commensurate commitment by the Licensees and the Alaska North Slope Producers (ExxonMobil, BP and ConocoPhillips, jointly "ANS Producers") in commercializing North Slope gas for the benefit of Alaskans. In his 2012 State of the State address Governor Parnell established an important benchmark by calling on the ANS Producers and the AGIA Licensees to align under an AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska. In March 2012, the ANS Producers and AGIA Licensees met this benchmark.[2]

[1] AS 43.90, *et seq.* ("AGIA"). Under section 210 of AGIA, the Commissioners may approve a proposal by the AGIA Licensees to change their project plan if, among other things:

> [T]he amendment or modification is necessary because of changed circumstances outside the licensee's control and not reasonably foreseeable before the license was issued. An amendment or modification approved under this section must be consistent with the requirements of AS 43.90.130 and, except for an amendment or modification required because of an order or requirement of a regulatory agency with jurisdiction over the project or by the Alaska Oil and Gas Conservation Commission, may not substantially diminish the value of the project to the state or the project's likelihood of success.

[2] In his 2012 State of the State address, the Governor, among other things, also called on the relevant parties to reach a settlement in the state's interests on the long- standing Point Thomson dispute and litigation, and to harden numbers and an associated work schedule on an Alaskan LNG project. As we stated in PPA #1A, these

Specifically, in a March 30, 2012 letter in response to Governor Parnell, the chief executive officers of the ANS Producers announced that they and TransCanada "have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework." The ANS Producers and TransCanada also stated that they "are now working together" with a focus on "large-scale liquefied natural gas (LNG) exports from south-central Alaska . . . as an alternative to gas line exports through Alberta."

On May 2, 2012, in the "PPA 1 Approval", we approved two project plan amendments in furtherance of the alignment of the ANS Producers and the AGIA Licensees. Our PPA 1 Approval permitted the inclusion in the project plan of a revised work plan, time line and associated budget to facilitate participation by the Licensees and the Alaska Pipeline Project ("APP") in an alternative that entailed a gas pipeline and related midstream facilities to deliver ANS natural gas to an LNG terminal located in South-Central Alaska. (This alternative was referred to as the "SCLNG" project, but is now referred to as the "AKLNG" project.) In addition, in the PPA 1 Approval we extended by two years to October 31, 2014, the date by which Licensees were to submit to the FERC an application for a certificate of public convenience and necessity. Additionally, we made the PPA 1 Approval subject to a number of conditions. As more fully set forth in the PPA 1 Approval, the Licensees were required (1) to conduct a solicitation of interest in support of the LNG alternative, (2) to consult with the Alaska Gasline Development Corporation ("AGDC") in the interest of prudently avoiding unnecessary and duplicative expenditure of state funds, and (3) to complete an inventory of work product related to the Alaska-Alberta Project.

Subsequently, on June 11, 2013 we issued the PPA 1A Approval, which noted that the Licensees had made significant progress toward meeting the PPA 1 Approval conditions. Our PPA 1A Approval addressed two project plan amendments. First, we approved the performance of field work on the midstream component of the project through December 15, 2013. Second, we approved an extension of the FERC filing deadline by one year to October 31, 2015.

The Licensees now seek what is in effect a limited extension of the project plan amendments that we approved in the PPA 1A Approval. Specifically, in PPA Request #lB, the Licensees state (at page 2) that the "APP Parties and the ANS Producers have selected a SCLNG concept, and are planning ongoing work to support a potential SCLNG [project], including preliminary Pre-FEED studies and planning and 2014 field survey planning work" for the midstream pipeline facilities (the "2014 Work"). The Licensees anticipate this 2014 Work will span from approximately January 1, 2014 to the end of June, 2014. The Licensees also state that while the 2014 Work is being carried out, it will be necessary for the Licensees to continue limited work on existing elements of the Alaska-Alberta project to preserve rights.

For the reasons explained below, we grant the Licensees' request to perform the 2014 Work. Further, we approve the work plan, timeline and budget in Appendix A of PPA Request #1B that defines the 2014 Work.

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benchmarks were met. Importantly, construction of the multi-billion dollar development at Point Thomson has begun with over 30 Alaska companies and 1,000 Alaskans working on this project.

First, the Licensees' request to perform the 2014 Work is consistent with important project benchmarks established by Governor Parnell in his January 16, 2013 State of the State address. There, Governor Parnell called on the ANS Producers and the Licensees to select a concept for the SCLNG project by February 15, 2013. This benchmark was met on February 15, 2013, when the ANS Producers and TransCanada sent a letter to Governor Parnell reporting that they had completed the concept selection phase of the SCLNG project.[3] In his State of the State address, Governor Parnell also called on the ANS Producers and Licensee to "ensure a full summer of field season work will commence this year". PPA Request 1A met this benchmark by proposing to perform the 2013 Work, which we approved. The Licensees' PPA Request #1B builds on the 2013 Work by providing for the additional 2014 Work. These are positive developments that help to maintain and accelerate the SCLNG project momentum, and continue the progress made since the Governor's 2012 State of the State address called on the parties to align under an AGIA framework for timely commercialization of North Slope natural gas resources, for use in-state and for markets beyond Alaska.

Second, and as we noted in the PPA 1A Approval, ANS gas commercialization efforts remain in a transition phase with the ANS Producers, the APP Parties, and the Licensees continuing to work together on a single effort. This PPA-1B Approval supplements the PPA 1 and PPA-1A Approvals to amend further the licensed Alaska-Alberta project to include the 2014 Work and advance this transition, pave the way for more intensive work in the future, and keep the project's ultimate costs as low as possible by helping to avoid a delay in the development of the project.[4] Consistent with this PPA-1B Approval, the Licensees may submit costs incurred as qualified expenditures in connection with the 2014 Work for reimbursement under AGIA for the period covered in the revised work plan, timeline and budget in PPA Request 1B.

Third, and as further explained in the PPA 1 Approval and reiterated in the PPA 1A Approval, we find that changed circumstances continue to exist for purposes of AS 43.90.210.[5] For example, the current efforts to develop the SCLNG project represent the continued alignment of the Licensees and all three ANS Producers on a gas commercialization effort. This is important progress that is furthered by approval here of the requested project plan amendments.

Lastly, our PPA 1A Approval required that all work product related to the 2013 Work generated by or on behalf of APP or the Licensees be transferred to the Licensees by December 31, 2013. Further, our PPA 1A Approval required the Licensees to inventory and preserve all work product related to the 2013 Work, including both complete and incomplete work, and provide the inventory to the Commissioners. These conditions continue to apply with respect to

[3] A copy of the February 15, 2013 Letter, and its attachments appears as Appendix C to PPA Approval 1A.

[4] PPA 1B does not modify the Alaska-Alberta destination point under the AGIA License.

[5] As noted in the May 2, 2012 PPA 1 Approval, such changed circumstances include: (1) a substantial increase in U.S. shale gas reserve estimate compared to when the License was issued; (2) continuing significantly higher natural gas prices in Asia and other world markets relative to U.S. prices, reflecting a higher oil to natural gas price ratio; (3) EIA's updated projection that the United States will become a net exporter of natural gas in the future; and (4) the continued interest of the ANS Producers in aligning their work efforts behind an LNG alternative, which was not foreseeable at the time of the AGIA Findings and the subsequent issuance of the License in 2008.

the 2013 Work, provided that the Licensees have until June 30, 2014 to satisfy the foregoing two conditions. With respect to the 2014 Work, the same conditions apply, except that the deadline for the transfer of the work product performed under this PPA 1B Approval is June 30, 2014.

CONCLUSIONS

For the reasons discussed above, in the May 2, 2012 approval of PPA Request 1, and in the June 11, 2013 approval of PPA Request 1A, the Commissioners conclude as follows:[6]

1. PPA Request 1B consists of the request to perform the 2014 Work.
2. PPA Request 1B is necessary because of changed circumstances outside the Licensees' control and not reasonably foreseeable before the license was issued.
3. PPA Request lB is consistent with the requirements of AS 43.90.130.
4. PPA Request 1B does not substantially diminish the value of the project to the state or the project's likelihood of success.
5. PPA Request lB is approved as provided herein, subject to the conditions discussed herein.[7]

Sincerely,

Joe Balash
Commissioner
Department of Natural Resources

Angela Rodell
Commissioner
Department of Revenue

[6] To the extent this determination does not address a specific statement or representation made in the PPA Request 1B, it should not be construed as agreement with any such statements or representations.

[7] TransCanada asserts that PPA Request 1B contains proprietary information that is confidential under AGIA and that the Commissioners' March 15, 2012 determination of confidentiality under AGIA concerning PPA Request 1 supports treating PPA Request 1B on a confidential basis. To the extent that information in PPA Request 1B is proprietary, the Commissioners have determined that it is confidential under AGIA and the Commissioners' March 15, 2012 confidentiality determination.

THE STATE of ALASKA

GOVERNOR SEAN PARNELL

Department of Natural Resources
Daniel S. Sullivan, Commissioner
Department of Revenue
Bryan D. Butcher, Commissioner

June 11, 2013

Mr. Tony Palmer
Vice President, Major Projects Development
TransCanada Pipelines Limited
450 1st Street S.W.
Calgary, Alberta, T2P-5H1 Canada

Re: Approval of AGIA Licensees' June 10, 2013 Request for Project Plan Amendments

Dear Mr. Palmer:

We are in receipt of your June 10, 2013 request by TransCanada Alaska Company, LLC ("TC Alaska") and Foothills Pipe Lines Ltd. (jointly, the "Licensees" or "TransCanada") for approval of project plan amendments ("PPA Request 1A").[1] As discussed more fully below, and pursuant to the Alaska Gasline Inducement Act ("AGIA"), we grant approval of the amendments proposed in PPA Request 1A to perform summer field work in 2013 and a one-year deferral of a regulatory filing deadline to facilitate such work.

By way of background, in the past two years Governor Parnell has laid out important benchmarks in his State of the State addresses that have sought to maintain and accelerate progress on Alaska gas commercialization and to ensure commensurate commitment by the Licensees and the Alaska North Slope Producers (ExxonMobil, BP and ConocoPhillips, jointly "ANS Producers") to commercializing North Slope gas for the benefit of Alaskans. In his 2012 State of the State address Governor Parnell established an important benchmark by calling on the ANS Producers and the AGIA Licensees to align under an AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska. In March 2012, the ANS Producers and AGIA Licensees met this benchmark.[2] Specifically, in a March 30, 2012 letter in response to Governor Parnell, the chief executive officers of the ANS Producers announced that they and TransCanada "have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework." The ANS Producers and TransCanada also

[1] The Commissioners will refer to the Licensees' June 10, 2013 request for project plan amendments as "PPA Request 1A", and to this determination as the "PPA-1A Approval".

[2] In his 2012 State of the State, the Governor, among other things, also called on the relevant parties to reach a settlement in the state's interests on the long standing Point Thompson dispute and litigation, and harden numbers and an associated work schedule on an Alaskan LNG project. These benchmarks were met in the past year. Importantly, construction of the multi-billion development at Point Thompson has begun with over 30 Alaska companies and 1,000 Alaskans working on this project.

stated that they "are now working together" with a focus on "large-scale liquefied natural gas (LNG) exports from south-central Alaska ... as an alternative to gas line exports through Alberta."

Subsequently, on May 2, 2012, we approved two project plan amendments in furtherance of the alignment between the ANS Producers and the Licensees. In that approval (the "PPA 1 Approval"),[3] we approved the Licensees' proposal to include in the project plan a revised work plan, timeline and associated budget that would facilitate participation by the Alaska Pipeline Project ("APP")[4] with the ANS Producers in a concept selection assessment of an LNG project alternative. This alternative includes a gas pipeline and related midstream facilities to deliver natural gas from the Alaska North Slope to an LNG terminal to be located in South-Central Alaska, and is referred to as the "SCLNG" project. The work plan associated with this concept selection assessment was part of formal agreements executed between APP and the ANS Producers. In requesting the PPA 1 Approval, the Licensees agreed that during the concept selection process they would continue work on the pipeline project from the North Slope to Alberta ("Alaska-Alberta Project") to the extent required to preserve rights under AGIA. Particularly relevant here is the fact that the PPA 1 Approval authorized the Licensees to perform additional work through June 30, 2013, and required the submission of another project plan amendment for any work beyond the work plan and budget set forth in PPA Request 1.

In the PPA 1 Approval, we also extended by two years, to October 31, 2014, the date by which the Licensees are required to file an application with the Federal Energy Regulatory Commission ("FERC") for a certificate of public convenience and necessity for the Alaska-Alberta Project. In addition, in approving PPA Request 1, we imposed several conditions. As more fully set forth in the PPA 1 Approval, the Licensees were required (1) to conduct a solicitation of interest in support of the LNG alternative, (2) to consult with the Alaska Gasline Development Corporation ("AGDC") in the interest of prudently avoiding unnecessary and duplicative expenditure of state funds, and (3) to complete an inventory of work product related to the Alaska-Alberta Project.[5]

The Licensees have made significant progress toward meeting these conditions. Specifically, in an October 1, 2012 letter to the Governor (a copy of which is attached as Appendix B), the ANS Producers and TransCanada reported that the solicitation of interest we required in the PPA 1 Approval generated "publicly reported interest from potential shippers and major players from a broad range of industry sectors and geographic locations." The October 1, 2012 letter also reported that "a cooperative framework has also been established with [AGDC] for information exchange" between TransCanada and AGDC. TransCanada also has provided the Commissioners with an initial draft inventory of work product related to the project.[6]

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[3] The May 2, 2012 PPA 1 Approval is attached as Appendix A.

[4] The APP is being developed under an agreement entered into in 2009 between affiliates of TransCanada and ExxonMobil ("APP Parties") to jointly develop the Licensees' AGIA project.

[5] The conditions stated in the PPA 1 Approval continue to apply to the extent they have not yet been fully satisfied. In addition, under this PPA 1A Approval, all work product related to the 2013 Work generated by or on behalf of APP or the Licensees must be transferred to the Licensees by December 31, 2013. The Licensees also must inventory and preserve all work product related to the 2013 Work, including both complete and incomplete work, and provide the inventory to the Commissioners.

[6] The proposed draft inventory has not yet been approved by the Commissioners.

TransCanada is now seeking a limited extension of the two project plan amendments that we approved on May 2, 2012 in the PPA 1 Approval in order to perform field work in Alaska in 2013. Specifically, in PPA Request 1A, the Licensees seek approval to explore the LNG alternative further by performing field work on the midstream component of the project in 2013 (the "2013 Work"), and to defer the FERC filing date an additional two years to October 31, 2016. For the reasons explained below, we grant the request to perform the 2013 Work (as described in the work plan and budget set forth in PPA Request 1A), and approve a limited deferral of the FERC filing deadline by one year to October 31, 2015.[7]

First, the Licensees' request to perform the 2013 Work is consistent with important project benchmarks established by Governor Parnell in his January 16, 2013 State of the State address. There, Governor Parnell called on the ANS Producers and the Licensees to select a concept for the SCLNG project by February 15, 2013. This benchmark was met on February 15, 2013, when the ANS Producers and TransCanada sent a letter to Governor Parnell reporting that they had completed the concept selection phase of the SCLNG project.[8] In his State of the State address, Governor Parnell also called on the ANS Producers and Licensee to "ensure a full summer of field season work will commence this year". PPA Request 1A meets this benchmark by proposing to perform the 2013 Work, which we approve. These are positive developments that help to maintain and accelerate project momentum, and continue the progress made since the Governor's 2012 State of the State address called on the parties to align under an AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska.[9]

Second, and as we noted in the PPA 1 Approval, ANS gas commercialization efforts are in a transition phase with the ANS Producers, the APP Parties, and the Licensees working together for the first time on a single effort. This PPA-1A Approval supplements the PPA 1 Approval to further amend the licensed Alaska-Alberta project to include the 2013 Work and advance this transition, pave the way for more intensive work in the future, and keep the project's ultimate

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[7] Under Section 210 of AGIA, the Commissioners may approve a proposal by the AGIA Licensees to change their project plan if, among other things:

> [T]he amendment or modification is necessary because of changed circumstances outside the licensee's control and not reasonably foreseeable before the license was issued. An amendment or modification approved under this section must be consistent with the requirements of AS 43.90.130 and, except for an amendment or modification required because of an order or requirement of a regulatory agency with jurisdiction over the project or by the Alaska Oil and Gas Conservation Commission, may not substantially diminish the value of the project to the state or the project's likelihood of success.

[8] A copy of the February 15, 2013 letter, and its attachments, is set forth as Appendix C to this determination. The letter provides a summary of the major SCLNG project components, including a 42-inch diameter gas pipeline, a gas treatment plant located on the North Slope, a liquefaction plant with an initial, three-train capacity of 15-18 million tons per annum, storage and terminal facilities, and five in-state off-take points. The estimated capital cost of the SCLNG project is approximately $45-65 billion.

[9] Governor Parnell also called on the parties to "finalize an agreement to advance into the pre-FEED stage" (pre front end engineering design) of the project. In PPA Request 1A, the Licensees state that the ANS Producers "are actively engaged with the APP Parties in pre-FEED planning."

costs as low as possible by helping to avoid a delay in the development of the project.[10] Consistent with this PPA-1A Approval, the Licensees may submit qualified expenditures incurred in connection with the 2013 Work for reimbursement under AGIA for the period covered in the revised work plan, timeline and budget in PPA Request 1A.

Third, and as further explained in the PPA 1 Approval, we find that changed circumstances continue to exist for purposes of AS 43.90.210.[11] For example, the current efforts to develop the SCLNG project represent the first time that the Licensees and all three ANS Producers have been aligned on a gas commercialization effort. This is important progress that is furthered by approval here of the requested project plan amendments.

Finally, we note that we are only approving an extension of the FERC filing deadline by one year, to October 31, 2015, instead of the two-year extension requested by the Licensees. Given the transition as discussed above, we agree with the objective of avoiding unnecessary expenditures on the Alaska-Alberta project, and emphasize that any such expenditures going forward should be *de minimis*.[12]

CONCLUSIONS

For the reasons discussed above and in the May 2, 2012 approval of PPA Request 1, the Commissioners conclude as follows:

1. PPA Request 1A is necessary because of changed circumstances outside the Licensees' control and not reasonably foreseeable before the license was issued,

2. PPA Request 1A is consistent with the requirements of AS 43.90.130,

3. PPA Request 1A does not substantially diminish the value of the project to the state or the project's likelihood of success, and

4. PPA Request 1A is approved as provided herein.[13]

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[10] Our understanding, based on discussions with the ANS Producers and the Licensees, is that performing the 2013 Work this year instead of deferring the work until the 2014 summer field season will enable the project to avoid up to a one-year delay in project completion. On a project with an estimated cost of $45-65 billion, avoiding a one-year delay would save up to several billion dollars in inflation-related costs.

[11] As noted in the May 2, 2012 PPA 1 Approval, such changed circumstances include: (1) a substantial increase in U.S. shale gas reserve estimates compared to when the License was issued; (2) continuing significantly higher natural gas prices in Asia and other world markets relative to U.S. prices, reflecting a higher oil to natural gas price ratio; (3) EIA's updated projection that the United States will become a net exporter of natural gas in the future; and (4) the continued interest of the ANS Producers in aligning their work efforts behind an LNG alternative, which was not foreseeable at the time of the AGIA Findings and the subsequent issuance of the License in 2008.

[12] To the extent this determination does not address a specific statement or representation made in the PPA Request 1A, it should not be construed as agreement with, or rejection of, any such statements or representations.

[13] TransCanada asserts that PPA Request 1A contains confidential proprietary information that is confidential under AGIA and that the Commissioners' March 15, 2012 determination of confidentiality under AGIA concerning PPA Request 1 supports treating PPA Request 1A on a confidential basis. To the extent that information in PPA Request 1A is proprietary, the Commissioners have determined that it is confidential under AGIA and the Commissioners' March 15, 2012 confidentiality determination.

Sincerely,

Daniel S. Sullivan
Commissioner
Department of Natural Resources

Bryan D. Butcher
Commissioner
Department of Revenue

Attachments: Appendix A - May 2, 2012 Approval of AGIA Licensees' PPA-1
Appendix B - October 1, 2012 Letter to Governor Parnell
Appendix C - February 15, 2013 Letter to Governor Parnell

APPENDIX A

STATE OF ALASKA

SEAN PARNELL, GOVERNOR

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ANCHORAGE, ALASKA 99501-3650
PHONE: (907) 269-8431

DEPARTMENT OF NATURAL RESOURCES
DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONERS

May 2, 2012

Mr. Tony Palmer
Vice President, Major Projects Development
TransCanada Pipelines Limited
450 - 1st Street S.W.
Calgary, Alberta, T2P-5H1 Canada

Re: Approval of AGIA Licensees' Project Plan Amendments

Dear Mr. Palmer:

We are in receipt of your "AS 43.90.210 – Request for approval of project plan amendments under the [AGIA] License in respect of a potential LNG alternative – Phase 1" (the "PPA"), dated March 15, 2012. The PPA requests approval of two modifications to the project plan, described and identified by TransCanada Alaska Company, LLC ("TC Alaska"), Foothills Pipe Lines (North B.C.) Ltd. and Foothills Pipe Lines (South Yukon) Ltd. (jointly, the "Licensees" or "TransCanada") as the "Requested Amendments". Pursuant to AS 43.90.210, the Commissioner of Revenue and the Commissioner of Natural Resources for the State of Alaska ("Commissioners") approve the Requested Amendments to the project plan, as provided below.

BACKGROUND

On December 5, 2008, the Licensees were issued a license under the Alaska Gasline Inducement Act ("AGIA"), AS 43.90, *et seq.* The AGIA License incorporates the project plan set forth in the Licensees' November 30, 2007 AGIA application ("AGIA project plan" or "project plan"), as amended by the project plan modifications approved by the Commissioners by letter dated January 29, 2010.

Under Section 210 of AGIA, the Commissioners may approve a proposal by the AGIA licensee to change its project plan if, among other things:

> the amendment or modification is necessary because of changed circumstances outside the licensee's control and not reasonably foreseeable before the license was issued. An amendment or modification approved under this section must be consistent with the requirements of AS 43.90.130 and, except for an amendment or modification required because of an order or requirement of a regulatory agency with jurisdiction over the project or by the Alaska Oil and Gas Conservation Commission, may not substantially

diminish the value of the project to the state or the project's likelihood of success.

The Licensees propose two amendments to the project plan. First, the Licensees propose to include in the project plan the limited work plan, timeline and associated budget set forth in the PPA and identified as the "Initial Work Plan Amendment".[1] The Licensees state in the PPA that this amendment would facilitate participation by the Alaska Pipeline Project ("APP")[2] with the Alaska North Slope Producers (ExxonMobil, BP and ConocoPhillips, jointly "ANS Producers") in a concept selection assessment of a liquefied natural gas ("LNG") alternative specifically relating to a gas pipeline and related midstream facilities to deliver natural gas from the Alaska North Slope to the tidewater of south-central Alaska. These work plans are part of formal agreements executed between APP and the ANS Producers. More generally, these LNG work plans were set forth in a joint letter on March 30, 2012 by the chief executive officers of the ANS Producers to Governor Parnell. The Licensees state that while this concept selection process is occurring, they would continue work on the current project plan that contemplates a pipeline from the North Slope to Alberta ("Alaska-Alberta Project") to the extent required to preserve rights and the Alaska-Alberta Project as an alternative to commercialize ANS gas.

Second, the Licensees propose to amend the date by which the Licensees are required to file an application for a certificate of public convenience and necessity ("CPCN") for the Alaska-Alberta Project from the Federal Energy Regulatory Commission ("FERC") from October 2012 to October 31, 2014, set forth in the PPA and identified as the "Regulatory Amendment". The deferral of the FERC filing deadline would coincide with the process of assessing the in-state LNG project alternative discussed above.

As discussed below, the Licensees contend that the PPA meets the requirements of AGIA Section 210 because of changed circumstances outside their control and not reasonably foreseeable before the license was issued. The Licensees also contend that the PPA does not substantially diminish the value of the project to the state or the project's likelihood of success, and is consistent with the requirements of AS 43.90.130.

DISCUSSION[3]

The Requested Amendments would facilitate the ability of the APP Parties, on behalf of the Licensees, to continue work on the efforts to commercialize ANS gas with a focus on an in-state LNG project. These amendments are an outgrowth of Governor Parnell's request to the ANS Producers and the AGIA Licensees that they align under the AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska. In response, the chief executive officers of the ANS Producers recently announced that they and the APP Parties "have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework."[4] In their

[1] TransCanada requested confidentiality of the PPA, due to a claim of certain proprietary information contained within the PPA. The Commissioners granted this requested as provided under AS 43.90.210. However, much of the information contained in the PPA was not considered confidential by the Commissioners and is discussed in full in this determination.

[2] The Alaska Pipeline Project (APP) is being developed under an agreement entered into in 2009 between affiliates of TransCanada and ExxonMobil ("APP Parties") to jointly develop the project set forth in the Licensees' AGIA project plan.

[3] To the extent this determination does not address a specific statement or representation made in the PPA, it should not be construed as agreement with, or rejection of, any such statements or representations.

[4] ANS Producers' CEO March 30, 2012 letter to Governor Parnell (hereinafter "ANS Producers' CEO Letter").

letter to the Governor, the ANS Producers state that they "are now working together" with a focus on"large-scale liquefied natural gas (LNG) exports from south-central Alaska . . . as an alternative to gas line exports through Alberta."[5]

Related to this alignment, the State and the ANS Producers also recently reached agreement on a settlement regarding development of the oil and gas resources at Point Thomson. Under the settlement, the ANS Producers "are moving forward . . . with the initial development phase at Point Thomson with confidence that North Slope gas development will ultimately bring the Point Thomson resource to market." [6]

With these developments, particularly the alignment by the ANS Producers and the APP Parties in focusing on LNG commercialization, the proposed Initial Work Plan Amendment would enable the Licensees, through the APP Parties, to participate with the ANS Producers and focus commercial efforts on the LNG alternative, while reducing the level of expenditures on the Alaska-Alberta Project during the period the LNG alternative is being evaluated. The Requested Amendments lay out a transition phase between an ANS gas commercialization project that is focused on Lower 48 markets to one that is focused on LNG export markets abroad.

The proposed Regulatory Amendment, which would postpone the 2012 FERC filing date by two years, is expected to result in a reduction of Fiscal Year 2013 State-reimbursable expenditures on the Alaska-Alberta project under the AGIA License. This reduction would be achieved by deferring until October 2014 the Licensees' obligation under AS 43.90.130(3) and the AGIA License to file a complete application at FERC for a CPCN for the Alaska–Alberta project while the Licensees, APP and the ANS Producers focus on the LNG alternative.[7]

In support of its PPA, TransCanada contends that changed circumstances justify both of its proposed amendments. Specifically, TransCanada points to (a) the decline in natural gas prices experienced in the U.S. largely as a result of increased shale gas production, (b) the projection by the U.S. Energy Information Administration ("EIA") that the U.S. will become a net exporter of natural gas in the future, and (c) the interest the ANS Producers have expressed in focusing their efforts on an LNG alternative to the Alaska-Alberta Project. TransCanada also notes that, according to a January 2012 report by the EIA, "natural gas prices span a range from ... \$4 per MMBtu in the United States and \$16 per MMBtu in Asian markets that rely on LNG imports."

Based on the relevant facts that exist at this time, including the specific and limited nature of the requested PPA, the Commissioners find that changed circumstances exist for purposes of AS 43.90.210.[8] The relevant facts include: (1) a substantial increase in U.S. shale gas reserve

[5] ANS Producers' CEO Letter.

[6] *Id.*

[7] Among other things, TransCanada also committed to use the FERC's pre-filing procedures prior to filing its certificate application. TransCanada has an obligation to pursue that commitment and its other license commitments in a diligent manner, which the Commissioners expect would result in a determination by FERC that TransCanada's certificate application is complete once that application is filed. *See* the Request for Applications issued by the State of Alaska on July 2, 2007, at p. 49 (Section 5.1(40), stating that the licensee will pursue regulatory approvals and other actions "Promptly and Diligently", which is defined as "a manner that is commercially reasonable in the interstate gas pipeline industry in the U.S. with respect to timing and execution of relevant actions.").

[8] Under AS 43.90.210, each project plan amendment must be separately and independently justified and subject to the Commissioners' approval. The Commissioners, therefore, do not address the Licensees' request for acknowledgment or approval at this time that any future project plan amendments relating to the "LNG Pipeline Midstream Facilities" be considered to have arisen from the same set of changed circumstances as detailed in the PPA. This does not preclude the Licensees from raising the same or other changed circumstances in future requests for project plan amendments as

estimates; (2) significantly higher natural gas prices in Asia and other world markets, reflecting a higher oil to natural gas price ratio; (3) EIA's related projection that the U.S. will become a net exporter of natural gas in the future; and (4) the interest of the ANS Producers in aligning their work efforts behind an LNG alternative, which was not foreseeable at the time of the AGIA Findings and when the License was issued in 2008 because, at that time, the Lower-48 market looked much more robust.[9] This is the first time since AGIA was enacted that the Licensees and all three ANS Producers have been aligned on a gas commercialization effort.

The Commissioners also find that the PPA does not substantially diminish the value of the project to the State or the project's likelihood of success.[10] As noted by the Licensees, the U.S. EIA has recently found that natural gas prices in Asia are much higher than in the U.S. Focusing efforts among the Licensees, APP, and ANS Producers on the feasibility of an LNG project to serve higher-priced Asian and other markets may improve the value of the project to the State and the project's likelihood of success. Given the high natural gas prices that currently exist in Asia and in other world markets, an LNG project may be even more economic than it was at the time of the AGIA Findings. In addition, this shift in focus will not diminish the ability to meet in-state gas needs.[11]

Thus, the Commissioners expect the ANS Producers to make substantial and timely progress with the APP Parties in developing an LNG project, consistent with the ANS Producers' obligations under their leases with the State. In particular, the Commissioners expect that these parties will continue to pursue an aggressive work schedule to meet Governor Parnell's State of the State timeline to conclude the concept selection process referenced in the March 30, 2012 letter by the end of September 2012.

As noted above, ANS gas commercialization efforts are in a transition phase with ANS Producers, the APP Parties, and the Licensees working together for the first time on a single effort. After this initial concept selection work is completed, we expect the Licensees to file a more definitive PPA that will reflect the details of the project selection, the public solicitation (see below) and an associated timeline relating to an LNG project.[12]

The Commissioners also find that the PPA is consistent with the requirements of AS 43.90.130, which obligate the AGIA Licensees to certain commitments. Under the PPA, the Licensees continue to be bound by the requirements of AGIA, including all of their AGIA commitments under AS 43.90.130. The Licensees continue to be required to file a complete application for a CPCN at FERC for the Alaska-Alberta project by a date certain; the obligation to file a complete application is merely deferred until October 31, 2014.[13] Subject to this deferral, the

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appropriate to the request, which the Commissioners will then address based on the facts and circumstances that exist at that time.

[9] The mere fact that natural gas prices have changed since the AGIA License was issued in 2008, standing alone, does not meet the changed circumstances standard set forth under section 210. However, such price changes are a relevant factor when combined with the other relevant factors discussed above, under the circumstances that exist at this time and given the limited nature of the requested PPA.

[10] While it is not determinative to this decision, the Commissioners do not comment on, or find it necessary to rule on the merits of, the Licensees' limited interpretation of the term "value to the State".

[11] In addition to a focus on an in-state LNG project, the ANS Producers' CEO Letter also highlights the importance of addressing in-state Alaska gas needs and demands.

[12] The ANS Producers' CEO letter references an "associated timeline" as part of the gas commercialization project selection.

[13] *See supra* note 6.

Licensees will minimize the expenditure of State funds on the Alaska-Alberta alternative while the commercial focus shifts to the LNG alternative.

The Commissioners' approval of the Initial Work Plan Amendment and the Regulatory Amendment is subject to the following:

First, the Licensees will conduct and complete a comprehensive and meaningful public solicitation of interest in an LNG project by December 31, 2012, including interest in making firm pipeline capacity commitments on a pipeline from the North Slope to a new or existing LNG liquefaction terminal at tidewater as well as to Alberta. This solicitation must satisfy the requirements of AGIA and the AGIA license, and include all potential market participants, including but not limited to North Slope producers, explorers, LNG terminal developers, and entities seeking to import Alaska gas into Asian and other markets.

Second, the State will continue to reimburse the Licensees for reimbursable costs in accordance with AGIA for expenditures within the parameters of the project plan as amended by this determination. No reimbursements will be provided or paid for any costs relating to the LNG Pipeline Midstream facilities which occur after the period covered in the revised work plan, timeline and budget unless the Licensees have obtained approval of a subsequent project plan amendment covering work in the subsequent period. Consistent with Governor Parnell's State of the State address, the Licensees will consult with the Alaska Gasline Development Corporation ("AGDC") to determine whether useful work product is available from AGDC and, if so, then the Licensees will take reasonable steps to obtain or utilize the AGDC work product from AGDC. This is in the interest of prudently avoiding unnecessary and duplicative expenditure of state funds on projects that share the important objectives of addressing in-state demands for natural gas and commercialization of ANS gas.

Third, all work product related to the Alaska-Alberta Project generated by or on behalf of APP, including both complete and incomplete work, will be inventoried as soon as practicable and preserved. This inventory, which must be provided to the Commissioners, will include, without limitation, a description of the currently incomplete work that is expected to become complete and be transferred to the Licensees over the period of the Initial Work Plan Amendment. In addition, all work product related to the LNG Pipeline Midstream Facilities pursuant to the Initial Work Plan Amendment generated by or on behalf of APP or the Licensees during the concept selection process for the LNG alternative will be transferred to the Licensees at the end of the concept selection stage, as described in the PPA.

FINDINGS AND CONCLUSIONS

For the reasons discussed above, the Commissioners conclude as follows:

1. The PPA is necessary because of changed circumstances outside the Licensees' control and not reasonably foreseeable before the license was issued,

2. The PPA is consistent with the requirements of AS 43.90.130,

3. The PPA does not substantially diminish the value of the project to the state or the project's likelihood of success, and

4. The PPA is approved as provided herein.

The Commissioners emphasize that the foregoing discussion, findings and conclusions are limited to the two Requested Amendments proposed in the PPA. The Commissioners do not approve or acknowledge any additional or future project plan amendments that may be stated or implied in the PPA.

Daniel S. Sullivan Commissioner Dept. of Natural Resources	Bryan Butcher Commissioner Dept. of Revenue

~END OF REPORT~