

Semi-Annual Report to the Alaska Legislature April 30, 2010



**This report covers the period:
November 1, 2009 through April 15, 2010**

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Introduction

This report from the Department of Revenue (DOR) and Department of Natural Resources (DNR) is submitted as a supplement to reporting required under AS 43.90.400, the Alaska Gasline Inducement Act (“AGIA” or “the Act”). This report covers the time period from November 1, 2009 through April 15, 2010.

AGIA was passed by the Legislature on May 16, 2007 to encourage expedited 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 a license be jointly issued to TransCanada Alaska Company, LLC and Foothills Pipe Lines Ltd (for purposes of this report will be jointly referred to as “TC Alaska”). The recommendation was approved by the Legislature on August 1, 2008 and the license issued and signed by the Commissioners on December 5, 2008.

In exchange for making certain schedule, tariff, and expansion commitments to advance the project, the AGIA licensee is entitled to receive certain inducements including:

1. The assistance of a dedicated AGIA Coordinator with authority to expedite permitting;
2. Fixed tax and royalty terms for a specified period of time for gas which is committed during the first open season of the project;
3. Up to \$500 million reimbursement from the AGIA fund for qualified expenditures; and
4. A commitment by the State that it will not provide certain financial or fiscal benefits to proposed pipelines that would compete with the AGIA project

AS 43.90.400 requires the DOR and DNR Commissioners to submit a report to the Legislature on the status of reimbursements within the first 10 days of each regular session. The 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 from the Department of Revenue (DOR) and the Department of Natural Resources (DNR) is submitted as a supplement to reporting required under AS 43.90.400.

In addition to information required under AS 43.90.400, this report includes information related to the progress of the pipeline project and updates on natural gas markets. Additional information related to the project can be accessed online at:

<http://www.gasline.alaska.gov/>.

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1. Executive Summary

The AGIA-licensed gas pipeline project has advanced significantly under the joint effort between TransCanada and ExxonMobil Corporation, called the Alaska Pipeline Project (“APP”). Developments have taken place on both the state and project side, in preparation for the very first open season in the history of North Slope natural gas development. The open season is scheduled to begin on April 30, 2010.

Over the last several months, the state has promulgated regulations relating to gas shipping commitments and to qualification for the AGIA inducements. The state was also successful in obtaining from the Federal Energy Regulatory Commission (FERC), a waiver from certain capacity release rules as they relate to the state’s royalty gas. The state has meanwhile continued efforts to implement its strategic workforce development and training plan.

In compliance with FERC requirements for the Alaska Natural Gas Projects, TC Alaska completed an in-state gas demand study, which was submitted to and approved by the state in January 2010. The APP has also completed conceptual engineering work on both the pipeline and Gas Treatment Plant, with ongoing environmental regulatory and permit planning.

The APP has also developed an updated cost estimate for the project, which has been used in tolling calculations to provide indicative transportation costs to prospective shippers for the open season process.

2. AGIA Reimbursements

Under the Alaska Gasline Inducement Act (“AGIA”) license, the state’s licensee, TransCanada Alaska (“TC Alaska”) is entitled to reimbursement of up to \$500 million for qualified expenditures incurred in advancement of the Alaska gasline project. To date, TC Alaska has been reimbursed \$4,354,273.64 for work conducted through the first half of 2009.

Processing of reimbursement requests has been slow due to certain resource limitations and continued reliance on manual processes. In April 2010, the state’s FY11 capital budget was approved, including \$250,000 for work on an electronic reimbursement management system. The department plans to contract out for completion of the system, building off of work completed by the department during the previous year. The system will allow project expenditure data to be more efficiently reviewed and tracked, and should help to expedite processing future reimbursement requests.

The department recently contracted with Martindale Consultants, Inc., to conduct the first annual audit of TC Alaska’s expenditures, as required under the AGIA license. The audit is scheduled to begin in June 2010.

2.1 Reimbursement Requests and Issuances

The following tables summarize project expenditures for which the licensee has requested reimbursement from the state. Individual expenditures may be denied for reimbursement or deferred, pending clarification by the licensee. At this early stage in the process, the state and TC Alaska are still clarifying aspects of the reimbursement documentation protocol, so it is not surprising to see a large number of areas where reimbursement has been “deferred” pending additional documentation or clarification. As the state continues to work with the Licensee to resolve outstanding issues, reimbursement amounts are likely to change from those listed below.

Table 1: Reimbursement Request Summary by Project Region**

Year	Qtr.	Month	Project Region	Gross Claimed Expenditures	Gross Expenditures Deferred or Denied for Reimbursement	Gross Expenditures Approved for Reimbursement	Reimbursed Qualified Expenditures (50% of Approved)
2008	4Q	December	AK	\$ 51,569	\$ (2,058)	\$ 49,512	\$ 24,756
			BC	\$ 14,515	\$ (1,029)	\$ 13,485	\$ 6,743
			YK	\$ 18,366	\$ (902)	\$ 17,464	\$ 8,732
			subtotal	\$ 84,450	\$ (3,989)	\$ 80,460	\$ 40,230
		TOTAL	\$ 84,450	\$ (3,989)	\$ 80,460	\$ 40,230	
2008 Total				\$ 84,450	\$ (3,989)	\$ 80,460	\$ 40,230
2009	1Q	January	AK	\$ 202,935	\$ (44,299)	\$ 158,637	\$ 79,318
			BC	\$ 47,034	\$ (14,288)	\$ 32,746	\$ 16,373
			YK	\$ 48,964	\$ (12,839)	\$ 36,124	\$ 18,062
		subtotal	\$ 298,933	\$ (71,426)	\$ 227,507	\$ 113,754	
		February	AK	\$ 585,561	\$ (112,613)	\$ 472,948	\$ 236,474
			BC	\$ 148,613	\$ (2,270)	\$ 146,343	\$ 73,171
			YK	\$ 187,631	\$ (350)	\$ 187,281	\$ 93,641
		subtotal	\$ 921,805	\$ (115,233)	\$ 806,572	\$ 403,286	
		March	AK	\$ 1,020,739	\$ (37,407)	\$ 983,332	\$ 491,666
			BC	\$ 95,952	\$ (31,289)	\$ 64,663	\$ 32,332
	YK		\$ 126,570	\$ (17,071)	\$ 109,499	\$ 54,749	
	subtotal		\$ 1,243,261	\$ (85,767)	\$ 1,157,494	\$ 578,747	
	TOTAL	\$ 2,463,999	\$ (272,427)	\$ 2,191,573	\$ 1,095,786		
	2Q	April	AK	\$ 1,589,128	\$ (738,575)	\$ 850,553	\$ 425,277
			BC	\$ 452,175	\$ (47,620)	\$ 404,556	\$ 202,278
			YK	\$ 514,055	\$ (62,504)	\$ 451,551	\$ 225,776
			subtotal	\$ 2,555,358	\$ (848,698)	\$ 1,706,660	\$ 853,330
		May	AK	\$ 3,501,958	\$ (167,267)	\$ 3,334,692	\$ 1,667,346
			BC	\$ 761,350	\$ (70,399)	\$ 690,951	\$ 345,476
			YK	\$ 37,068	\$ (11,750)	\$ 25,318	\$ 12,659
subtotal		\$ 4,300,376	\$ (249,415)	\$ 4,050,961	\$ 2,025,480		
June		AK	\$ 1,554,028	\$ (875,135)	\$ 678,893	\$ 339,447	
		subtotal	\$ 1,554,028	\$ (875,135)	\$ 678,893	\$ 339,447	
TOTAL	\$ 8,409,762	\$ (1,973,248)	\$ 6,436,514	\$ 3,218,257			
2009 Total				\$ 10,873,762	\$ (2,245,675)	\$ 8,628,087	\$ 4,314,043
Total To Date				\$ 10,958,211	\$ (2,249,664)	\$ 8,708,547	\$ 4,354,274

** Project Regions: AK = Alaska; BC = British Columbia; YK = Southern Yukon

2.2 Estimated Project Spending

The following expenditures are based on TC Alaska's Second Quarter 2010 Budget Report Update, and show the forecasted spending through the term of TC Alaska's commitment under the AGIA license. Project spending may increase materially depending on the outcome of the open season.

Table 3: Estimated Project Spending Through FERC Certification (Thousands \$)

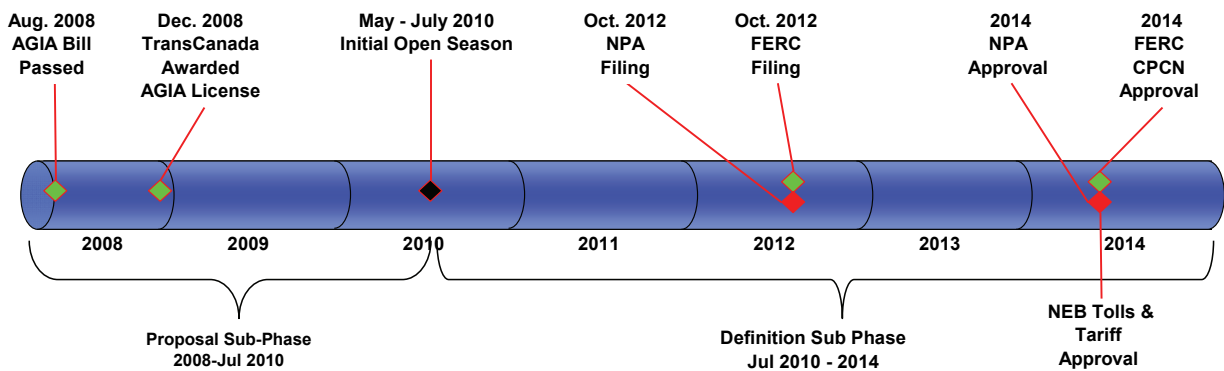
Fiscal Year	Pre-License	2009	2010	2011	2012	2013	2014	TOTAL
Total Annual	\$5,603	\$17,812	\$126,498	\$139,517	\$137,128	\$137,128	\$137,128	
TC Alaska/EM	\$5,603	\$11,430	\$68,833	\$18,573	\$13,713	\$13,713	\$68,950	
State of Alaska	\$0	\$4,364	\$59,684	\$120,944	\$123,415	\$123,415	\$68,178	
Total Cumulative	\$5,603	\$23,415	\$149,913	\$289,430	\$426,558	\$563,686	\$700,814	\$700,814
TC Alaska/EM	\$5,603	\$17,033	\$85,866	\$104,439	\$118,151	\$131,864	\$200,814	\$200,814
State of Alaska	\$0	\$4,364	\$64,047	\$184,991	\$308,407	\$431,822	\$500,000	\$500,000

3. Project Status Report

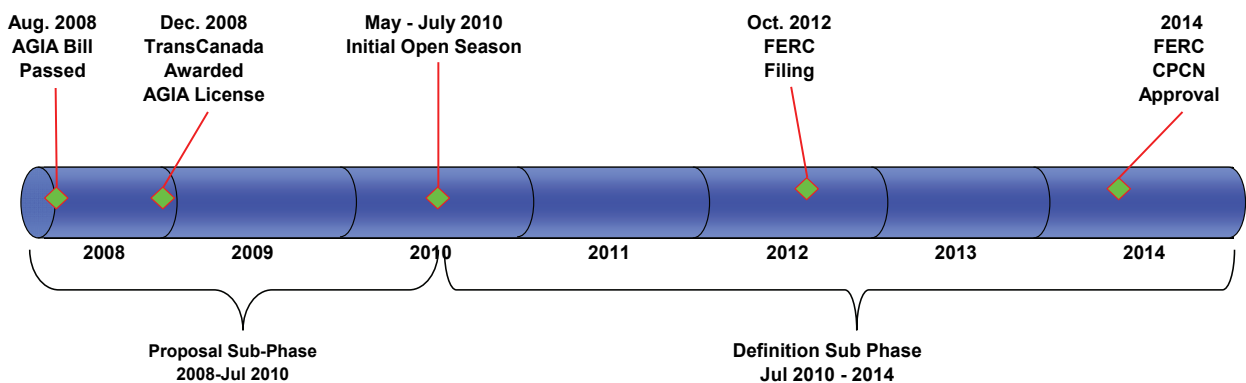
3.1 Schedule and Timeline

The Development Phase schedules for the project remain unchanged (see timelines below). The APP team has made significant progress towards holding the first open season for Alaska North Slope natural gas and has received FERC approval of the open season plan.

Alberta Development Phase Schedule



Valdez Development Phase Schedule

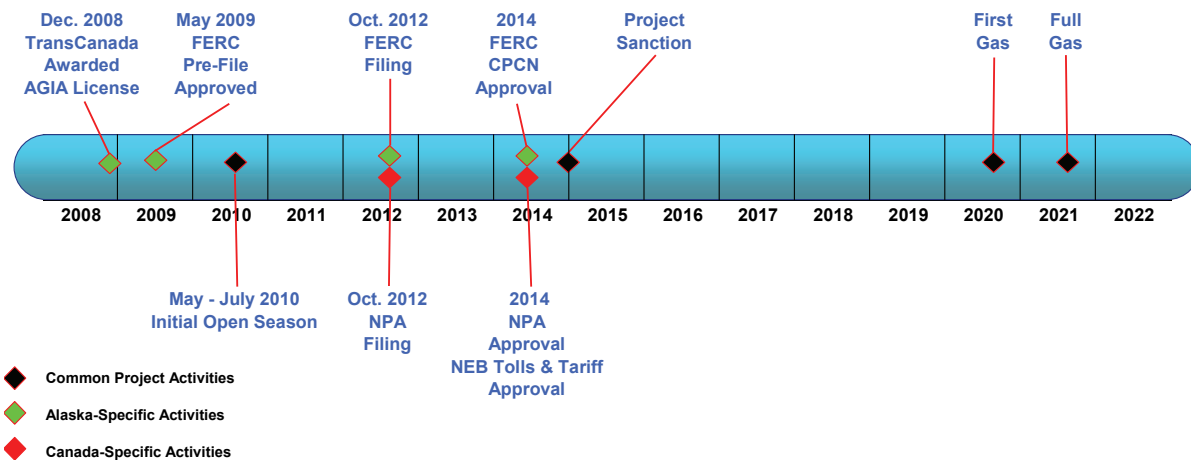


Key deliverables from the Proposal Sub-Phase of the project include updated cost and schedule estimates. The APP team’s open season plan includes updated estimates which are generally consistent with the independent analysis conducted by the AGIA technical team as part of the AGIA license review. These revised schedules were developed with the following assumptions:

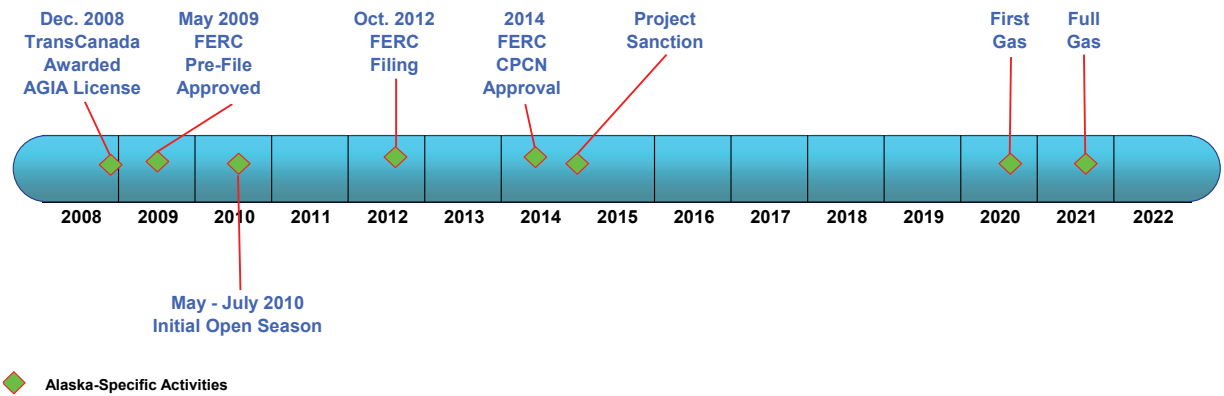
- Open season is fully subscribed and conditions precedent in negotiated precedent agreements are satisfied including any shipper/producer issues;
- FERC timelines, as mandated under ANGPA 2004, are met;
- Land rights are acquired in a timely manner;
- Full funding occurs in 2015 to allow for pipe purchase orders to be placed;
- Work commences on the gas treatment plant (GTP) to meet the initial sealift window in 2017.

The updated project schedule below is consistent with the open season plan issued on January 29, 2010. First Gas delivery date is estimated to be 2020 with Full Gas delivery in 2021. These dates result from a thorough review by the APP team of the project staging and logistics, with the sea lift windows for GTP fabrication and installation being the critical component to successful execution.

Alberta Schedule



Valdez Schedule



3.2 Major Achievements and Milestones

In addition to the APP's defined project timeline, a review of the previous three years since the AGIA legislation passed shows that a number of important milestones and achievements have been or are about to be reached. These include:

- May 27, 2007: AGIA legislation passes
- November 2007: Applications for AGIA license
- December 2008: AGIA license awarded to TransCanada
- June 2009: Alignment of TC Alaska and Exxon – creation of the Alaska Pipeline Project
- January 2010: Alaska Pipeline Project puts forth open season plan for public comment and review by the Federal Regulatory Energy Committee (FERC)
- March 31, 2010: FERC issues order approving APP open season plan. This approval indicates that the plan for conducting the open season is fair
- April 30, 2010: APP open season takes place – the first-ever open season for Alaska North Slope natural gas
- July 30, 2010, APP open season closes
- August to December 2010 conditions precedent negotiations between APP and shippers

3.2.1 State Activities

AGIA Regulations

In February 2010, the State publicly noticed regulations relating to gas shipping commitments and qualification for the AGIA royalty and tax inducements. The new regulations apply under four main sections of the AGIA:

1. Qualification for Resource Inducements (AS 43.90.300)
2. Royalty Inducement (AS 43.90.310)
3. Gas Production Tax Exemption (AS 43.90.320)
4. Inducement Vouchers (AS 43.90.330)

Qualification for Resource Inducements (15 AAC 90.200)

In order to qualify for any AGIA inducements under AS.43.90.300, “producer-shippers” and “shippers buying from producers” must “...commit to acquire firm transportation capacity in the first binding open season.” (AS 43.90.300) This commitment was further defined in regulations promulgated by the departments in March and April 2010. The regulations provide that, in order to qualify for the resource inducements, one must:

1. Submit a bid for firm transportation capacity during the initial open season;
2. Execute a Precedent Agreement within 180 days of close of initial open season;
3. Execute Transportation Services Agreement within 5 years of open season, or two years following FERC Certification, whichever is later; and
4. File with the DOR and DNR Commissioners
 - Copies of documents listed above; and
 - Copy of rolled-in rate agreements governing pipeline expansions

Royalty Inducement Regulations (AS 43.90.310)

The resource inducement offered under AS 43.90.310 provides qualified gas shippers with additional certainty regarding handling of the state’s royalty gas. New regulations at 15 AAC 25 establish a method for valuing the state’s royalty share of gas production and identifying the terms under which the state will exercise its right to switch between taking its royalty in value (as money) or in kind (in gas). The regulations will apply to lessees who commit to ship gas in firm transportation capacity acquired in the first binding open season for a project licensed under AGIA.

The proposed regulations base royalty value on fair market value at the first destination markets for Alaska gas. The DNR identified likely first destination markets to include the TransCanada’s Alberta System (i.e., the Alberta Hub), the Alliance Pipeline (including but not downstream of Chicago, Ill) and possibly destinations reached through the Spectra Pipeline (including but not downstream of Sumas, WA).

In addition to providing qualified parties a measure of fiscal certainty regarding valuation of gas royalties taken as payment (royalty-in-value or RIV), the regulations address situations where the state might elect to take its royalty in the form of physical gas (royalty-in-kind or RIK).

The proposed regulations would provide shippers additional notice of the state’s decision to switch between taking royalty gas or royalty payment. The longer lead time provides lessees the opportunity to adjust their gas marketing decisions. The increased notice periods and capacity waiver granted by the FERC are expected to provide considerable value to potential shippers.

The royalty regulations are available online at:

<http://www.dog.dnr.state.ak.us/oil/>

Tax Inducement Regulations (AS 43.90.320)

Under AS 43.90.320, qualified gas shippers are provided a commitment that the production tax obligation for the gas shipped via qualified capacity on the AGIA gasline will be the same as it would have been under the tax laws in effect at the start of the initial open season. This commitment is provided in the form of an annual exemption from the state’s gas production tax:

“...in an amount equal to the difference between the amount of the person’s gas production tax obligation calculated under the gas production tax in effect during that tax year and the amount of the person’s gas production tax obligation calculated under the gas production tax in effect at the start of the first binding open season...” AS 43.90.320(a)

For purposes of the AGIA inducement, the department promulgated new regulations at 15 AAC 90 establishing a methodology for calculating a person’s gas production tax obligation, attributing a portion of the state’s current combined production tax obligation to just the gas qualified for the AGIA tax inducement (“AGIA Gas”). The gas production tax obligation calculated under 15 AAC 90 is:

$$\frac{A}{V} \times T = G$$

A = Gross Value at the Point of Production for the taxpayer’s AGIA Gas
V= Gross Value at the Point of Production for * the taxpayer’s total Oil and Gas
T= Oil & Gas Production Tax Liability under the system in effect April 30, 2010
G = “Production Tax Obligation on AGIA Gas” as of April 30, 2010

Regulations were also adopted to clarify what gas is eligible for the inducement under AS 43.90.320, and that it does not apply to gas which a shipper may commit to the AGIA pipeline after the first binding open season.

Inducement Vouchers (AS 43.90.330)

AS 43.90.330 allows the commissioners to issue an inducement voucher to individuals who acquire firm transportation commitments during the first binding open season, but who do not hold a North Slope lease and are not affiliated with a North Slope lease holder.

New regulations were developed establishing the processes through which a person must apply for and transfer the inducement vouchers.

All AGIA regulations are available online at:

<http://www.dog.dnr.state.ak.us/oil/>

FERC Waiver

On January 28, 2010 the Federal Energy Regulatory Commission (FERC) approved a request made by the state of Alaska on November 13, 2009 waiving a FERC rule that would have added risk to shippers when the state elects to receive gas in kind for instate use.

The state's contractual rights related to taking its royalty on natural gas created additional financial risk for potential shippers should the state elect to take its royalty in kind, i.e., where it takes the royalty in the form of physical gas. The state proposed this request to prevent potential shippers from being charged a full reservation fee in the event the state pulled its royalty share from the shipper's capacity.

The FERC order approved the state's request with two conditions. The state was instructed to offer to waive capacity to all similarly situated producers providing service on any completed Alaska Gas Pipeline Project. The order also required that the waiver must be applied to any firm capacity acquired by a producer/shipper through any open season for an Alaska Gas Pipeline Project.

In general, for any natural gas produced on state lands the state is entitled to receive a 12.5 percent royalty. The state can choose to receive this royalty as revenue ("royalty in value") or it can choose to receive the royalty as gas ("royalty in kind"). The provision to receive gas as a royalty payment is included in all state oil and gas leases.

Prior to the Commission's decision, the state's ability to switch to taking royalty in kind created additional financial risk for shippers producing gas from state lands. Obtaining this waiver from the FERC minimizes this risk.

Under FERC rules, a shipper is charged for the cost of transporting its gas through a pipeline. This cost is commonly referred to as a reservation charge. The State's royalty share is 12.5 percent of the capacity that each shipper commits to transporting on a gas pipeline.

When the state chooses to receive its royalty in value (i.e. revenue), it receives the price of the gas at the destination market minus the cost of transporting that gas to market. This is commonly referred to as the "netback" wellhead value. If the state switches to take its royalty gas in kind, under current FERC rules, the shipper may have to pay its full reservation charge - even though the state has pulled its royalty gas share from the shipper's capacity. The shipper would be charged for the unused capacity. Unused capacity is sometimes referred to as "stranded capacity."

The waiver allows the state an opportunity to eliminate this risk by allowing shippers to release "stranded capacity" to the state when the state receives its royalty in kind. This arrangement is referred to as "capacity going with the gas."

Such an offer was included as part of the royalty regulations developed for the upcoming open season for the Alaska Pipeline Project, licensed under AGIA. The waiver could save producer shippers billions of dollars in stranded capacity costs and remove a significant impediment for committing to an open season.

3.2.2 Open Season and FERC Filing

On March 31, 2010, the FERC issued an order approving TransCanada Alaska's (TC Alaska) proposed plan for conducting the first ever open season for Alaska North Slope natural gas. The plan was developed jointly by TC Alaska and ExxonMobil under the Alaska Pipeline Project (APP). As mentioned earlier, it was initially filed with FERC on January 29, 2010 (SEE section 2.3 above).

During open season the APP will solicit bids from shippers to offer firm commitments to ship natural gas through the proposed pipeline. The project's commitment to expand the pipeline through regular solicitations will promote competition in the exploration, development and production of Alaska natural gas and provide the opportunity to ship additional natural gas supplies through subsequent open seasons.

Consistent with the commitments made by TC Alaska in its AGIA application, the APP offers two routes to markets (a pipeline to Alberta and a pipeline to Valdez), and five off-take points

to provide Alaska gas for instate use. The proposal contains other features important to Alaska, including a clearly defined timeline to advance the project, and estimated transportation rates that should enhance future access to the pipeline and the development of North Slope resources.

Pre-open season review of both proposed natural gas pipeline routes was conducted by the FERC in order to determine whether potential bidders will be treated in a non-discriminatory manner. FERC's 29 page order focused on providing a flexible open season process that is fair for all potential parties interested in transporting and selling Alaska's natural gas.

A copy of the FERC order approving TC Alaska's open season plan is available online at the AGIA website: www.gasline.alaska.gov.

3.3 APP Activities

The following summary represents the APP's major achievements since the last quarterly update was issued on October 31, 2009.

Project Management

The project team is on target to conduct the first open season in the history of Alaska North Slope natural gas development. The open season will begin as scheduled on April 30, 2010 and conclude on July 30.

Commercial

The APP Project Team is continuing preparations for the open season commercial offering and is progressing discussions with potential shippers, for both the Alberta and Valdez routes.

In compliance with FERC's regulations for Alaska Natural Gas Transportation Projects, TC Alaska commissioned Northern Economics, Inc. to conduct an in-state gas demand study. The completed study was submitted to the state of Alaska for endorsement on January 12, 2010, and was approved by the commissioners of Revenue and Natural Resources on January 22, 2010. On February 4, 2010, TC Alaska and its consultants held a technical conference in Anchorage to present the study methodology and results to those who participated in the interview phase of the study and to other interested parties. The results of the study were used by TC Alaska in designing the indicative tariffs for in-state gas deliveries.

On January 29, 2010, TC Alaska filed its open season plan with FERC for the commission's review and approval. FERC issued an order on March 31, 2010, approving the open season plan. This will enable TC Alaska to commence its U.S. open season, as scheduled, on April 30,

2010. The open season will run for 90 days and conclude on July 30, 2010. As required in the FERC order, TC Alaska has opened data rooms in Houston, Anchorage, Calgary, and Whitehorse. For the Alberta case only, Foothills will also conduct a concurrent, non-binding interest solicitation process in Canada for the Canadian portion of the pipeline.

Gas Treatment Plant (GTP)

The project team has completed conceptual engineering work and development of cost and schedule estimates in support of the open season filing. Documentation supporting this work has been compiled and placed in the open season data rooms.

With all deliverables completed to support the open season filing, the GTP team is now focused on optimization of the design concept. Engineering work is underway to improve module configurations, overall site layout and minimize the required plot area for the plant. A plant siting study is progressing to evaluate alternate site locations for the GTP. The team is also evaluating methods to maximize the BTU content of the gas in the pipeline by transporting NGL components to market. Studies are underway to look at turbine driver types and waste heat recovery to lower fuel consumption and emissions. The size of the GTP modules indicates that a performance based approach to comply with international building codes is appropriate and is being discussed with the Alaska State Fire Marshall's office.

Pipeline

The project has completed conceptual pipeline engineering work and development of cost estimates and schedules in support of the open season filing. Documentation that supports this work has been compiled and has been placed in the open season data rooms.

Efforts are ongoing to refine the project footprint. A borehole database is being developed and processing and quality assurance of Light Detection and Ranging (LiDAR) data collected in August 2009 along the proposed pipeline route is complete.

The project continues to advance technology development programs, including frost heave and uplift resistance testing, tensile and compressive strain capacity and demand. A number of workshops have been held to share materials engineering and strain-based design work with internal specialists and a program of welding and small-scale pipe materials testing has been initiated. A number of meetings have been held with potential materials suppliers.

The project continues to progress preliminary engineering and will continue to refine pipeline routing in subsequent project phases.

Environment, Regulatory and Permitting

APP continues to develop plans to expand the work and staffing necessary to achieve NPA filings and FERC applications in 2012, including planning for additional field work to be conducted in Alaska and Canada beginning in the summer of 2010.

To support on-going planning, environmental and regulatory efforts in Canada, contracts were awarded in December 2009 to TERA Environmental Consultants and Stantec Consulting. These companies will provide regulatory and permitting support, route refinement, data collection and management, public outreach, and other planning and studies. A similar contract was awarded to URS Corporation for work in Alaska. URS has subcontracted work to AECOM and ASRC Engineering Services (AES) as part of their work plan.

The project team provided the 2009 Facilities Update to the NPA in December 2009. This report provides current information about the project to support informed discussions and engagement with governments and government agencies, including the Northern Pipeline Agency, First Nations and Aboriginal communities, and a broad range of additional stakeholders.

The project team also filed the Regulatory Submission Plan with the NPA in March 2010. This plan provides the regulator with the proposed timeline for regulatory applications and filings for the Canadian section of the project.

The project team filed documents with FERC, including a Data Gap Analysis and Field Study Plan, and Stakeholder Engagement Plan.

The project continues to meet with the First Nations in Canada and Alaska Natives to understand issues related to project development. Negotiations continue with Yukon First Nations on Participation Agreements, and confidentiality agreements are in place with three First Nations. A confidentiality agreement with a fourth First Nation is expected in Q2 of 2010.

Government and Public Affairs

The APP team continues to be active in the local Alaska and Canadian communities and has provided a number of project update presentations to business & community associations throughout the state.

In order to enhance the public's understanding and awareness of the project, the APP has also established a project-specific website which includes a diversity of information including de-

tailed open season filings, fact sheets and other project documentation. The website can be accessed through the following link:

<http://www.thealaskapipelineproject.com/>

3.3.1 Project Cost Estimate

By January 2010, the APP team had developed an updated cost estimate for the project. The estimates were used as input to tolling calculations to provide indicative transportation costs to prospective shippers for the open season process.

The estimates are consistent with the Association for the Advancement of Cost Engineering International (AACEI) Class 4 standards. They were the subject of several reviews by the APP team and project sponsors, peer reviews/cold eyes reviews by subject matter experts not related to the project, and risk assessments. The estimates have been validated against benchmarks and company experience.

As required by AGIA commitments, cost estimates were developed for two project cases:

- Alberta Case to ship natural gas through Alaska, the Yukon Territory and British Columbia, to Alberta, Canada, a distance of approximately 1700 miles, where the gas can be delivered on existing pipeline systems serving major North American markets;
- Valdez Case to deliver natural gas to Valdez, a distance of approximately 800 miles, where it would be converted to liquefied natural gas in a facility to be built by others and then delivered by ship to North American or International markets;
- Both cases would provide opportunities for Alaska communities to acquire natural gas from the pipeline through a minimum of five delivery points on the pipeline.

On a 2009 US \$ basis, the cost estimate range for the Alberta Case is \$32 to \$41 billion and \$20 to \$26 billion for the Valdez Case. These estimates include the Gas Treatment Plant on the North Slope and the Point Thomson pipeline (which is outside of the AGIA scope for reimbursement).

3.4 Commercial Terms Modification

When the APP submitted its commercial package to the FERC in January of this year, there were at least two material improvements to the commercial terms from the perspectives of both the state of Alaska and potential shippers. These changes did, on balance, positively impact the NPV to the state and were approved by the Commissioners per AS 43.90.210. The reduc-

tion in recovery of initial project cost (made up of capital cost, allowance for funds used during construction, and property taxes paid during construction) over the initial shipping contract term and the adjustment of the overall project return-on-equity (ROE) both improved the project economics for shippers and the state alike.

In its AGIA application, TC Alaska proposed to recover 100% of the initial project cost over the term of the shipping contracts. Subsequent to the issuance of the AGIA license to TC Alaska as the AGIA licensee and prior to filing an open season plan with the FERC, TC Alaska conducted a series of conversations with potential shippers and other interested parties. Those conversations, among other factors, led to the decision by TC/APP to offer an 80% recovery rate for the initial project cost versus a 100% as offered in the AGIA application.

In addition to the adjustment to the project cost recovery rate, the filing with the FERC by the licensee included a reduction in the return-on-equity (ROE) component of the transportation tariff. In its AGIA application TC Alaska had offered an ROE formula of US 10-year Treasury notes plus 965 basis points, which contemporarily equated to roughly 14%. Again, subsequent to the license approval but prior to filing with the FERC, potential shippers expressed an interest in reducing TC's ROE to further enhance the competitiveness of North Slope gas in the market. In response, TC/APP made the decision to reduce its return-on-equity from the formula based (roughly) 14% to a constant 12%. The net result for shippers paying for transportation on the APP pipeline project is a reduction in shipping cost and consequently an improved return on investment (ROI) and a more attractive net present value (NPV).

4. Alaska Workforce and Business Participation

4.1 Alaska Hire and Contracting

Since the last project status update in October 2009, a second project office has been established in mid-town Anchorage. This office currently supports Environment, Regulatory and Land (ERL) activities and a growing number of full time staff are presently working from this office. The project will staff the Alaska project office as required to meet work requirements.

The project continues to use specific evaluation criteria and weightings to ensure the best selection of service providers is made when soliciting proposals/quotations for third party work. Factors that are considered in the selection of contractors include the contractor's:

- Physical presence in Alaska (offices and/or work locations);
- Previous work completed in Alaska and in arctic environments
- Work with local communities;
- Hiring practices proposed for the work, incorporating plans for both Alaska Native and non-native Alaskans.

The use of these factors to select contractors helps APP meet the Alaska business and local hire requirements of the AGIA license.

The project has recently utilized these criteria in the awarding of contracts for Environment, Regulatory and Land work to a partnership that includes the Alaska-based firms AECOM and ASRC Energy Services (AES).

To date there have been at least 175 Alaskans employed on the project and the following Alaska-based service providers have performed project work for the APP:

AECOM
Aero-Metric
Air-Logistics
ASRC
Baseline GeoConsulting
Bureau of Land Management
Discovery Drilling
Doyon Limited
Dwayne Miller & Associates
GCI Cable
GeoNorth Inc.
Golder Associates, Inc. (Alaska Office)
Guardian Security
Immersive Media
ISER
Jade North
Lounsbury & Associates
NANA Management Services
Nanuq Inc.
Northern Economics
Northern Engineering and Scientific
Peach Investments LLC
R&M Consultants
URS (Alaska Office)

4.2 Workforce Development FY2009 and Projected FY2010 and FY2011

The Alaska Department of Labor and Workforce Development is continuing a major effort to implement the Alaska Gasline Strategic Training Plan.

The plan's overall purpose is to bring Alaska into a new era of collaboration and innovation among educators and training providers, through strategic investments in connected, regionally delivered and accredited programs to create world-class training and educational systems for Alaska. The plan, developed and regularly monitored by a public/private steering

committee, is guiding the department and Alaska Workforce Investment Board in workforce policy development and in the allocation of funds to training activities.

The Plan identifies four broad strategies to prepare Alaskans for 113 occupations necessary for gas line construction:

1. increase awareness of and access to career opportunities in natural resource development,
2. develop a comprehensive, integrated career and technical education system that aligns training institutions and coordinates program delivery,
3. increase opportunities for registered apprenticeship in skilled occupations and expand other structured training opportunities, and
4. Increase opportunities for development of appropriate training programs for operations, technical, and management workers.

State and federal funding has been appropriated toward implementation of these strategies. Following are summaries of and key activities within each strategy.

Strategy 1: Increase Awareness of and Access to Careers

Awareness activities include investments in the Alaska Construction Academy model around the state to introduce youth and dislocated adult workers to basic construction skills; funding for school-based career guides who provide career planning services and job referral to secondary students; improvements to the Alaska Career Information System and other department web-based resources to provide career planning tools and to connect students with Alaska-based training programs. The Department has also sponsored secondary teacher externships and summer construction and engineering academies to expand teacher and student awareness of gas line related careers.

1. In FY09, the Alaska Construction Academy trained 1,645 youth and 416 adults in a variety of gas line occupations.
2. In FY09 the Alaska Youth First Program delivered awareness activities through career guides to 18,976 Alaskan youths. As of February 28, 2010 the program has provided 23,324 career awareness services, including group presentations to youth and families on gasline related careers, individual career advising and referral for job training resources to more than 10,500 youths.
3. A Teacher Industry Externships (TIE) program aligns with the Gasline Training Plan by increasing the awareness of and access to career opportunities in natural resource development. As many as 2,000 students in school are affected by participating teachers each year. In FY 2010 the AKDOLWD Division of Business Partnerships anticipates that 22 of 53 externships will be in gas pipeline related occupations through externships sponsored by the Alaska Process Industry Careers Consortium. These teachers are

then able to give their students first hand information about the types of careers in this industry as well as the types of skills needed.

4. American Recovery and Reinvestment Act funds were awarded to the Department of Transportation for their “Think Apprenticeship” awareness campaign. This campaign seeks to bring more Alaska youth to the Heavy Highway and Construction industries and encourages employers to hire registered apprentices. The transferable skills from the construction industry will help prepare Alaskans to build the Alaska gas line. In the first half of FY 2010 “Think Apprenticeship,” a multi language outreach and awareness effort was implemented. The message delivered through this campaign is the opportunity of apprenticeship in AGIA occupations. Over 40 languages to include two native languages are featured. The idea for this project came out of a collaborative effort of the Alaska Department of Transportation Public Facilities Civil Rights Office, and the Alaska Department of Labor and Workforce Development Office of Apprenticeship. A companion of this outreach campaign was developed by the Mat-Su Borough School District to engage employers in the use of apprenticeship. The campaign will run through FY 2010 and may continue in FY 2011.
5. The Employment Security Division (ESD) recently completed enhancements to Alaska’s Skills Based Job Bank (ALEXsys) which allows job seekers to enter their credentials as part of their on-line resumes. This feature allows better matching of job seekers’ skills and experiences to employers’ job requirements. The credentialing feature also allows the department to track individuals by specific credentials, providing the ability to determine job seeker employment and training needs. Credentials include professional licenses, certifications, endorsements, diplomas, and the Alaska Career Ready Certificate. The ability to search by degree types, certificates, and trades continues to be a critical component in our commitment to prepare Alaskans for jobs needed for the Alaska Gas Pipeline.
6. Another enhancement to ALEXsys is variable reporting, which enables the ESD staff to create ad hoc reports to better manage resources. Recently, this function allowed us to contact job seekers with specific skills in priority industries to advise them of training opportunities. This outreach resulted in seven individuals attending diesel mechanic training and 15 individuals attending underground mining training. Both are gasline related occupations.
7. AVTEC has significantly increased efforts to reach high school students across Alaska through visits to 200 schools and career fair attendance in the last two years. As a result AVTEC’s average student age is now 25 and in the last two years AVTEC has trained over 250 youth ages 17 – 21 in gasline related occupations. With a 94% job placement rate, over 235 Alaskans age 17 – 21 have entered gasline related occupations in the last two years. AVTEC currently offers pre-apprenticeship in several occupations identified in the gasline training plan, and is the preferred source for training

electrical and plumbing apprentices. More recently, AVTEC completed a newly registered apprenticeship program for bus and truck diesel engine specialists.

8. To help facilitate effective career decision making, the Department of Labor and Workforce Development's Research and Analysis Section (R&A) created an electronic training program clearinghouse application, available on the department's website. The application provides easy access to Alaska training provider and program information and identifies training programs specific to occupations.
9. Through the development and dissemination of regional labor market information, R&A significantly increased the understanding of Alaska's regional economies. The Alaska Local and Regional Information web application provides jobseekers and policymakers with data on which to base career and policy decisions.

Strategy 2: Aligned Career and Technical Education System

The department has coordinated several meetings between training providers in the state, including the University of Alaska, the Alaska Vocational Technical Center and regional training centers, to better align and articulate training programs. The department is also working closely with the Alaska Department of Education and Early Development toward developing a template for career plans to be completed by all high school students, establishing and implementing standards for Alaska training programs, supporting the use of the Alaska Career Ready certificate, and communications and outreach with secondary and postsecondary educators and administrators throughout the state.

Specific activities include:

1. More than 960 Alaska youth participated in summer work experience with a focus on developing basic work skills. Pre and post tests were applied via KeyTrain's Career Ready 101, which includes an on-line assessment of work skills. 190 of the youth were retained in permanent positions. Funding for this activity was provided under the American Recovery and Reinvestment Act from the U.S. Department of Labor, Employment and Training Administration.
2. Twelve Career Guides funded through the Youth First Initiative and located in schools and communities around Alaska are providing career and job training information to students in and out of school about Alaska career opportunities.
3. AVTEC is assisting twelve Regional Training Centers to establish outreach, recruitment, and enrollment standards and basic skills assessments to increase the number of rural residents enrolling in gasline construction related technical training programs and/or apprenticeships.

4. The Alaska Department of Education and Early Development and the Alaska Department of Labor Workforce Development are developing an Alaska Action Career and Technical Plan with input from stakeholders. The following website may be used to input suggestions for the Alaska Career and Technical Education plan:
<http://www.labor.state.ak.us/awib/cte.htm>
5. The Alaska Workforce Investment Board has a new website:
<http://www.labor.state.ak.us/awib/home.htm>. This website informs the public with information pertaining to the Alaska Workforce Investment Board, Alaska Gasline Training Plan, Registered Apprenticeship, and Career and Technical Education.
6. Alaska Workforce Investment Board publishes a bimonthly newsletter highlighting the activities of AWIB, gasline, Registered Apprenticeship, and Career and Technical Education.
7. The Division of Business Partnerships has updated its website to provide visitors with information on workforce investment strategies for employers and training providers as well as highlights of the division's current efforts to prepare Alaskans to work in Alaska's high wage, high demand occupations.
Visit <http://www.labor.alaska.gov/bp/> for more information.
8. Nine Construction Academies through a partnership with industry, local school districts and the Department provided career awareness information and training to more than 2,500 Alaskans in occupations related to construction of the gas pipeline.
9. Efforts to revitalize Career and Technical Student Organizations (CTSOs) are underway and include a recent grant to train teachers and youth in leadership and employability skills, and career pathways.

Strategy 3: Expand Registered Apprenticeship and Structured Training

The Department made a commitment to apprenticeship training by reaching out to not only the industries that have traditionally used the apprenticeship model for workers in the skilled trades – such as construction – and to other high-demand industries in Alaska including health care, manufacturing and retail trade. DOLWD's Apprenticeship Coordinator has been working in concert with the U.S. Bureau of Apprenticeship's Alaska office toward increasing awareness of the benefits of registered apprenticeship and to increase the number and scope of apprentice opportunities in the state. It may be noted that currently over one half of the new apprentices

registered are through this effort, and the majority of new sponsors are a direct result of this department's efforts.

Specific successes include:

- Through a collaborative effort with the U.S. Department of Labor, Employment and Training Administration's Office of Apprenticeship, the University of Alaska's Mining and Petroleum Training Service (MAPTS), the mining industry, and the department, a first-of-its-kind apprenticeship program for geophysical core drilling is established, setting the standard not only for the state, but also for the nation. The geophysical core driller training was conducted in Kotzebue and Bethel with 37 graduates becoming first-year apprentices. This program is helping rural Alaskans get training and then high paying jobs in their regions.
- The department has developed a partnership with Raven Electric in Anchorage to deliver electrical apprenticeship related instruction in Anchorage. Thirty new apprentices were enrolled this year.
- Expansion of the Fairbanks Pipeline Training Center to increase the number of training opportunities for incumbent and entry-level apprentices. More than 100 apprentices participated in training last year and will do so again in November of 2010.
- The Department conducted its second annual apprenticeship conference, "Building Alaska's Future," in Anchorage on April 30, 2009. The conference attracted employers interested in how apprenticeship works, and educators wanting to explore the integration of apprenticeship in the educational system. The third conference was held on April 28, 2010 in Anchorage.
- The Department's Employment Security Division (ESD), the state's designated One-Stop Operator, has ten federally trained registered apprenticeship specialists engaging employers on a consistent basis and working hand in hand with Career Support and Training Service case managers on wage-incentives and Individual Training Accounts (ITAs) and supportive services. The Employment Security Division also helps staff the State Office of Apprenticeship with a Business Connection professional who assists apprenticeship specialists and job center staff to connect with prospective employers that may be interested in starting an apprenticeship or OJT program.
- Ongoing ESD activity includes: funding individual training and supportive services for the Alaska Pipeline Worker Training Project (APWTP) grant participants as required by apprenticeship sponsors, to support an apprentice's successful completion of a registered apprenticeship program; compensating employers through on the job training agreements; and providing support services including Alaska Career Ready testing, certification and registration of certificates.

- A surveyor apprentice training was sponsored by Tanana Chiefs Conference, several independent engineering firms and the Teamsters Union. Twelve participants successfully completed the training course with eleven obtaining work. All are scheduled for their second year of their apprenticeship-related studies.
- Many nontraditional apprenticeable occupations have been registered through the Job Centers and the apprenticeship specialist to include: Able Seaman, Airframe and Power Plant Mechanic, Head Cook, Carpenter, Auto Mechanic, Bus and Truck Mechanic.
- The Department hired the AGIA skills coordinator to facilitate tech prep agreements, transition programs for secondary to post secondary and skill assessments of regional training centers based on industry standards.
- A new millwright apprenticeship is under development with Prince William Sound Community College to train up to 12 new millwrights in FY10.
- The Department assisted the Teamsters in developing two new apprenticeships in Bus and Truck Mechanic, Diesel Engine Specialist Apprentice and Line Freight Driver apprentice. Recruitment for Bus and Truck Mechanic Begins May 3, 2010.
- The Research and Analysis Section continued to assess the effectiveness of the apprenticeship training model through the multi-year analysis of apprenticeship program data.

Strategy 4: Increase Training Opportunities

Significant investments have been made at the state and federal levels toward gas line related job training, including:

1. The University of Alaska has expanded its engineering program to double the number of engineering graduates.
2. The State Training and Employment Program provided over \$3 million in training support for a variety of gas line occupations to 1,570 adults.
3. A federal pipeline-training grant is being used by the Galena City School District to train rural Aircraft Dispatchers, skills that can be transferred to transportation and logistical support for pipeline construction.
4. Alaska Works - annual Cross-country Pipeline Training Orientation, Environmental, Health and Safety Certification, Pre-pipeline and entry level training for younger workers in rural Alaska, and Train the Trainer instructional classes and support.

5. Tanana Valley Campus - Heavy Equipment and Diesel Mechanic training and apprenticeship support.
6. University of Alaska – Statewide Campuses for Interior Career Academies, Math and Sports Camp at University of Alaska Fairbanks campus and Alaska Summer Research Academy with a focus on science, robotics, engineering, and math.
7. University of Alaska – Southeast, to begin the first phase of a multi-phase project to develop a curriculum and deliver related technical instruction for first and second year registered apprentices in the occupations of Bus, Truck Mechanic and Diesel Engine Specialist.
8. Northwestern Alaska Career and Technical Center (NACTEC) in Nome conducted entry level pre-employment academic activities focused on improving fundamental math and reading comprehension and related career exploration activities including introduction to welding, engine repair, driver education, emergency medical technician, food preparation, and carpentry.
9. AVTEC, Alaska’s Institute of Technology is providing GED and academic learning support, pre-pipeline training and support for academic preparedness through distance training at Regional Training Centers.
10. Regional Training Centers – Sitka Works, NACTEC, and Galena are engaged in an effort to integrate vocational and technical education and to support academic basic education in rural Alaska.
11. Employment Security Division - Support recruitment of Alaskans through Job Centers into training and employment in pipeline related occupations.
12. A new miner training was delivered through the MAPTS/UA. A majority of training recipients went directly to work in the industry.
13. The Division of Business Partnerships and the Alaska Workforce Investment Board recently received a \$3.6 million State Energy Sector Partnership federal grant from U.S. Department of Labor aimed at training 700 workers in energy efficiency and renewable energy techniques and skills, many of which will be transferable to a gas line project.
14. The Alaska Department of Labor Workforce Development has been meeting with rural regional training centers for the past three years. The purpose of these meetings is to have the rural regional training centers working as a team in providing effective rural training programs.
15. In March 2010 the Division of Business Partnerships negotiated a Core Driller Registered Apprenticeship with Naknek Electric for 20 Geothermal drillers.

16. For the second year in a row the Galena City School District has provided Aircraft Dispatcher Training to local residents of the region and maintained a high placement rate in excess of 70 percent.
17. The Division of Business Partnerships negotiated grants and reimbursable service agreements totaling more than \$13.5 million in state and federal funding in support of more than 6,000 Alaskans for career awareness, registered apprenticeship, structured on-the-job training and classroom training in occupations related to construction of the Alaska gas pipeline.
18. The State Training and Employment Program (STEP) provided funding for SAVEC and their employer partner CH2M HILL to train 40 General Maintenance Technicians.
19. TCC received STEP funds to continue their Surveyor Apprenticeship Program training for 11 second year apprentices. Apprentices who have employer commitment letters are scheduled for second year related studies supporting their skill development and projects in the interior along the pipeline corridor.
20. The Teamsters received STEP funds to provide Surveyor upgrade training to meet employer technology changes in surveyor equipment and a move to smaller survey crews.
21. The state apprenticeship office has been working with the University of Alaska on several projects including Project Jump Start, a degree completion program for apprentices working toward a degree in project management, safety or supervision.

The Alaska Gasline Inducement Act includes a provision encouraging the licensee to hire to the maximum extent possible Alaskans for the Alaska portion of the project. The department has begun discussions with the project partnership on a formal and regular employment reporting mechanism.

5. Alaska and the U.S. Natural Gas Picture

National energy forecasts projecting future production, demand, and price for natural gas suggest that Alaska gas is a necessary and expected component of the national gas picture.

In previous years much of the focus on the viability of a natural gas pipeline has focused on the wellhead price of natural gas. Prior to the national recession, which took place in 2008-2009, the wellhead price for natural gas had reached \$8.00 in 2008 dollars per thousand cubic

feet of gas. That price dropped precipitously during the recessions but is projected to reach \$6.00/thousand cubic feet by 2020 and \$8.00/thousand cubic feet by 2035 according to the U.S. Energy Administration (EIA) Annual Energy Outlook 2010. This price projection aligns well with the timeline for production of gas for an Alaska natural gas pipeline under the Alaska Pipeline Project.

On January 20, 2010 the American Gas Association (AGA) published an article entitled, *U.S. Natural Gas Supply: Then There Was Abundance*, EA 2010-01. The article discusses current and projected estimates for production, reserves and consumption of natural gas within the United States.

According to the Annual Energy Outlook 2010, natural gas accounted for 33% of the nation's electrical energy generation needs. This percentage is expected to increase to 45% by 2035. Approximately 22 to 23 trillion cubic feet (tcf) of natural gas has been consumed each year in the United States, since 1995. AGA, *U.S. Natural Gas Supply: Then There Was Abundance*, EA 2010-01 (Jan. 20, 2010).

Total natural gas supply in the United States is approximately 63-65 billion cubic feet (bcf) per day. Current United States dry gas production represents the largest share of the natural gas supply shown – about 55-57 bcf per day or approximately 86 percent of the total. *Id.* at pp 4-5

Addressing the prospects of bringing arctic (Alaska) natural gas to the lower 48 states, the AGA article notes that:

Known quantities of natural gas exist in the arctic areas of Alaska and significantly more potential exists. Creating the pipeline transportation system to connect those arctic supplies to the North American pipeline grid has been proposed for over 30 years. The concept seems to have more tangible momentum with key players like TransCanada, ExxonMobil, British Petroleum, ConocoPhillips and the state of Alaska moving closer to measurable progress. Competing projects have been proposed. That aside, many analysts believe that a pipeline connecting North Slope gas reserves to the lower-48 states is closer than ever and that by 2020 or soon after as much as 4.5 bcf per day may be flowing. (Emphasis added)

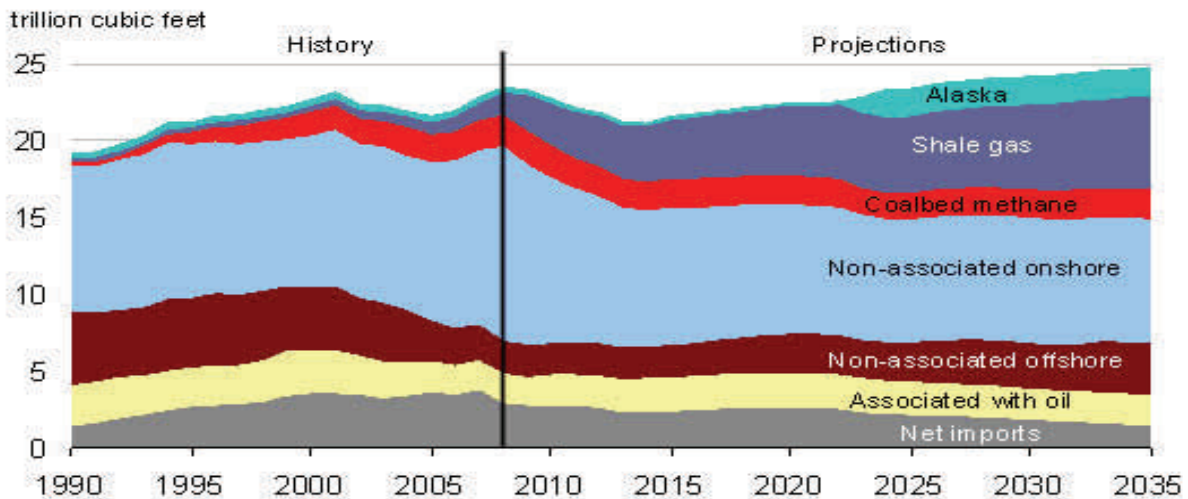
Id. at pg. 4

5.1 Shale Gas and Alaska Gas

Between 1990 and 2035 annual gas production is expected to increase in the United States from slightly below 20 Tcf in 1990 to 25 Tcf in 2035. (SEE Figure 3 below, EIA, Annual Energy

Outlook 2010) Traditional sources of gas will decline during this time period. Shale gas and Alaska gas can pick up the difference.

Figure 3. Shale gas and Alaska production offset declines in supply to meet consumption growth and lower import needs



Source: Annual Energy Outlook 2010

According to the Energy Information Administration’s *2010-2035 Annual Energy Outlook*. Shales are expected to be the most significant incremental contributor to domestic gas production during the next 25 years in the EIA outlook.” *Id.* at 10. While interest is expected to remain on shale gas, use of this upcoming resource does have caveats, which are outlined at pg. 11 of the AGA article and include:

- Understanding and implementing precautions taken to protect water resources and other environmental remediation strategies is important;
- Shale reservoirs are unconventional. They are low porosity, low permeability rocks that require stimulation in order to produce economic quantities of gas;
- Because (shale oil wells) tend to drain a smaller area than many traditional reservoirs, more wells have to be drilled to develop the resource in the ground, which means a significant surface footprint exists in many shale activity areas.

By all appearances the advent of shale gas recovery technologies show significant promise for buttressing our national energy needs in the coming years, but shale gas should not be considered as an alternative to Alaska natural gas. Both sources of gas need to be available to meet

our country's projected energy needs. Alaska gas is a clean and abundant. While transportation costs will be significant given the price for constructing an Alaska natural gas pipeline, these costs should be acceptable in comparison to the production and potential environmental offsets for producing shale gas.

6. Conclusion

Proceeding into the first ever open season for Alaska North Slope natural gas, significant headway has been achieved to advance the APP gasline project.

Since the last report to the legislature was issued in October, 2009, the state has:

- Promulgated regulations relating to gas shipping commitments and to qualification for the AGIA inducements
- Obtained from the Federal Energy Regulatory Commission (FERC), a waiver from certain capacity release rules as they relate to the state's royalty gas, and
- Continued efforts to implement its strategic workforce development and training plan.

The AGIA licensee, TransCanada Alaska, in conjunction with ExxonMobil, have joined their efforts under the APP to develop, release, and obtain approval for an open season plan for Alaska North Slope Gas. The APP plan

- Complies with FERC requirements for the Alaska Natural Gas Projects
- Includes a comprehensive in-state gas demand study, which was submitted to and approved by the state in January, 2010
- Includes completed conceptual engineering work on two pipeline options (Alberta and Valdez options) and Gas Treatment Plant, with ongoing environmental regulatory and permit planning, and
- Contains an updated cost estimate for the project, which has been used in tolling calculations to provide indicative transportation costs to prospective shippers for the open season process.

Together, both the State of Alaska and APP have prepared the way for the April 30 open season.

7. Appendices

Attachment 1 - What has the \$500 Million Reimbursement Achieved?

The \$500 million reimbursement inducement accomplished or is intended to accomplish several objectives. It:

1. Ensures a process for constructing a gas pipeline that includes specific Alaska “must-have” requirements
2. Provided an opportunity for interested parties to bid to become the AGIA licensee
3. Creates a competitive environment that maximizes the opportunity for the state to realize a 30 year old goal to commercialize Alaska North Slope gas and demonstrates the state’s resolve to move the project forward by putting some “skin in the game” in the form of an incentive investment
4. Provides immediate economic benefit toward the state’s net present value (NPV) for the project that will cover the cost of this investment, and
5. Requires the AGIA licensee to apply for a Federal Energy Regulatory Commission (FERC) certificate of public convenience and necessity (CPCN) by October 2012 and to accept the certificate issued by the FERC on or before the date the order granting the certificate is no longer subject to judicial review – a stand alone benefit worth the value of the state’s reimbursement inducement.

The first benefit for the state’s investment was to secure Alaska “must have” requirements. These included:

- Requiring the AGIA licensee to commit to a project timeline
- Require off-take points for gas to be available for instate use
- Mandate rolled-in rates to make access to the pipeline affordable to future shippers
- Allow for future expansion opportunities; and
- Cements commitment for AGIA licensee to seek FERC certification.

These “must have” requirements are included in the open season plan advanced by the Alaska Pipeline Project (APP) and discussed in detail at the APP website, at:

http://www.thealaskapipelineproject.com/ferc_open_season_filing

The second and third benefits for the state investment overlap. The state identified a new approach to advance a pipeline project. All qualified and interested parties had the opportunity to submit a proposal to be considered for selection as the AGIA licensee. Independent of the AGIA process, producers and potential shippers of North Slope natural gas have always had the opportunity to pursue an independent pipeline project. ConocoPhillips opted to submit a non-conforming proposal. While this company opted not to compete for selection as the AGIA licensee it did propose a separate project, eventually agreeing to a partnership with BP. Their project - the Denali project - was formed after the legislature approved AGIA and before the state spent any of the AGIA inducement. Now there are two separate, competing pipeline projects, both advancing to open season this year.

Another important benefit procured through the \$500 million inducement was to provide immediate value to the state's NPV that covers the cost of this investment. The \$500 million will be excluded from the rates charged by the pipeline company. This raises the state's NPV and lowers the tariff, which means more royalty revenue to the state. When the project goes into service, the state's investment will pay for itself in the form of lower transportation costs for natural gas. We are spending money today not to jump start the project, but to generate a financial return in the future.

The final benefit that the \$500 million inducement secures is a commitment by the AGIA licensee to advance the project forward to apply for a FERC CPCN and to accept the certificate issued by the FERC by the date the order granting the certificate is no longer subject to judicial review. Simply put, a CPCN is a license by the FERC for an entity to build and own a natural gas pipeline. A certified project has an approved environmental impact statement (EIS) and many required project permits approved. By taking a project through certification a great deal of the risks and uncertainties in terms of environmental and regulatory permitting are resolved. This allows potential project shippers and participants to make a much more informed decision about the economics of the project and to evaluate whether they will make a firm commitment to ship gas on a proposed natural gas pipeline.

Attachment 2: Monitoring of the Project Team's (TransCanada and ExxonMobil)
Progress on the Alaska Pipeline Project (APP)
October 2009

Patrick Anderson of Pingo International Inc., Keith Dodson of Westney Consulting Group (consultants to the State of Alaska) and Eric Hatleberg from the State of Alaska met with Project Team (PT) representatives in their Calgary and Houston offices on October 27th through October 30th, 2009 to obtain a status report on their efforts to develop the Alaska Pipeline Project (APP). The following are the PT representatives who were met with during these visits:

- Paul Pike-APP Senior Project Executive
- Vince Alberico-GTP Senior Project Manager
- Marty Heeg-Commercial Manager
- Dave Johnson-Manager-Safety, Security, Health & Environment
- Deb Raught-Technical Manager
- Raul Lopez-Engineering Manager-Gas Treatment Plant (GTP)
- Rick Elder-Business Manager
- David Montemurro-Environmental, Regulatory and Land (ERL) Manager - Canada
- Jack Beattie-Engineering Manager, Pipeline and Compression
- Myron Fedak-ERL Manager-Alaska
- Robert Eadie-GTP Execution Planning Manager
- Harold Retzloff- Lead Project Accountant
- Karen Etherington-Environmental Planning and Permitting Advisor
- Joe Zhou- Pipeline Engineering Manager
- Jim Kyfiuk-Project Contacts Manager
- Susan Kost-Senior Project Coordinator
- John Umberger-GTP Operations Advisor
- Darren McLean-Pipeline Operations Advisor
- Dan Begley- Land and Stakeholder Outreach Lead -Canada
- Brandon Henneke-Interface Coordinator

The people were met individually in some cases and in small groups in other cases. The goals of the meetings were to gather the following information:

1. Understand the progress the individual groups have made since the September 2009 series of meetings.
2. Identify any issues that have arisen that may significantly affect the scope of the Alaska Pipeline Project, its cost or its timing.
3. Review the current schedule the PT has developed for this project and evaluate the probability that PT will be able to complete an Open Season by the end of July 2010.

This Monthly Monitoring Report is written as an update to the previous Monthly Monitoring Report. The basic data on things like project scope, schedule expectations and involved parties included in the previous Monthly Monitoring Reports will not be repeated.

The following issues were among those discussed during the above series of meetings:

1. In all the meetings we asked the same three questions:
 - Are you aware of any significant unplanned events that have happened in the last month?
 - Are you aware of any issues in your area of responsibilities that would preclude your group from being able to provide the deliverables that are necessary to support the Open Season process that concludes at the end of July 2010?
 - Are the groups you are responsible for on budget and on schedule when measured against the \$150 million Open Season phase budget.

In every meeting with the PT we received the same answer to these questions. No significant unplanned events, no concern about being able to provide the Open Season deliverables on time and all the groups were on budget and on schedule. The Project did observe that some of the segments of the current Open Season schedule are outside the control of the Project so they cannot state with certainty that the July 30th date will be maintained. An example is how long it will take FERC to make a determination. The Project has assumed a reasonable amount of time for this process but it could be longer.

We were told in a number of meetings that it is going to be very busy between now and the end of January to complete all the work necessary to support the end of January FERC Open Season plan filing.

2. The work necessary to define a cost estimate and schedule for the Project is nearing completion. The costs will be defined in second quarter of 2009 US dollars. The Project is currently conducting quality assurance reviews with each of the estimating groups to identify any areas of concern. Once these reviews are completed and any adjustments that become necessary as a result of these reviews are completed, the full cost estimate will be subject to a cost risk assessment to establish the amount of contingency that has to be added to the estimate to attain the desired level of cost certainty.

A range of estimated costs and scheduled start-up dates will be developed for the end of January filing to FERC of the Project's Open Season plan.

3. A Request for Quotation (RFQ) for the next phase environmental contractors in Canada and Alaska (2 separate contracts) will be mailed to the approved bidders by the end of October. The bids are expected back by mid November. The plan is to have an early December award of these contracts. Once the environmental contractors are selected, one of their first tasks is to plan the environmental field programs. There will be a parallel field programs for the engineering group.
4. The Project already has access to a huge amount of data regarding soil conditions along the pipeline route. This data includes:
 - a. About 11 thousand boreholes from the TAPs project
 - b. About 5 thousand boreholes from the Alaska DOT (along the Alaska highway)
 - c. About 2 thousand boreholes from the Foothills Project database.

The development of engineering field program involves defining the Project's field data requirement, clarifying what data currently is available then defining the areas where supplemental data is required. Once that work is complete the Project will be in a position to establish its engineering field programs.

The Project is in the process of defining its plans for the phase of the Project after the Open Season.

**Attachment 3: Monitoring of the Project Team's (TransCanada and ExxonMobil)
Progress on the Alaska Pipeline Project (APP)**

December 2009

Patrick Anderson of Pingo International Inc., Keith Dodson of Westney Consulting Group (consultants to the State of Alaska) along with Mark Myers and Eric Hatleberg from the State of Alaska met with Project Team (PT) representatives in their Calgary and Houston offices on December 2nd through December 4th, 2009 to obtain a status report on their efforts to develop the Alaska Pipeline Project (APP). The following are the PT representatives who were met with during these visits:

- Paul Pike-APP Senior Project Executive
- Vince Alberico-GTP Senior Project Manager
- Mel Johnson-Project Director-Pipeline and Compression
- Marty Heeg-Commercial Manager
- Deb Raught-Technical Manager
- Raul Lopez-Engineering Manager-Gas Treatment Plant (GTP)
- Rick Elder-Business Manager
- David Montemurro-Environmental, Regulatory and Land (ERL) Manager - Canada
- Robert Eadie-GTP Execution Planning Manager-(via phone call)
- Harold Retzloff- Lead Project Accountant
- Rick Harrelson- Front End Execution Planning Coordinator – Pipeline & Compression
- Karen Etherington-Environmental Planning and Permitting Advisor
- Joe Zhou- Pipeline Engineering Manager
- Jim Kyfiuk-Project Contacts Manager
- Richard Fafara-Construction Subject Matter Expert
- Susan Kost-Senior Project Coordinator
- Christina Mockridge-Project coordinator
- Dan Begley- Land and Stakeholder Outreach Lead -Canada
- Ken Taylor-Environmental Subject Matter Expert

- Brandon Henneke-Interface Coordinator

The people were met individually in some cases and in small groups in other cases. The goals of the meetings were to gather the following information:

4. Understand the progress the individual groups have made since the October 2009 series of meetings.
5. Identify any issues that have arisen that may significantly affect the scope of the Alaska Pipeline Project, its cost or its timing.
6. Review the current schedule the PT has developed for this project and evaluate the probability that PT will be able to complete an Open Season by the end of July 2010.

This Monthly Monitoring Report is written as an update to the previous Monthly Monitoring Report. The basic data on things like Project scope, schedule expectations and involved parties included in the previous Monthly Monitoring Reports will not be repeated.

The following issues were among those discussed during the above series of meetings:

1. In several of the meetings we asked the same three questions:
 - Are you aware of any significant unplanned events that have happened since we met last?
 - Are you aware of any issues in your area of responsibilities that would preclude your group from being able to provide the deliverables that are necessary to support the Open Season process that concludes at the end of July 2010?
 - Are the groups you are responsible for on budget and on schedule when measured against the \$150 million Open Season phase budget.

In every meeting with the PT where we asked these questions we received the same answer to these questions. No significant unplanned events, no concern about being able to provide the Open Season deliverables on time and all the groups were on budget and on schedule.

We were told in a number of meetings that it is going to be very busy between now and the end of January to complete all the work necessary to support the end of January FERC Open Season Plan filing.

2. Mark Myers (AGIA Coordinator) joined Eric Hatleberg, Patrick Anderson and Keith Dodson in the December meetings. A total of 10 meetings with 20 TC and EM Project personnel were held in Calgary and Houston on December 2nd through December 4th. On the morning of December 3rd in Worley Parsons Calgary offices there was also a

review of the pipeline route characteristics as well as minor reroute options being considered.

3. The APP Leadership said that the Open Season phase technical work and execution planning for the Project is effectively complete. The Project is now working hard on the cost and schedule estimation process.

A range of estimated costs and a Project schedule will be developed for the end of January filing to FERC of the Project's Open Season plan.

4. The responses to the RFQ for the environmental contractors in Alaska and Canada have been received and analyzed. The top three bidders in each country were interviewed. The plan is to make an award recommendation to Project's Management Team in early December. Once the decision is made, the Project will finalize the negotiations of the commercial terms and award the contract. The goal is to award the contracts in December but it is possible the award will slip into January.
5. One of the first tasks of the new environmental contractors in Alaska and Canada is to plan the field programs for the summer and winter of 2010 that are necessary to support the Project's design, environmental review and regulatory applications. In addition to these environmental field programs, the Project's Technical Team is planning field programs in 2010.
6. Earlier in 2009 the total pipeline route in Alaska and Canada was flown to acquire Lidar data. Portions of the processed Lidar data are starting to be received by the Project. The Technical Team is currently completing quality checking of the received segments. All segments of Lidar data are expected to be received in the first quarter of 2010.
7. The draft report from Golder Associates (Alaska) on the geophysical program completed this summer has been received by the Project. Once final, this data will be integrated with the Lidar data for the area. Worley Parsons will process the geophysical data further once it is finalized.
8. The next in a series of meeting with the governmental groups regarding the need for infrastructure upgrades in Alaska and the Yukon has been set for early January. The Project is confident that by that time they will be in a good position to brief the groups on the Project's estimated infrastructure requirements.

**Attachment 4: Monitoring of the Project Team's (TransCanada and ExxonMobil)
Progress on the Alaska Pipeline Project (APP)**

February 2010

Patrick Anderson of Pingo International Inc. and Eric Hatleberg and Marie Crosley from the State of Alaska met with Project Team (PT) representatives in their Anchorage and Calgary offices on February 23rd and 25th, 2010. The purpose of the meetings was to obtain a status report on their efforts to develop the Alaska Pipeline Project (APP). The following are the PT representatives who were met with during these meetings:

- Mel Johnson- Project Director-Pipeline and Compression
- Dave Johnson-Manager-Safety, Security, Health & Environment
- Deb Raught-Technical Manager
- David Montemurro-Environmental, Regulatory and Land (ERL) Manager
- Canada
- Jack Beattie-Director, Engineering Manager
- Myron Fedak-ERL Manager-Alaska
- Harold Retzloff- Lead Project Accountant
- Joe Zhou- Pipeline Engineering Manager
- Dave Pragnell-Compression Lead
- Steve Hall-Gas Quality Engineer
- Ken Taylor-Environmental Subject Matter Expert
- Susan Kost-Senior Project Coordinator
- Dan Begley- Land and Stakeholder Outreach Lead -Canada

The people were met individually in some cases and in small groups in other cases. The goals of the meetings were to gather the following information:

1. Understand the progress the individual groups have made since the December series of meetings.

2. Identify any issues that have arisen that may significantly affect the scope of the Alaska Pipeline Project, its cost or its timing.

This Monthly Monitoring Report is written as an update to the previous Monthly Monitoring Report. The basic data on things like project scope, schedule expectations and involved parties included in the previous Monthly Monitoring Reports will not be repeated.

The following issues were among those discussed during the above series of meetings:

1. In many of the meetings we asked the same questions:
 - Are you aware of any significant unplanned events that have happened in the last month?
 - Are the groups you are responsible for on budget and on schedule when measured against the \$150 million Open Season phase budget.

In every meeting with the PT when we asked these questions, we received the same answer. No significant unplanned events and no major concern about being able to meet the \$150 million Open Season phase budget.

2. A contract has recently been awarded to the URS group for providing environmental consulting services to the Alaska ERL group. URS has subcontracted part of the work to AECOM and ASRC. The core team will work out of the URS offices in Anchorage. The plan is to develop an integrated team that selects the most qualified individuals.

The Canadian ERL group has also awarded contracts for the provisions of environmental consulting services. Tera will handle certain aspects of the work and Stantec will handle the remainder.

3. One of the biggest tasks at the moment for the ERL groups is the development of a 2010 summer field program. In addition to developing a scope of work and identifying potential execution contractors the Team has to develop a strategy for obtaining all the necessary permits from various governmental groups and landowners.
4. Beginning in March 2010 the Alaska ERL Team will start meeting with various Alaska Regional Corporations to discuss the Regional Corporation issues with the Project. Once these meetings get started the Alaska ERL Team plan to pursue meetings with other groups.
5. The Project is in the process of developing a borehole database that will include all the borehole information available to the Project. This data as well as other data sources are being used to identify the portions of the Project's data requirements that must be obtained in Project sponsored field programs. We were told that there are a number of data requirements that do not have to wait for the completion of the data gap analysis.

These data requirements are potentially included in the 2010 summer technical field program.

6. The Project has identified 10 active seismic faults in Alaska that might intersect with the pipeline route. Part of the 2010 summer field program will be field investigations of some of these fault lines. At the moment the Project's assumption is that at all crossings of active fault lines the pipeline will be above ground.
7. All the processed Lidar data has now been received and it is being used by the Project's pipeline engineering contractor to develop a digital elevation model of the pipeline route. This data would then be added to the GIS database for the Project.
8. The geophysical data from the pilot project north of Fairbanks has been completed and sent to Project's pipeline engineering contractor. The Project has concluded this land based technique provides the level of accuracy required for the strain based design permafrost span length calculations. The Project is in the process of determining where additional land based geophysical surveys will be necessary. It is possible both land based and aerial based geophysical surveys as well as site specific bore holes will be required.

The Project continues to meet with pipe companies who have a potential to manufacture the Project's pipe requirements. Samples of pipe very close to the Project pipe specifications have been received from a few pipe companies. These samples are in the process of being evaluated in various laboratories.

**Attachment 5: Monitoring of the Project Team's (TransCanada and ExxonMobil)
Progress on the Alaska Pipeline Project (APP)**

March 2010

Patrick Anderson of Pingo International Inc., Keith Dodson from Westney Consulting Group (consultants to the State of Alaska) and Eric Hatleberg from the State of Alaska met with Project Team (PT) representatives in their Houston and Calgary offices on March 12th, March 31st and April 1st 2010. The purpose of the meetings was to obtain a status report on their efforts to develop the Alaska Pipeline Project (APP). The following are the PT representatives who were met with during these meetings:

- Paul Pike-APP Senior Project Executive
- Mel Johnson- Project Director-Pipeline and Compression
- Vince Alberico-GTP Senior Project Manager
- Marty Heeg-Commercial Manager
- Deb Raught-Technical Manager
- Raul Lopez-Engineering Manager-Gas Treatment Plant (GTP)
- Rick Elder-Business Manager
- Jack Beattie-Engineering Manager, Pipeline and Compression
- David Montemurro-Environmental, Regulatory and Land (ERL) Manager - Canada
- Mike Quesnel-Director, Project Services
- Michal Mensik-Manager, Pipeline Development
- Elizabeth Swanson-TC Lawyer
- Harold Retzloff- Lead Project Accountant
- Rick Harrelson-Front End Execution Planning Coordinator – Pipeline & Compression
- Dave Pragnell-Compression Lead
- Ken Taylor-Environmental Subject Matter Expert
- Darren McLean-Pipeline Operations Advisor
- Manny Samson- Abandonment Subject Matter Expert

- Shelly Kerns-Stakeholder Subject Matter Expert
- John Greenslade-Permafrost Subject Matter Expert
- Christina Mockridge-Project Coordinator
- Dave Kemmet-Land Subject Matter Expert
- Brandon Henneke-Interface Coordinator

The people were met individually in some cases and in small groups in other cases. The goals of the meetings were to gather the following information:

1. Understand the progress the individual groups have made since the February series of meetings.
2. Identify any issues that have arisen that may significantly affect the scope of the Alaska Pipeline Project, its cost or its timing.

This Monthly Monitoring Report is written as an update to the previous Monthly Monitoring Report. The basic data on things like project scope, schedule expectations and involved parties included in the previous Monthly Monitoring Reports will not be repeated.

The following issues were among those discussed during the above series of meetings:

1. In many of the meetings we asked the same questions:
 - Are you aware of any significant unplanned events that have happened in the last month?
 - Are the groups you are responsible for on budget and on schedule when measured against the \$150 million Open Season phase budget.

In every meeting with the PT where we asked these questions, we received the same answer. No significant unplanned events and no major concern about being able to meet the \$150 million Open Season phase budget.

2. The Project is planning to gather information in the field so that preliminary design can progress and the information requirements of the EIS can be gathered. The summer program in 2010 is the first step in a multi step process that will occur over the next few years. Planning for the summer of 2010 field program is well advanced.

Technical areas where the Project plans to conduct field work include:

- a. Boreholes to support the strain based design efforts
- b. Fault line delineation
- c. Boreholes near some of the potential HDD river crossings

- d. Bathymetry on the Kluane Lake
- e. Reviewing existing borrow pits to determine how much borrow is still available
- f. Studies at a limited number of critical slopes.
- g. On site review of route refinement options
- h. Obtaining bulk soil samples for ongoing uplift resistance and frost heave testing

The environmental field work is planned to include:

- i. Predictive ecosystem mapping for things like:
 - a. Soil and wildlife
 - b. Hydrological survey
 - c. Habitat sensitivities
 - d. Fisheries inventory
 - ii. Traditional land use, traditional knowledge
 - iii. Air quality
 - iv. Socioeconomic data
 - v. Existing noise levels
3. One of the unique aspects of constructing and operating a long distance pipeline in the arctic is developing the cathodic protection system. It is normally used to ensure the pipeline does not corrode and will not be affected by the existence of telluric currents. These currents are caused by the occurrence of the northern lights. The Project has recently completed studies that will guide them in designing the pipeline so that these telluric effects are properly mitigated.
4. The Project has obtained samples of 48" arctic grade pipe from a number of suppliers and is in the process of completing test welds using the various welding systems likely to be used on the Project. The results of these test welds and subsequent materials testing will help the Project design the pipeline as well as provide a more accurate estimate the time required to complete production and tie-in welds.
5. The Project has been in discussion with government officials in Alaska regarding the infrastructure requirements of the Project. In addition, discussions are taking place with the Truckers Association in Alaska in an effort to confirm the capabilities of the Alaska based trucking industry.

6. The Project is undertaking optimization and refinement studies to improve the GTP and pipeline designs. They are looking at the potential for reducing cost, reducing impact to the environment and increasing execution efficiency during construction and operations

The Project received FERC approval of its Open Season Plan and was actively working to provide immediate access to data rooms for inspection of its documents and information.