

## Preliminary Finance Plan

This Preliminary Finance Plan (the “Plan”) presents the base-case view of the financing structure and costs associated with the Alaska Pipeline Project (“Project”) at the time of the Project’s Open Season regulatory filing. In developing this Plan, the Project has reviewed current financial market conditions, consulted with representatives of the banking community, and held discussions with various relevant government agencies. The specific credit terms, tenor, and rates associated with the Project’s contemplated debt financing will depend upon financial market conditions at the time the debt is raised. Moreover, as issues associated with each element of the Plan continue to be progressed, modifications to the Plan may be required.

The Plan contemplates financing the entire project including the gas transmission system from Point Thomson to Prudhoe Bay, the gas treatment plant (“GTP”), the pipeline system from the outlet of the GTP to the Alaska-Canada border, or alternatively, to Valdez, and the pipeline system from the Alaska-Canada border to the B.C.-Alberta border near Boundary Lake. At this stage, no distinction is made between financing the U.S. and the Canadian portions of the project. The Plan assumes the Project will be ‘project-financed’ and the debt will have limited recourse to the Sponsors.

In order to maximize the capital available to the Project while minimizing costs, the Plan targets a Project credit rating of at least A-/A3. A key element in achieving the target rating will be the credit provisions for Foundation Shippers who will be required to maintain a credit rating equal to or greater than A-/A3 and meet an acceptable tangible net worth threshold. For other shippers whose commitment is less than 200,000 MMBtu/d, a BBB/Baa2 credit rating plus an acceptable tangible net worth threshold will be required.

The Alaska Natural Gas Pipeline Act of 2004 (“ANGPA”) provides for the issuance of Federal Loan Guarantees (“FLG”) by the U.S. Department of Energy (“DOE”) to the holders of certificates for the construction and operation of the Alaska pipeline (Section 116). The Project recognizes that there are potential benefits and costs associated with securing FLGs. One of the primary objectives of the Project is to work with DOE to clarify the terms and conditions of the FLG.

The Project has identified capital cost overrun credit support as one of the possible uses of the FLG. At this early stage, it is premature to estimate the amount of capital cost overrun provision that might be required. For the purpose of determining the indicative tolls, 100% of the FLG at the current legislated amount of \$18 billion (2004\$) is assumed to be available for providing credit support to the base capital cost. As the project plans are refined and updated over time, and subject to the U.S. Government approval and the debt market capacity and availability, the viability and amount of FLG allocated for supporting the potential capital cost overruns will be evaluated and determined.

Amendments to the ANGPA provisions have been proposed and are currently working their way through the legislative process. Notably, it is proposed that the maximum amount of any outstanding guarantees be raised to \$30 billion (2004\$) and that application of the guarantees be made more flexible to accommodate the complexity of the anticipated financing.

Equity contributions from Sponsors will finance project development during the period up to Project Sanction and, thereafter, pro-rata with debt to fund the capital expenditures to provide an overall target debt equity ratio of 70/30 during the construction phase. Upon completion of

the entire Project, including the GTP, the equity ratio will be reduced to 25% through a corresponding take-out financing in the debt market.

Indications from financial institutions suggest that bank debt will be limited in terms of capacity and tenor. Bank commitments will be secured upfront and will be available during the construction phase to supplement the bond debt program. Once the Project is operational and financial completion has been achieved, the bank loan is assumed to be taken out by further issuances of bond debt.

Financing will rely heavily on the depth and capacity of the bond market. As such, a multi-year bond program – consisting of numerous tranches of various tenors – is likely during the construction phase in order to minimize negative carry. The program will be structured such that the bonds will have laddered bullet maturities to match the tariff depreciation profile. The majority of bonds will carry the backing of the FLGs (“Covered Bonds”), but, based on the limited capacity associated with the currently legislated FLG, a portion will not (“Uncovered Bonds”).

Interest rate assumptions in the Plan are:

- Debt with FLG support – 10-year U.S. Treasury rate + 75 bps
- Debt without FLG support – 10-year U.S. Treasury rate + 300 bps