MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING (the "**MOU**") is made effective and entered into this 12th day of December, 2013 (the "**Effective Date**"), by **TRANSCANADA ALASKA COMPANY, LLC** ("**TC Alaska**"), a Delaware limited liability company, **FOOTHILLS PIPE LINES LTD.** ("**Foothills**" and together with TC Alaska, the "**Licensee**"), a Canadian corporation, in their capacity as the Licensee under AGIA, **TRANSCANADA ALASKA DEVELOPMENT INC.** ("**TADI**"), a Delaware corporation, and **THE STATE OF ALASKA** (the "**State**") acting through the Alaska Commissioner of Natural Resources and the Alaska Commissioner of Revenue ("**Commissioners**") pursuant to their authority under Alaska Gasline Inducement Act ("**AGIA**"), AS 43.90.010 *et seq.*;

Recitals

1. The Alaska Legislature enacted AGIA in 2007 to encourage expedited construction of a natural gas pipeline that facilitates commercialization of North Slope oil and gas resources in the state to promote exploration and development of North Slope oil and gas resources in the state, to maximize benefits to the people of the state from the development of oil and gas resources in the state, and to encourage oil and gas lessees and other persons to commit to ship natural gas from the North Slope to a gas pipeline system for transportation to markets in this state or elsewhere.

2. On December 5, 2008, the Commissioners issued the AGIA license to Licensees. The Licensees, and subsequently with an affiliate of ExxonMobil, commenced to jointly develop the AGIA pipeline project in Alaska and Alberta as the Alaska Pipeline Project ("**APP**"). Over the following three years, the Licensee pursued the APP in compliance with AGIA requirements to timely conduct an initial binding open season and engage in the pre-filing process to prepare its project application to Federal Energy Regulatory Commission ("FERC") for a certificate of public convenience and necessity.

3. In October 2011, in response to changed circumstances in world gas markets, including a substantial increase in U.S. shale gas reserves and lower natural gas prices in the U.S., significantly higher natural gas prices in Asia and other world markets, and the projection that the U.S. will become a net exporter of natural gas, Governor Parnell requested the Licensee to work cooperatively with the Alaska North Slope oil producers (ExxonMobil, BP and ConocoPhillips, jointly "**ANS Producers**") to evaluate the economic feasibility of a liquefied natural gas ("**LNG**") alternative.

4. In response to the Governor's request, the Licensees requested a project plan amendment ("PPA") to the AGIA license to facilitate participation by the APP with the ANS Producers in a concept selection assessment of an LNG alternative specifically relating to gas pipeline facilities to deliver natural gas from the Alaska North Slope to the tidewater of south-central Alaska for in-state use and export. The Commissioners approved the Licensee's PPA authorizing the Licensee to participate in a concept selection process for the Alaska LNG Project with the ANS Producers. The Commissioners approved additional PPAs to facilitate the Licensee's continued participation with the ANS Producers in completion of the concept selection phase for the Alaska LNG Project.

5. The Licensee, through its affiliate, TADI, and the ANS Producers have selected a concept for the Alaska LNG Project and are preparing for the pre-FEED phase of the Alaska LNG Project.

6. The Commissioners have determined that in order to facilitate the financing and expedite the development and construction of the Alaska LNG Project it is desirable for the State to participate with the Licensee and the ANS Producers in the Alaska LNG Project. State participation in the Alaska

LNG Project is expected to yield significant benefits, including the alignment of interests, greater transparency for the State on the commercial terms of the project, and the reduction of disputes. As part of its participation in the Alaska LNG Project, the State would enter into certain commercial agreements with the Licensee, TADI and the ANS Producers, subject to legislative authorization for this purpose.

7. The Commissioners have determined that the State will benefit by entering into commercial arrangements with TADI for participation in the Alaska LNG Project. The Licensee's TADI's and its Affiliates' extensive pipeline experience and knowledge of northern pipeline conditions is an asset to the State's participation. The information gained and the assets developed by the Licensee and its Affiliates in developing the APP project under AGIA will significantly contribute to the development and construction of the Alaska LNG Project, and promote the State's objectives of facilitating construction of a natural gas pipeline that promotes exploration and development of oil and gas resources on the North Slope and maximizes benefits to the people of the State from the development of oil and gas resources.

8. The Commissioners have determined that it is in the State's interest to continue its relationship with the Licensee and its Affiliates as an experienced pipeline developer and to transition from the AGIA license to a commercial relationship between the State and TADI through TADI (an Affiliate of the Licensee) in relation to the Alaska LNG Project. To maintain project momentum and promote continued cooperation between the AGIA Licensee and the ANS Producers, the Commissioners, exercising their authority under AS 43.90.210, have approved the Licensee's request for PPA-1B for the Licensee's continued participation with the ANS Producers in preparation for the pre-FEED phase of the Alaska LNG Project and to prepare for the transition mentioned above. (Exhibit "A")

9. The Commissioners have engaged in discussions with the Licensee, TADI and the ANS Producers to determine commercial arrangements that would be feasible and desirable for the State to participate in the Alaska LNG Project. The Commissioners, TADI and the Licensee have determined that certain commercial arrangements are necessary in order for the State to participate with TADI to facilitate the Alaska LNG Project. The terms of those commercial arrangements are provided in the term sheets at Exhibit B and Exhibit C to this MOU. The Commissioners, TADI and the Licensee acknowledge that the terms provided in Exhibits B and C have no force or effect until the effective date of the Enabling Legislation (defined below) that authorizes the State to negotiate and execute the commercial agreements that are set out in the terms of the Exhibits to this MOU. The terms of commercial agreements that the State has discussed with ANS Producers to facilitate the State's participation in the Alaska LNG Project, are provided in separate documents and are not part of this MOU.

10. The Commissioners, TADI, and the Licensee agree that execution of the Transition Agreements (as defined below) will complete the transition of the relationship between the State, TADI, and the Licensee from AGIA to a commercial arrangement. Subject to Enabling Legislation, upon execution of the Transition Agreements, and finalization of commercial relations with ANS Producers for the Alaska LNG Project:

a. TADI or its Affiliate would hold an ownership interest in the midstream portion of the Alaska LNG Project;
b. The State would hold an option to acquire an equity interest in the TADI or the TADI Affiliate that will hold TADI's ownership interest in the Alaska LNG Project as identified in the Term Sheet at Exhibit B; and
c. TADI or its Affiliate would provide gas processing and transportation services on the Alaska LNG Project for the State's share of gas as identified in the Term Sheet at Exhibit C.

11. The Commissioners have committed that after Enabling Legislation becomes effective and execution of the commercial agreements committing the ANS Producers to initiate the pre-FEED phase of the Alaska LNG Project, the Commissioners will initiate the process of making a determination for purposes of AS 43.90.240(a). Because it is not economically feasible that two large-scale pipeline projects will be developed concurrently to transport Alaska North Slope natural gas to market, the Commissioners have committed to consider the commercial agreements executed by and between the State, TADI and the ANS Producers for development of the Alaska LNG Project as material evidence that the Licensee's AGIA licensed project is uneconomic as provided in AS 43.90.240(a).

12. The Licensee has committed that upon the occurrence of the Trigger Event and the execution of the Transition Agreements, the Licensee will agree that the project licensed under the AGIA License is uneconomic within the meaning of AS 43.90.240(a).

13. The purpose of this MOU is to set out the Parties' agreement regarding the negotiation and execution of the Transition Agreements upon the occurrence of the Trigger Event, specifically –

a. the Alaska LNG Project Equity Option Agreement; and
b. the Alaska LNG Midstream Services Agreement.

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, each Party to this MOU hereby agrees as set forth below.

ARTICLE 1
DEFINED TERMS

1.1 Defined Terms

The following definitions shall, for all purposes, unless otherwise clearly indicated to the contrary, apply to the capitalized terms used herein:

(a) "**Affiliate**" means in relation to a Party any company, corporation, partnership or other legal entity (in this definition, each such entity and each Party are sometimes referred to as a "Company") which is:
(i) directly or indirectly, owned or controlled by such Party;
(ii) directly or indirectly owns or controls such Party; or
(iii) directly or indirectly, owned or controlled by a Company that also, directly or indirectly, controls such Party.

For the purpose of this definition, a Company is directly owned or controlled by another Company that owns or controls shares or other interests carrying in the aggregate more than 50 percent of the voting rights exercisable at a general, shareholders, or members meeting of the first-mentioned Company, or the right to appoint or dismiss a majority of the directors thereof, or the power to direct or cause the direction of the management or policies through the ownership of securities, by contract or otherwise. A Company is indirectly owned or controlled by a Company or Companies (the "parent Company or Companies") if a series of Companies can be specified, beginning with the parent Company or Companies and ending with the particular Company, so related that each Company of the series, except the parent Company or Companies, is directly controlled by one or more of the Companies in the series.

For the purpose of this definition, the definition of a State Affiliate includes the State of Alaska acting in its proprietary capacity, any State authority or independent public corporation of the State ("IPC"), any subsidiary corporations created by an IPC ("SIPC"), and the State governmental entity members of any such IPC and SIPC.

(b) "**AGIA**" means the Alaska Gasline Inducement Act, AS 43.90, as well as the regulations promulgated thereunder.

(c) "**AGIA License**" means the license dated December 5, 2008, as amended by project plan amendments approved on January 29, 2010, May 2, 2012, June 11, 2013 and December 12, 2013.

(d) "**AGIA Project Plan Amendment1B**" means the project plan amendment under the AGIA License approved by the Commissioners pursuant to AS 43.90.210 on December 12, 2013, (attached hereto as Exhibit "A").

(e) "**Alaska LNG Midstream Services Agreement**" means a Precedent Agreement (or similar agreement), and a Firm Transportation Services Agreement entered into between TADI and the State containing the terms set out in Exhibit "C".

(f) "**Alaska LNG Project**" means collectively, the PBU Gas Transmission Line, the PTU Gas Transmission Line, the Gas Pipeline, the Gas Treatment Plant, the LNG Plant, and the Marine Terminal. For the purposes of this definition:

(i) "PBU Gas Transmission Line" means a natural gas transmission line from the outlet flange of the Prudhoe Bay Unit Central Gas Facility to the inlet flange of the GTP;

(ii) "PTU Gas Transmission Line" means a natural gas transmission line from the outlet flange of the Point Thomson Unit production facility to the inlet flange of the GTP;

(iii) "Gas Treatment Plant" or "GTP" means those facilities and related activities required to receive natural gas from the PBU Gas Transmission Line, the PTU Gas Transmission Line, and/or other facilities, treat the natural gas to pipeline specifications, dispose of or deliver by-products, deliver liquid products for further transportation, and deliver treated natural gas for transportation through the Gas Pipeline;

(iv) "Gas Pipeline" means the main natural gas pipeline from the outlet flange of the GTP on the Alaska North Slope to the inlet flange of the LNG Plant located in South Central Alaska, which may have off-take points along the pipeline for deliveries of gas within the State of Alaska (Gas Pipeline refers to the main gas pipeline and does not include any gas lines downstream of any off-take point between the GTP and the LNG Plant);

(v) "LNG Plant" means the facility, including the structures, equipment, underlying land rights and all other associated systems, for pre-processing and liquefaction of natural gas, and storage, and off-loading of liquefied natural gas; and "Marine Terminal" means the terminal and those facilities required to receive LNG from the boundary of the LNG Plant for marine transportation, including auxiliary vessels used in the operation of the terminal.

(g) "**Alaska LNG Project Equity Option Agreement**" means an agreement to be entered into between TADI and the State containing the terms set out in Exhibit "B".

(h) **"ANS Producers"** has the meaning given in paragraph 3 of the recitals.

(i) **"CSA"** means the Concept Selection Agreement for ANS Gas Development dated March 29, 2012 between TADI and the ANS Producers, as amended from time to time.

(j) **"Commissioners"** has the meaning given in the preamble of this MOU.

(k) **"Effective Date"** has the meaning given in the preamble to this MOU.

(l) **"Enabling Legislation"** means legislation enacted by the Alaska Legislature that has become effective as provided under AS 01.10.070 , and that at a minimum:

(i) Authorizes the Commissioners to negotiate and enter into the Transition Agreements, and

(ii) Authorizes the Commissioners to negotiate and enter into commercial arrangements with the ANS Producers for the Alaska LNG Project;

(iii) Funds the State's contingent and direct payment obligations for development costs under the Precedent Agreement and Article 4.2 of this MOU.

(m) **"HOA"** means the Heads of Agreement to be executed between the State, TADI, the ANS Producers and Alaska Gasline Development Corporation.

(n) **"MOU"** means this memorandum of understanding and the attachments hereto.

(o) **"Operative Terms"** means the terms to be incorporated in the Transition Agreements set out in Exhibits "B" and "C", as same may be modified as a result of the application of Article 2.1(e).

(p) **"Parties"** means TransCanada Alaska Company, LLC., Foothills Pipe Lines Ltd., TransCanada Alaska Development Inc., and the State of Alaska.

(q) **"Pre-FEED JVA"** means the Alaska LNG Project Pre-FEED Venture Agreement to be executed, after Enabling Legislation becomes effective, by the ANS Producers, TADI and Alaska Gasline Development Corporation on terms acceptable to the parties, as may be amended from time to time.

(r) **"Precedent Agreement"** means the precedent agreement referred to in Alaska LNG Midstream Services Agreement Term Sheet attached hereto as Exhibit "C".

(s) **"Transition Agreements"** mean the Alaska LNG Project Equity Option Agreement and the Alaska LNG Midstream Services Agreement.

(t) **"Trigger Event"** means the effective date of Enabling Legislation that the Licensee, TADI and the State determine to be acceptable. For purposes of determining whether the Enabling Legislation is acceptable, the Parties will evaluate whether the Enabling Legislation provides appropriate and sufficient authority to the State;

(i) to negotiate and execute the Precedent Agreement and the Alaska LNG Project Equity Option Agreement;

(ii) to negotiate the Firm Transportation Services Agreement; and

(iii) to fund the State's contingent and direct payment obligations for development costs under the Precedent Agreement and Article 4.2 of this MOU.

1.2 Exhibits

The following exhibits are attached to and form part of this MOU:

Exhibit "A"	AGIA Project Plan Amendment #1B
Exhibit "B"	Alaska LNG Project Equity Option Agreement Term Sheet
Exhibit "C"	Alaska LNG Midstream Services Agreement Term Sheet

ARTICLE 2
TRANSITION AGREEMENTS

2.1 Negotiation of Transition Agreements

(a) The Parties and the ANS Producers have agreed that it is necessary and a condition subsequent for this MOU for the Legislature to enact Enabling Legislation. The State undertakes to seek Enabling Legislation.

(b) The Parties agree that they shall promptly proceed in good faith to negotiate the Transition Agreements, to be finalized and executed after the Trigger Event.

(c) The Parties acknowledge that the Operative Terms (as defined in Exhibits "B" and "C") set forth the understanding of the Parties as to the commercial principles set forth therein and, subject to Articles 2.1 (d) and (e) below, shall form the basis for negotiation of the Transition Agreements. The Parties acknowledge that the Operative Terms set forth in Exhibits "B" and "C" have been agreed by the Parties and that subject to Articles 2.1 (d) and (e) below, the provisions of the Transition Agreements shall be consistent with the commercial principles set out in the Operative Terms. Subject to Articles 2.1 (d) and (e) below, no Party shall negotiate any term in the Transition Agreements inconsistent with the Operative Terms. However, the Parties acknowledge and agree that Exhibits "B" and "C" do not contain all of the terms and conditions that would be included in the legally binding Transition Agreements between the Parties.

(d) The Parties agree to support the approval of the Operative Terms in the Enabling Legislation, but acknowledge that the Enabling Legislation may include authorizations or conditions that vary from or conflict with the Operative Terms. In such event, and if Parties agree to accept the Enabling Legislation, then the Transition Agreements will reflect the Enabling Legislation terms and conditions notwithstanding the Parties' acknowledgement in Article 2.1(c) above.

(e) The Parties acknowledge that insofar as the terms of the Heads of Agreement ("HOA"), the Pre-Feed JVA, or any future Alaska LNG agreement to which the SOA or an entity of the SOA (including AGDC) is a party or which the State has approved are at variance with the Operative Terms, the Operative Terms shall be deemed to be amended to the extent necessary to conform to the HOA, the Pre-Feed JVA, or other such agreements, as the case may be, notwithstanding the Parties' acknowledgements in Article 2.1(c) above.

ARTICLE 3
TIMELINES

3.1 Timeline Commitment

(a) TADI and the State shall use reasonable commercial efforts to finalize, execute and deliver the Alaska LNG Project Equity Option Agreement and the Alaska LNG Midstream Services Agreement as soon as commercially reasonable after the Trigger Event, not to exceed ninety (90) days after the Trigger Event, unless extended with the joint approval of the Parties.

(b) It shall be a condition precedent to the effectiveness of each Transition Agreement that each other Transition Agreement be fully executed and delivered to the applicable Parties.

3.2 Notice of Enabling Legislation. Within 30 days after the effective date of the Enabling Legislation each Party shall notify the other Parties in writing if the Enabling Legislation is not acceptable to it. If a Party fails to so notify the other Parties, then that Party shall be deemed to have given notice that the Enabling Legislation is acceptable.

ARTICLE 4
TERM, TERMINATION AND REIMBURSEMENT

4.1 Term and Termination

This MOU shall commence on the Effective Date hereof and shall terminate upon the earliest of:

(a) execution and delivery of all of the Transition Agreements,

(b) upon written notice from any Party pursuant to Section 3.2 that the Enabling Legislation is not acceptable;

(c) upon written notice from one Party to the others if the Alaska LNG Project Equity Option Agreement has not been executed and delivered in accordance with Article 3;

(d) upon written notice from one Party to the others if the Alaska LNG Midstream Services Agreement has not been executed and delivered in accordance with Article 3; or

(e) one hundred twenty (120) days after the Trigger Event, unless extended with the joint approval of the Parties,

(f) upon the last date that Enabling Legislation could be enacted in 2014 by the Legislature, but has not been enacted, or if enacted in 2014 and vetoed, the last date the veto could be overridden; or

(g) July 31, 2014, unless extended with the joint approval of the Parties.

4.2 Development Cost Reimbursement

Provided the Enabling Legislation becomes effective:

(a) If this MOU is terminated for any reason other than pursuant to Section 4.1(a), State shall reimburse TADI for all the post-December 31, 2013 development costs plus an amount equal to the associated AFUDC, at a rate of 7.1%, net of AGIA reimbursement received and retained by the Licensees under AGIA Project Plan Amendment 1B, that have been incurred or committed to by TADI or its

Affiliates under the CSA and the Pre-FEED JVA, including but not limited to TADI's share of contract cancellation penalties and continued funding obligations under such agreements, through the date of termination.

(b) State obligation to reimburse TADI under this Section 4.12 shall be TADI's exclusive remedy in law and equity for such termination.

4.3 Survival. This Article 4 shall survive termination of the MOU.

ARTICLE 5
RELATIONSHIP OF THE PARTIES

5.1 Relationship of the Parties. Neither this MOU nor any other documentation or communication between the Parties shall constitute or create a joint venture, partnership, legal entity, or other similar business combination or arrangement between the Parties. Each Party shall act only on an individual and several basis. No Party shall have the right to act as an agent for or a servant or employee of the other Parties, to make commitments or assume obligations for and on behalf of the other Parties, or to bind the other Parties for any purpose whatsoever.

ARTICLE 6
NOTICES

6.1 Notices. Any and all notices between the Parties given under or in relation to this MOU shall be in writing and shall be deemed to have been given if personally delivered, delivered and confirmed by telecopier or like instantaneous transmission device, delivered by a reputable overnight delivery service, or sent by certified mail (postage prepaid, return receipt requested), addressed as follows:

If to the State:

Joe Balash
Commissioner, Department of Natural Resources
550 W. 7th #1400
Anchorage, AK 99501
Phone: 907-269-8431
Facsimile: 907-269-8918
joe.balash@alaska.gov

Angela Rodell
Commissioner, Department of Revenue
P.O. Box 110400
Juneau, AK 99811-0400
Phone: 907-465-2300
Facsimile: 907-465-2389
angela.rodell@alaska.gov

If to Foothills, TADI or TC Alaska

Anthony Palmer
Vice President, Major Projects Development
TransCanada PipeLines Ltd.
450-1st Street, S.W.
Calgary, AB T2P 5H1
Phone: 403-920-2035
Facsimile: 403-920-2318
tony_palmer@transcanada.com

With a copy to:

c/o TransCanada
450-1st Street, S.W.
Calgary, AB T2P 5H1
Attn: Corporate Secretary
Facsimile: 403-920-2327

Any Party may at any time or from time to time designate, by written notice to the other Parties, another address in lieu of the address specified above.

ARTICLE 7
GOVERNING LAW AND EFFECT OF MOU

7.1 Governing Law and Jurisdiction. This MOU shall be governed by and construed in accordance with the laws of the Alaska, not including Alaska's choice of law provisions, and the federal laws applicable therein. The Parties do hereby irrevocably and unconditionally submit to the exclusive jurisdiction of the courts of the State of Alaska in connection with any disputes or other matters arising out of or in connection with this MOU.

ARTICLE 8
MISCELLANEOUS

8.1 Assignment. Except in the case of an assignment by a Party to an Affiliate in which event the assigning Party shall remain liable, no Party shall have the right to assign this MOU or any interest in this MOU without the prior written consent of the other Party, which consent may be withheld in the other Party's sole, absolute and unfettered discretion.

8.2 Severability. If any provision of this MOU or the application thereof shall be found by any court of competent jurisdiction to be invalid, illegal, or unenforceable, to any extent and for any reason, and if, after good faith efforts to negotiate replacement provisions, the Parties agree that this MOU should not be voided, it shall be adjusted rather than voided in order to achieve the intent of the Parties. If the Parties agree that this MOU should not be voided, and the intent of the Parties can be achieved, then the remainder of this MOU and the application of such remainder shall not be affected thereby, and shall be enforced to the greatest extent permitted by law. Otherwise, this MOU shall terminate.

8.3 Non-Waiver. No failure or delay by any Party in exercising any right, power, or privilege granted hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power, or privilege hereunder.

8.4 Entire Agreement. This MOU constitutes the entire agreement between the Parties relating to the subject matter hereof, and it supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, between the Parties with respect to the subject matter hereof.

8.5 Amendments. This MOU may not be modified or amended, in whole or in part, except by a supplemental written agreement signed by all Parties.

8.6 Construction. The Parties have participated jointly in the negotiation and drafting of this MOU. In the event an ambiguity or question of intent or interpretation arises, this MOU shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this MOU.

8.7 Counterparts; Multiple Originals. This MOU may be signed and delivered in counterparts with the same effect as if both Parties had signed and delivered the same copy, and when each Party has signed and delivered a counterpart, all counterparts together constitute one Agreement. Delivery of a copy of this Agreement by facsimile or other similar electronic means of communication is good and sufficient delivery.

8.8 No Damages/Dispute Resolution. Except with regard to Section 4.2, no Party shall be liable to any other Party for damages of any kind or nature as a result of a breach or default of its obligations under this MOU. In the event of a breach, other than a breach of Section 4.2, the sole remedy available to a Party is the filing of an action for specific performance.

8.9 Article and Section Headings. The Article and Section headings used in this MOU have been inserted only for convenience to facilitate reference and shall not be determinative in construing the meaning, effect, or application, of any Article, Section, or provision hereof.

IN WITNESS WHEREOF, the Parties have signed this MOU as of the Effective Date.

THE STATE OF ALASKA

By: _____
Name: COMMISSIONER – DNR
Title: JOE BALASH

By: _____
Name: Commissioner - Revenue
Title: Angela Rodell

TRANSCANADA ALASKA COMPANY, LLC

By: _____
Name: Tony Palmer
Title: President

By: _____
Name:
Title:

FOOTHILLS PIPE LINES LTD.

By: _____
Name: Tony Palmer
Title: President.

By: _____
Name:
Title:

TRANSCANADA ALASKA DEVELOPMENT INC.

By: _____
Name: Tony Palmer
Title: President

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Parties have signed this MOU as of the Effective Date.

THE STATE OF ALASKA

By: _____
Name:
Title:

By: _____
Name:
Title:

TRANSCANADA ALASKA COMPANY, LLC

By: _____
Name:
Title:

By: _____
Name: David Kohlenberg
Title: Vice President.

FOOTHILLS PIPE LINES LTD.

By: _____
Name:
Title:

By: _____
Name: RON COOK
Title: VICE PRESIDENT – TAXATION

TRANSCANADA ALASKA DEVELOPMENT INC.

By: _____
Name:
Title:

By: _____
Name: RON COOK
Title: VICE PRESIDENT – TAXATION

LEGAL	
CONTENT	

THE STATE of ALASKA

GOVERNOR SEAN PARNELL

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

December 12, 2013

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

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

Dear Mr. Palmer:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONCLUSIONS

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

1. PPA Request 1B consists of the request to perform the 2014 Work.

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

3. PPA Request lB is consistent with the requirements of AS 43.90.130.

4. PPA Request 1B does not substantially diminish the value of the project to the state or the project's likelihood of success.

5. PPA Request lB is approved as provided herein, subject to the conditions discussed herein.[7]

Sincerely,

Joe Balash
Commissioner
Department of Natural Resources

Angela Rodell
Commissioner
Department of Revenue

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

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

EXHIBIT B TO MEMORANDUM OF UNDERSTANDING BETWEEN TRANSCANADA ALASKA COMPANY, LLC, FOOTHILLS PIPE LINES, LTD, TRANSCANADA ALASKA DEVELOPMENT, INC. AND THE STATE OF ALASKA

ALASKA LNG PROJECT EQUITY OPTION TERM SHEET

This Term Sheet is attached to and made a part of the Memorandum of Understanding between the Parties and is subject to the terms and conditions of the MOU. Capitalized terms in this Term Sheet shall have the same meaning as in the MOU, unless the context suggests otherwise.

For purposes of the MOU, Section 2.1(c), the following sets forth the operative terms of this Equity Option Term Sheet ("Operative Terms"):

1. Upon execution of the Transition Agreements, TADI or its Affiliate would grant the State an exclusive and irrevocable right to acquire ("Option"), either for its own account or through a State Affiliate designated by the State acting through the Commissioners (the "Optionee"), up to 40% (see point 2 below) of the limited partnership interests in one or more limited partnerships (or similar entities; see point 10 below) (the "Limited Partnership") that would hold an equity participation interest (see point 2 below) in the PTU Gas Transmission Line, PBU Gas Transmission Line, GTP, and Gas Pipeline (collectively, the "Midstream Component").

2. The Parties intend that the Limited Partnership's equity participation interest in the Midstream Component would be equal to the greater of (a) the State's percentage share of the natural gas delivered to the Midstream Component by the ANS Producers from the State's total in-kind or in-value interest in the ANS Producer's natural gas production (whether royalty, production tax, or other gas in lieu of payment (collective, the "State's Share"), or (b) 14.0%. The Optionee's ownership interest in the Limited Partnership (maximum of 40%) would be subject to the condition that TADI's "net-net" ownership interest in the Midstream Component, through the Limited Partnership, must not be less than 14.0%.

3. The Limited Partnership Agreement would provide that TADI or its Affiliate would own 100% of the general partner of the Limited Partnership, and such general partner would hold a minimal (less than 1%) interest in the Limited Partnership. The General Partner would make all decisions on behalf of the Limited Partnership, provided that the Equity Option Agreement will provide that certain fundamental decisions (e.g. change to distribution policy, winding-up of Limited Partnership, sale of significant interest of Limited Partnership in AK LNG) could not be made without the approval of the Optionee (before the option is exercised) or the Limited Partner (after the option is exercised). The General Partner would be entitled to recover all of its reasonable direct and indirect costs that are associated with it acting as the general partner.

4. The Option would be exercisable one time only before its expiration. The Option would absolutely expire on the earlier of (i) December 31, 2015) (ii) the date of execution of commercial agreements for the commencement of FEED for the Alaska LNG Project, or (iii) the occurrence of any of the termination events listed in section 9 of the Alaska LNG Midstream Services Agreement Term Sheet (Exhibit C to the MOU), unless otherwise agreed in writing between TC and the Optionee.

5. The Optionee would not be entitled, except in the sole discretion of TADI, to exercise the Option in the event the Optionee or the State is in current default under the Transition Agreements or the Pre-FEED JVA. The Optionee and State will be provided with notice of and opportunity to cure such default.

6. Conditions on the Optionee exercising the Option would be:

    a. A true up by the Optionee to the Limited Partnership of contributions, within 30 days of the exercise of the Option, of amounts contributed by the Limited Partnership to the Alaska LNG Project, at cost plus Allowance for Funds Used During Construction ("AFUDC"), at a rate of 7.1% for the purpose of this calculation, from date of contribution by the Limited Partnership until date of payment.

    b. Commencing on the date of exercise of the Option, Optionee shall be responsible for its share of the Limited Partnership's operating costs and Alaska LNG Project costs and assume its obligations and liabilities as a limited partner pursuant to the Limited Partnership Agreement.

    c. TADI and the State shall use commercially reasonable efforts to finalize, execute and deliver the Alaska LNG Project Equity Option Agreement, including the agreement establishing the Limited Partnership itself, as soon as commercially reasonable after the Trigger Event, not to exceed 90 days after the Trigger Event, unless extended with the joint approval of the Parties. TC and the SOA agree such agreements are intended to be consistent with the Operative Terms.

7. Conditions on the State transferring its interest in the Limited Partnership would be:

    a. The State would be prohibited from transferring directly or indirectly (including through a change of control) all or any part of its limited partnership interest in the Limited Partnership to an entity (other than an entity that is a passive investor whose principal business is not natural gas transmission or oil transmission) that owns an interest in or operates one or more natural gas or oil transmission lines in North America; provided that the foregoing prohibition would not apply to restrict transfer by the State to a State Affiliate or a government fund at all times wholly owned by the State, such as the State Department of Revenue Constitutional Budget Reserve Fund (a "Fund").

    b. Any proposed transfer by the State, including any proposed transfer to a Fund, would be subject to commercially reasonable creditworthiness requirements to be established in the Alaska LNG Project Equity Option Agreement. Any proposed transfer by the State to any person or entity other than (i) a Fund, or (ii) a State Affiliate, and any proposed transfer by a Fund or a State Affiliate to any person or entity, would be subject to a right of first refusal ("ROFR") in favour of TADI. Until Final Investment Decision ("FID"), TADI would waive its ROFR right with respect to a transfer of an interest in the Limited Partnership by the State when it is an integral part of a transfer to the same transferee of an equal or greater % ownership interest in the LNG Plant Component of the Alaska LNG Project.

c. Any proposed transfer by the State would be subject to applicable transfer requirements and restrictions of the Alaska LNG Project agreements that the Limited Partnership is party to.

8. The Parties acknowledge the confidentiality provisions of the Alaska LNG Project agreements to which the Limited Partnership may become a party may prohibit or restrict disclosure of Project information to the State. The parties agree to use reasonable efforts to allow for disclosure to the State (including on a restricted basis) as required under applicable Alaska law.

9. TADI and the State agree that the Limited Partnership documentation shall, to the extent permitted by applicable law (as set forth in the Alaska LNG Project Equity Option Agreement), expressly disclaim fiduciary duties of the parties. The Limited Partnership documentation shall provide commercially reasonable contractual protections for the limited partners' rights, including the obligations of good faith and fair dealing between the Parties.

10. The structure for the Limited Partnership will utilize a limited liability company or similar structure which is tax-efficient for TADI, unless the State and TADI mutually agree on a different ownership structure. In all cases, respective roles, responsibilities and obligations of TADI and the State as set forth in the Operative Terms will remain applicable to the ownership structure selected.

11. The Parties acknowledge that this Exhibit B to the MOU will become a public document once the MOU to which it is attached is executed by the Parties.

12. The Optionee has no right to assign or transfer all or any portion of the Option, except to a State Affiliate.

EXHIBIT C TO MEMORANDUM OF UNDERSTANDING BETWEEN TRANSCANADA ALASKA COMPANY, LLC, FOOTHILLS PIPE LINES, LTD, TRANSCANADA ALASKA DEVELOPMENT, INC. AND THE STATE OF ALASKA

ALASKA LNG MIDSTREAM SERVICES TERM SHEET

This Term Sheet is attached to and made a part of the Memorandum of Understanding between the Parties and is subject to the terms and conditions of the MOU. Capitalized terms in this Term Sheet shall have the same meaning as in the MOU, unless the context suggests otherwise.

For purposes of the MOU, Section 2.1(c), the following sets forth the operative terms of this Midstream Services Term Sheet ("Operative Terms"):

	KEY ITEMS	TERMS & CONDITIONS
	Enabling Legislation	This Term Sheet provides a framework to guide the Parties in the event of the enactment of the Enabling Legislation to negotiate and enter into a Precedent Agreement ("PA") (or similar agreement), and to negotiate and enter into a Firm Transportation Services Agreement ("FTSA") (or similar agreement). Capitalized terms shall have the same meaning as the Definitions in the Memorandum of Understanding ("MOU") to which this is attached, unless the context suggests otherwise.
	Consistency with Commercial Agreements	This Term Sheet, in its entirety, is subject to consistency with the commercial agreements already entered into or to be entered into with the ANS Producers for the Alaska LNG Project including agreements set forth in Section 2.1(e) of the MOU.
1.	Purpose & Objectives	Establish terms and conditions under which Transporter will provide to Shipper (A) GTP processing and (B) transportation services on the PTU Gas Transmission Line, PBU Gas Transmission Line and Gas Pipeline from GTP to delivery points within Alaska and to the LNG Plant in South Central Alaska in the Alaska LNG Project. The PTU Transmission Line, PBU Transmission Line, and Gas Pipeline are collectively defined as the "Pipelines".
2.	Transporter	"Transporter" means TADI or an Affiliate designated by TADI
3.	Shipper	"Shipper" means State of Alaska or an Affiliate designated by the State of Alaska
4.	Proposed Process of Agreements	1. This Term Sheet is attached and made a part of the MOU, and it is subject to the terms and conditions of the MOU. 2. As provided in Article 2.1 and Article 3.1 of the MOU, the Shipper and Transporter will use commercially reasonable efforts to negotiate and enter into a Precedent Agreement ("PA") that captures the Operative Terms of this Term Sheet. 3. The Parties intend that the PA will be replaced with a Firm Transportation Services Agreement ("FTSA"). The FTSA will contain terms established in the PA and other customary terms typically found in FTSAs for similar services. The FTSA would

		be executed only after execution is approved by the Alaska Legislature and such approval is enacted into law.
5.	Daily Contracted Capacity	FTSA, with two-part reservation/usage rates, for capacity equal to the product of (i) the State Gas Share as defined in the HOA and (ii) the respective design capacity of the PTU Transmission Pipeline, PBU Transmission Pipeline, GTP and the Gas Pipeline.
6.	Key Processing and Transportation Commercial Terms	1. Contract Term • Initial Contract Term ("ICT") of 25 years following commercial In-Service Date ("ISD"). ICT to be confirmed by Transporter and the Shipper prior to agreement with ANS Producers for Front End Engineering and Design ("FEED") for the Alaska LNG Project, provided that the ICT will not be less than 20 years. • FTSA Renewal Right means the rights described below under FTSA Renewal Right. If Shipper does not exercise its FTSA Renewal Right to extend the ICT, Transporter will have a Put Option (as described below under Put Option). 2. Toll Structure • Levelized revenue requirement based on cost-of-service toll making principles. • Reservation rate, a fixed charge expressed in $/mmBtu/month, will be designed to capture Depreciation Recovery, Return on Equity ("ROE"), Cost of Debt, Income Taxes, fixed Operations and Maintenance Costs ("O&M"), property taxes and other non-income related taxes. Reservation rate payments will be made by Shipper regardless of actual GTP and Pipelines utilization by Shipper. • Usage rate, a variable charge expressed in $/mmBtu, will be designed to capture variable O&M Costs. 3. Capitalization Structure • 70% debt and 30% equity during development and construction. Commencing on the 2nd anniversary of the ISD, and continuing through the term of the FTSA, the debt/equity ratio will be revised for rate purposes to 75% debt/25% equity. • 70% debt and 30% equity for Expansions and Maintenance Capital. 4. Rate Base • Initial Rate Base ("IRB") equal to the sum of prudent Capital Expenditures, ("CAPEX"), Allowance for Funds Used During Construction ("AFUDC"), property taxes paid during construction, and working capital. 5. Maintenance Capital • Maintenance capital will be capitalized and added to the Rate Base (in the manner described in "Capitalization Structure" above) and recovered over the then-remaining term of the FTSA 6. Return on Equity ("ROE") for Initial System. • Fixed at Final Investment Decision ("FID") at a base rate of 12.0% after tax, plus a Rate Tracker Differential (as defined below).

7. Cost of Debt for Initial System
   - Fixed at FID at a base rate of 5.0%, plus a Rate Tracker Differential (as defined below).
8. Rate Tracker Differential
   - The Rate Tracker Differential is the increase or decrease in the 30-year U.S Treasuries yield at FID relative to such yield at the effective date of the MOU.
9. Depreciation Recovery
   - 100% of CAPEX shall be recovered over the ICT through tolls.
   - CAPEX shall include the following items:
     - Prudently incurred CAPEX (including AFUDC and property taxes) after execution of the JVA pre-FEED Agreement, which shall be subject to review and audit by Shipper at its expense, in accordance with the principles set forth under "Review and Audit of CAPEX and O&M" below.
     - Prudently incurred CAPEX prior to the execution of the Pre-FEED JVA that is directly relevant to and utilized in advancing the AK LNG Project minus any amounts received by Transporter or its Affiliates from the State through AGIA reimbursement.
     - Transporter's Affiliate's share of costs incurred on the Alaska portion of the AGIA Project after December 5, 2008 and prior to execution of the Pre-FEED JVA (that have not otherwise been included in CAPEX through the operation of paragraph ii above) to the extent such costs do not exceed $70 million minus any amounts received and retained by Transporter or its Affiliates from the State through AGIA reimbursement or from any State of Alaska entity for use of the data and assets associated with such costs.
   - No costs associated with the ANNGTC project may be included in CAPEX.
   - For toll design purposes, AFUDC will commence accrual upon approval by FERC of the project's request to initiate the pre-filing process.
10. Operations and Maintenance Costs
   - Prudently incurred O&M costs and taxes other than income taxes (such as property taxes not otherwise included in rate base, fuel taxes, etc.) are annual flow-through costs to the account of the Shipper. O&M, and annual changes, shall be subject to annual review and audit by Shipper at its expense, provided that the audit is in accordance with the principles set forth under "Review and Audit of CAPEX and O&M" below.
   - In consultation with Shipper, Transporter will negotiate an appropriate allocation of project indirect costs, including cost of sharing facilities, allocated labor and overhead charges with the ANS Producers. With respect to Transporter owner's costs, allocation will be in accordance with Transporter allocation policy as approved by the NEB unless otherwise agreed by the

parties.

- Variances in actual costs will be trued-up in the determination of the following year revenue requirement.

11. Income Taxes
    - Calculated and collected on a normalized basis.
    - Expenses associated with new taxes and changes to tax rate are flowed-through to the account of Shipper
12. Interruption of Firm Service, including Force Majeure ("FM")
    - Shipper continues to make full payment during periods of service interruption.
    - For Transporter's capacity on the Pipelines and GTP, all firm shippers (in-state and export LNG) shall have priority over interruptible shippers. In the event transportation service cannot be scheduled to all firm shippers on any day for any reason, capacity shall be scheduled first to deliver to utility customers, and then pro rata among other firm shippers.
13. Make-up Rights
    - Make-up rights will be granted for any processing and/or transportation capacity or service offered by Transporter and paid for, but not taken, by Shipper.
    - Make-up rights can be exercised pro-rata with other firm shippers' make-up rights whenever Transporter has excess processing and/or transportation capacity beyond the amount that it requires for satisfying its firm shippers' capacity requirement.
    - Any unused Make-up Rights will expire at end of the contract term, including any extensions or renewals.
14. Provision of Third Party Services
    - For third party GTP processing and Pipelines transportation services that do not involve investment of incremental capital, 90 percent of all net income (gross revenues minus incremental costs) received by Transporter from sources other than the FTSA, including but not limited to interruptible ("IT"), overrun, backhaul, or park and loan services shall be credited to the account of Shipper (to reflect the undertaking of Shipper to pay for 100% of the initial system Rate Base);
    - The minimum rate for IT service shall be no less than the 100 percent load factor equivalent of the firm rate paid by Shipper
    - Shipper shall only pay variable costs for IT, overrun, and backhaul services that do not involve incremental capacity as a result of expansions.
    - Subject to meeting the Creditworthiness Requirements, Shipper shall have the right to temporarily release unused capacity to third-parties at a rate to be negotiated between Shipper and the temporary replacement shipper. A release of capacity through temporary assignment/release does not release Shipper from its obligations under the FTSA.
15. Fuel Gas, Line Pack, Lost and Unaccounted for Gas
    - Provided by Shipper as in-kind gas contribution; or purchased under a charged fuel rate at Shipper option, in which case the

charged fuel expense will be included as a separate charge.

- No allocation of fuel shall be allocated to backhaul services
- Fuel utilization to be allocated among all shippers based on actual monthly throughput.

16. Return of Extracted Gas to Shipper
    - Extracted acid gas (CO2, H2S and other impurities) will be returned to Shipper for disposal or further processing at the outlet of the GTP
17. In-State Gas Uses
    - Minimum 5 in-state off-take points for non-LNG consumption
    - Three tariff zones
        - Zone 1 – from North Slope to Nenana
        - Zone 2 – deliveries to Big Lake (South Central)
        - Zone 3 – deliveries to the LNG plant for LNG exports
    - Rates to be designed in consultation with Shipper to reflect a cost allocation principle based on weighted average volumetric-mile between deliveries to each zone
18. GTP Processing and Pipeline Transportation Services
    - Processing services at the GTP and transportation services on the Pipelines will be offered separately to accommodate different needs of shippers
19. FTSA Renewal Right
    - Shipper shall have the option, exercisable not later than 2 years prior to the end of the ICT (the "Renewal Date") to renew the FTSA with Transporter for all or part of its Daily Contracted Capacity after the expiration of the ICT on an annual basis at a negotiated rate based on (i) a cost-of-service calculation computed on the net book value of Transporter equity interest in the underlying facilities used to provide GTP processing and pipeline transportation services to Shipper, with the rate recalculated to spread remaining Rate Base over the extended term of the FTSA, and (ii) the same toll setting terms such as "Capitalization Structure", O&M, and "Income Taxes" set forth above, except that the rate applicable for the extension shall be based on a "Cost of Debt" and an ROE to be negotiated based on conditions existing at the time, and (iii) the contracted capacity as renewed by Shipper; provided, however, that the costs and capacity related to any expansion facilities priced incrementally shall be excluded from such computation. In the event that the net book value of the facilities has been or will be substantially depreciated as of the expiry of the ICT, parties shall consider in good faith reasonable compensation for Transporter to continue its role as service provider.
20. Buy-Back Right
    - If as of the Renewal Date, Shipper has not exercised its right to renew the FTSA Shipper shall have a one-time option, exercisable by notice to Transporter within 60 days of the Renewal Date (the "Buy-Back Notice Date"), to buy from Transporter as of the end of the ICT its equity interest in Alaska LNG Project at a purchase price equal to the net book value of

Transporter equity interest in the underlying facilities used to provide GTP processing and pipeline transportation services as of the end of ICT. Any associated assignment shall be made on an "as is, where is" basis, without representation or warranty of any kind by Transporter.

21. Put Option
    - If: (i) as of the Renewal Date, Shipper has not exercised its right to renew the FTSA by five or more years, and (ii) as of the Buy-Back Notice Date Shipper has not exercised the Buy-Back Right, Transporter shall have the option, exercisable by notice to Shipper within 90 days of the Buy-Back Notice Date, to put to Shipper its equity interest in Alaska LNG Project at a purchase price equal to the net book value of Transporter equity interest in the facilities used to provide GTP processing and pipeline transportation services as of the end of ICT, with closing subject to legislative enactment. Any associated assignment shall be made on an "as is, where is" basis, without representation or warranty of any kind by Transporter.
22. Review and Audit of Pipelines and GTP CAPEX and O&M
    - Shipper and Transporter agree to develop a protocol and process (the "Audit Protocol") for Shipper to access certain Alaska LNG Project information to facilitate Shipper review and audit of costs and expenses (capital and operating), which will have to be consistent with the HOA and subsequent agreements with the ANS Producers for the Alaska LNG Project. The Audit Protocol will be appended to the PA and FTSA, and include at minimum, the following items:
        - the audit shall be conducted by an independent auditing firm selected pursuant to State procurement code based on minimum qualifications to be agreed upon by the Shipper and Transporter for such procurement; and
        - the audit rights shall be exercised through such independent auditing firm, who shall be required to abide by confidentiality restrictions to be agreed between Transporter and Shipper.
    - The principles in the Audit Protocol for reviewing and auditing the Pipelines and GTP CAPEX and O&M are as follows:
        - Any costs incurred shall be deemed to be prudently incurred if they are pursuant to (1) an approved Work Program and Budget for capital expenditures (WP&B) for the Alaska LNG Project that was submitted to and approved by Shipper or any associated entity of the Shipper in advance, (2) an Alaska LNG Project Operating Budget that was submitted to and approved by Shipper or any associated entity of the Shipper in advance, (3) the emergency HSE provisions of any underlying agreement, or (4) the approval of the Shipper or any associated entity of the Shipper. In the event the Shipper or any associated entity of the Shipper does not respond to any request for approval, as set out in (1), (2),

		or (4) above, within ten (10) business days (or such shorter period as set out in the agreements or resolutions for the Alaska LNG Project) the Shipper will be deemed to have approved the costs incurred. If the Shipper does respond but does not approve, the Transporter shall raise the concern and vote not to approve as part of the approval process under the applicable Alaska LNG Project agreements, and so long as the Transporter does so such costs shall be deemed prudent if they are approved despite the Transporter's vote to disapprove under the applicable Alaska LNG Project agreement. • For the avoidance of doubt, (a) personnel charge out rates, including annual adjustments, as provided in the relevant Alaska LNG Project agreement shall not be subject to review and audit, and (b) any expenditures in excess of budgeted amounts that are in accordance with the limitations in the applicable Alaska LNG Project agreements that do not require further management committee approvals (currently set at 105% of budget) shall be deemed to be prudently incurred. 23. Assignment • Shipper may assign its rights and obligations under the FTSA to an Affiliate or third party with Transporter's consent (not to be unreasonably withheld), provided the transferee assumes in writing such rights and obligations on terms and conditions satisfactory to Transporter, including the creditworthiness standards set forth in paragraph 10 below.
7.	Pipelines and GTP Expansions	• In consultation with Shipper, Transporter will expand the GTP and Pipelines when requested by creditworthy shippers on terms that are acceptable to Transporter. Transporter will act reasonably in negotiating expansion terms with the expansion shipper. The capitalization structure for expansion shall be consistent with that set forth above. The ROE for expansion shall be reflective of the risk of such expansion and the cost of capital environment existing at the time. In the event Transporter fails to reach agreement with the expansion shipper, Shipper or its transferee/assignee (including State Affiliates and independent third parties not affiliated with the State or any State Affiliate) has the right to offer expansion terms, in its sole discretion, to such shipper and undertake the expansion as a direct participant in Alaska LNG Project and consistent with the principles established in this section. • Upon request by potential expansion shipper, Transporter will provide to the potential expansion shipper and Shipper estimated rates which the potential expansion shipper would have to pay for receiving Pipelines transportation and/or GTP processing services. Shipper and Transporter agree that no regulatory agency can mandate an expansion or set expansion terms unless required by applicable law. • Expansions must be in reasonable engineering increments and on commercially reasonable terms, including but not limited to full

		recovery of expansion CAPEX over the expansion term
		• Expansions for In-State Uses and Export LNG
		  o Expansions to be undertaken on a sole risk basis
		  o Expansion tolls and fuel assessments will be determined based on a methodology such as incremental and/or rolled in, as determined by the Shipper. The methodology will be established prior to entering into FEED.
		• .

8.	Development Cost Reimbursement	• If Shipper or Transporter exercises its right to terminate pursuant to any of the Termination Events set forth below, the Shipper shall pay Transporter for all the development costs incurred by Transporter after December 31, 2013 under the Pre-FEED JVA or FEED Agreement with the ANS Producers, including but not limited to contract cancellation penalties and continued funding obligations under such agreements, through the date of termination. The Shipper's payment of development costs shall be net of all AGIA payments received and retained by the AGIA Licensee relating to Transporter's share of development costs for activities authorized under AGIA Project Plan Amendment 1B. • Shipper will further pay Transporter an amount equal to the associated AFUDC, at a rate of 7.1% for the purpose of this calculation, on such development costs if (i) such termination is exercised by Shipper or (ii) Transporter exercises the termination due to the failure of the Alaska Legislature to ratify the MOU, or the subsequent FTSA, or Shipper's failure to meet the Creditworthiness Requirements at any time. • Shipper's obligation to reimburse Transporter for such costs shall be Transporter's exclusive remedy in law and equity for such termination.

9.	Termination Event	**Shipper's Rights To Terminate** (Shipper Termination Event):
		• Prior to FEED:
		  • Any time provided a 90-day notice is given to Transporter.
		• From start of FEED through FID:
		  • Within 60 days from the date one or more ANS Producers or Transporter withdraws from the Alaska LNG Project
		  • At any time if Shipper (or the ANS Producers, if the SOA elects RIV) is unable to sign agreements to sell all of its royalty or tax gas on terms acceptable to Shipper.
		• At FID, for any reason.
		
		Transporter Rights To Terminate (Transporter Termination Event):
		• Legislature fails to provide statutory authority to DNR/DOR to enter into PAs by June 30, 2014.
		• Shipper fails to execute the PA within the specified time.
		• Shipper fails to execute the FTSA by December 31, 2015.
		• Shipper fails to maintain the standard of Creditworthiness Requirements. Transporter shall provide notice to Shipper of a failure to meet such standards, and Shipper shall have a reasonable period to cure.

		• At FID, if all Transporter corporate/Board approvals have not been obtained. • Within 3 months from FID, if debt financing has not been secured on terms and conditions satisfactory to Transporter in its sole discretion **Either Transporter or Shipper may terminate:** • If term(s) of the FEED Agreement or Definitive Agreements is/are not acceptable to Shipper or Transporter • Within 90 days from the date of issuance of any final regulatory authorizations, certificates, or permits that includes material unacceptable condition(s) or requirement(s) to Transporter or Shipper • At FID, if not all right-of-ways, easement and land leases have been secured **Conveyance of Transporter Alaska LNG Project Interest to Shipper:** • Upon a Termination Event and payment to Transporter of the Development Costs, and the associated AFUDC, as applicable, Transporter shall assign all of its interest in the Pre-FEED JVA or the FEED Agreement, including all of its equity stake in the AKLNG Project, to the Shipper promptly without additional consideration. Any such assignment shall be made on an "as is, where is" basis, without representation or warranty of any kind by Transporter. • Within a period of 5 years of SOA exercising its termination right, if SOA participates in a pipeline project to commercialize North Slope gas that is substantially similar to the Alaska LNG Project, SOA shall offer to Transporter an option to participate in the GTP and Pipelines of such project on terms and conditions consistent with those set forth in this Term Sheet, except the cost of debt and ROE to be negotiated based on conditions existing at the time. The SOA shall not be obligated to offer the foregoing option to the Transporter if: i. the Transporter is in material default of the PA or FTSA at the time of the termination, and ii. the material default was capable of being remedied, and iii. Transporter was offered a reasonable time period to remedy the material default and failed to do so.
10.	Creditworthiness Requirements	• Shipper must meet and maintain the following creditworthiness standards through the term of the PA and FTSA. 1. A minimum of A- credit rating issued by Standard & Poor's or equivalent, and 2. Provide documentation satisfactory to Transporter that Shipper obligations under the PA or FTSA are supported with the full faith and credit of the State of Alaska (as a sovereign) or other dedicated revenue source acceptable to Transporter. • As an alternate to (1) and (2) above, Shipper could provide

		collateral, in the form of cash or letter of credit in form and substance reasonably satisfactory to Transporter, of amount sufficient to cover Shipper's proportional share of (i) projected capital costs during development and construction, or (ii) payment obligations under the FTSA over the remaining term of the FTSA. • Shipper continues to be liable for all obligations, including maintaining the creditworthiness standards, under the PA or FTSA if its capacity commitment is transferred to another party on a temporary basis such as through temporary release or assignment. This applies similarly to permanent assignment unless the assignee meets the appropriate creditworthiness standards. 1. For any assignee who is an Affiliate of the State, the creditworthiness standards will be the same as Shipper. 2. For any assignee who is not an Affiliate of the State, the creditworthiness standards will be: • A minimum of A- credit rating issued by Standard & Poor's or equivalent, and • A minimum Tangible Net Worth equal to its share of the projected capital cost for the period prior to In-Service Date ("ISD") and its share of the Rate Base for the period following the ISD.
11.	No Discriminatory Action by Shipper	Transition Agreements to contain commercial protection for discriminatory changes in law or other discriminatory actions to the extent permitted by applicable law.
12.	Dispute Resolution	FERC to be the arbiter of disputes under the PA and FTSA, provided FERC has jurisdiction over (i) the Pipelines and GTP components of the AK LNG and (ii) the rates and services provided by the Pipelines and GTP components of the AKLNG. The Parties intend that FERC (or any other applicable regulator having jurisdiction) should provide a ruling consistent with and not outside the scope of the PA or FTSA, as the case may be, when such agreement is read in its entirety.
13.	Term Sheet Not Stand Alone	This Term Sheet is an integral part of the MOU and is not a stand-alone agreement between the Parties or Shipper and Transporter. It sets forth the basis on which the Parties intend to proceed forward as they negotiate the PA, the FTSA, and other applicable or ancillary commercial agreements (collectively, the " Alaska LNG Midstream Services Agreements"). Neither Party shall be legally bound to enter into Alaska LNG Midstream Services Agreements, and entering into such Alaska LNG Midstream Services Agreements shall be at the sole discretion of each Party and subject to all necessary internal approvals of each Party. The Parties each acknowledge that (a) the Term Sheet does not contain all the terms and conditions that would be included in the legally binding Alaska LNG Midstream Services Agreements, and therefore, the Term Sheet does not constitute a binding commitment or offer or acceptance with respect to its terms or the transaction to be consummated; (b) it is the intention of the Parties that the PA and FTSA will be consistent with the commercial principles set out in this TS; and (c) the making of this Term Sheet or attachment of this Term Sheet to the MOU will not create any binding rights or obligations, as it is intended that neither party will have any right or obligations to

		complete the transactions contemplated in this Term Sheet unless and until the Precedent Agreement is executed and delivered at the sole discretion of each Party. The Alaska LNG Midstream Services Agreements may contain such other provisions as are negotiated by the Parties on reasonable commercial terms and conditions, based on industry practice in other comparable pipeline transportation arrangements.