



Project Update to the Alaska Legislature

November 11, 2009

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EXECUTIVE SUMMARY

Denali – the Alaska Gas Pipeline (Denali) is moving forward on an Alaska gas pipeline project outside of the Alaska Gasline Inducement Act (AGIA) and is doing so without monetary assistance from the State of Alaska. Denali is funded 100% by its owners, BP and ConocoPhillips. To date, Denali has spent over \$120 million.

Since the May 8, 2009 Update¹, Denali has continued to progress the project in preparation for its open season in 2010. The work to estimate the cost of the pipeline and the Gas Treatment Plant (GTP) is nearing completion. Denali has augmented its core capabilities in pipelines and gas treatment plants with the expertise of world class engineering and construction companies. A Fluor/WorleyParsons joint venture (Arctic Solutions) is assisting with the GTP and Bechtel is assisting with the pipeline. Denali is concentrating on preparing a credible cost estimate that will provide the basis for Denali's open season commercial offering. Denali has also initiated pre-open season discussions with potential anchor shippers and is formulating its open season plans.

Denali has continued to work closely with the Federal Energy Regulatory Commission (FERC) and the Office of the Federal Coordinator (OFC) as well as other U.S. federal and Alaska state agencies to ensure a common understanding of the framework for the required regulatory approvals. In addition, Denali has entered into reimbursable services agreements with the U.S. Bureau of Land Management (BLM) and the Alaska Department of Natural Resources (DNR) that will allow both agencies to work closely with Denali as it progresses its right-of-way efforts in Alaska.

Significant progress has been made in Canada to advance and coordinate the regulatory review framework. The Major Projects Management Office (MPMO) has been designated by Canadian authorities as the single window coordinator for federal regulatory review for the project. Denali anticipates that this action will facilitate an efficient and expedited review process for a Canadian Certificate of Public Convenience and Necessity (CPCN).

Denali's outreach efforts in Alaska and Canada have remained strong and substantial and have been focused on communities, landowners, Alaska Native organizations, and Canadian Aboriginal groups along the pipeline route. To date, Denali has participated in over 450 meetings with project stakeholders in the U.S. and Canada.

Denali has an Anchorage headquarters and an office in Calgary. The total number of personnel working on the project (excluding contractor personnel such as those working for Bechtel and Fluor/WorleyParsons) is approximately 95 of which about 80 are Alaskans. Through October 2009, Denali has contracted with 47 Alaska businesses that have provided goods and services to Denali. Denali also participated in two Alaska workforce development projects.

Denali's work on the Alaska gas pipeline project represents a major advancement in understanding the cost and complexity of this enormous undertaking. Denali will use the product

¹ Available on Denali's website, www.denalipipeline.com.

of its work efforts to underpin its open season commercial terms and conditions and provide prospective shippers the best opportunity to determine if the economics justify the multi-billion dollar commitments necessary to construct the project.

1. AGIA REIMBURSEMENTS

Denali is proceeding outside of AGIA, and is not receiving money from the state. Denali is funded 100% by its owners. To date, Denali has spent over \$120 million to move the project towards its first major milestone, an open season in 2010.

In addition to the money that Denali has spent, Denali's owners along with ExxonMobil, spent over \$125 million in 2001 and 2002 to evaluate the options for moving Alaska North Slope gas to market. The results of that effort have formed the starting point for the engineering for the current project. As described in Section 2, Denali has advanced the project well beyond the earlier work.

2. STATUS REPORT ON THE PROJECT – KEY MILESTONES AND ACCOMPLISHMENTS

Denali was announced in April of 2008 and is owned 50/50 by BP and ConocoPhillips. Denali has made significant progress advancing the project in preparation for open season. Key milestones and accomplishments to date are:

- Established offices in Anchorage and Calgary;
- Completed a significant field program in Alaska;
- Established a Tok field office;
- Awarded a multi-million dollar contract for preliminary engineering for the gas treatment plant (GTP) in February 2009 to Fluor/WorleyParsons Arctic Solutions with CH2MHill as their exclusive Alaska subcontractor;
- Awarded a multi-million dollar contract for preliminary engineering for the pipeline in April of 2009 to Bechtel;
- Pre-filed with the FERC in June 2008;
- Filed for a right-of-way across federal lands in Alaska;
- Conducted field studies in Canada;
- Advanced the engineering, environmental work, cost estimate and execution planning for the pipeline;
- Advanced the engineering, environmental work, cost estimate and execution planning for the GTP;
- In Canada, the Major Projects Management Office (MPMO) has been designated by Canadian authorities as the “single window” entry point into the Canadian federal regulatory process;
- Signed reimbursable service agreements with the DNR and the BLM to facilitate progress on a right-of-way through Alaska;
- Continued progress on stakeholder engagement in the U.S. and Canada;
- Participated in over 450 outreach meetings in Alaska and Canada since the formation of Denali;
- In partnership with others, completed two workforce development projects in Alaska;
- Signed Cooperation Agreements with several Canadian Aboriginal groups;
- Accepted Argonne National Laboratories as the third party contractor to represent the FERC in Denali’s pre-file activities;
- Expanded Denali’s contact with government agencies, departments and personnel in both the U.S. and Canada;
- Continued discussions with the FERC, OFC, National Energy Board (NEB) and MPMO to lay the groundwork for filing for a CPCN in the U.S. and Canada;
- Began pre-open season discussions with potential anchor shippers;
- Advanced commercial and regulatory preparations for open seasons in 2010 in both the U.S. and Canada.

Details on Denali’s accomplishments since the last report (the reporting period) are provided in the following sections.

2.1. Field activities and studies

In 2008, Denali completed a full season of field data acquisition work between Delta Junction and the Canadian border. Some of the key accomplishments from the 2008 field work program were:

- Outstanding safety record;
- Tok field office;
- Surveyed over 200 miles of wetlands;
- Investigated 70 archeological sites;
- Shot over 1700 miles of ortho-photography;
- Shot 730 miles of Immersive Video;
- Investigated 538 potential stream/river crossings;
- Performed route reconnaissance;
- Identified contaminated sites; and
- As many as 80 people in the field

More details regarding the 2008 program can be found in the May 8, 2009 Update.

Because of the significant amount of data collected in 2008, Denali was able to collect much of the information it requires to advance the pipeline design in preparation for open season. Consequently, field data collection in 2009 has been on an as-needed basis. Field work accomplished during the reporting period is discussed in the following GTP and pipeline engineering sections.

2.2. Engineering

The starting point for Denali's engineering work effort has been the work done by BP, ConocoPhillips and ExxonMobil during their joint efforts in 2001 and 2002 to evaluate options to deliver Alaska North Slope gas to market. Denali has augmented this work with later studies performed by BP and ConocoPhillips, historical data made available from its owner companies, new data gathered by Denali through field programs, input from owner company experts, the services of world class engineering firms, and the input of expert contractors in a variety of disciplines.

Denali has a GTP team and a pipeline team working on the engineering for the project. The two project management teams have worked closely to ensure a seamless design, construction, start-up, and operations interface. Denali is using the best project management and operations practices learned from the extensive experience of its owner companies in the engineering design of the project.

The following sections describe the work that has been accomplished for the GTP and pipeline.

2.2.1. Gas Treatment Plant (GTP)

The GTP will be a multi-billion dollar facility located at Prudhoe Bay. It will be more complex and much larger than any oil and gas facility in Alaska and the largest plant of its kind in the world. Designed to process in excess of 4.5 billion standard cubic feet of gas per day for decades of operation, the GTP will:

- Receive and meter natural gas;
- Remove carbon dioxide (CO₂) and hydrogen sulfide (H₂S);
- Compress the CO₂ and H₂S for re-injection thus eliminating a major potential source of green house gas emissions;
- Dehydrate the gas; and
- Compress, refrigerate, meter and deliver treated gas to the pipeline.

Designing and estimating the cost of the GTP requires world-class engineering management expertise as well as significant arctic and in-depth Alaska experience. Denali's GTP project management team consists of seconded professionals from BP and ConocoPhillips who bring these skills to the project. Earlier this year, Denali awarded a contract to a joint venture between Fluor and WorleyParsons (Arctic Solutions), two global engineering firms with the most combined North Slope experience in this type and scale of project, to support the GTP work efforts. Arctic Solutions further sub-contracted with CH2MHill's Anchorage office for assistance with Alaska constructability issues.

The GTP will consist of several dozen modules preassembled at fabrication yards and then sea lifted to the North Slope on barges where they will be offloaded and transported to the GTP site in a manner similar to the module shown in the photo in Figure 1. The largest of these modules will be the largest ever sea lifted to Prudhoe Bay. In total, the plant will require multiple sealifts to assemble and will comprise the largest sealift in Alaska's history. A depiction of one possible layout of the GTP is also shown in Figure 1.

The major milestones for the GTP work are shown below.

1. Develop the design basis in coordination with the pipeline team.
2. Develop the technology basis.
3. Develop equipment and materials requirements.
4. Determine plant and plot plan layout with particular attention to process safety and long-term operations integrity.
5. Develop construction, logistics and operations execution plans.
6. Develop project schedules.
7. Estimate capital and operating costs.

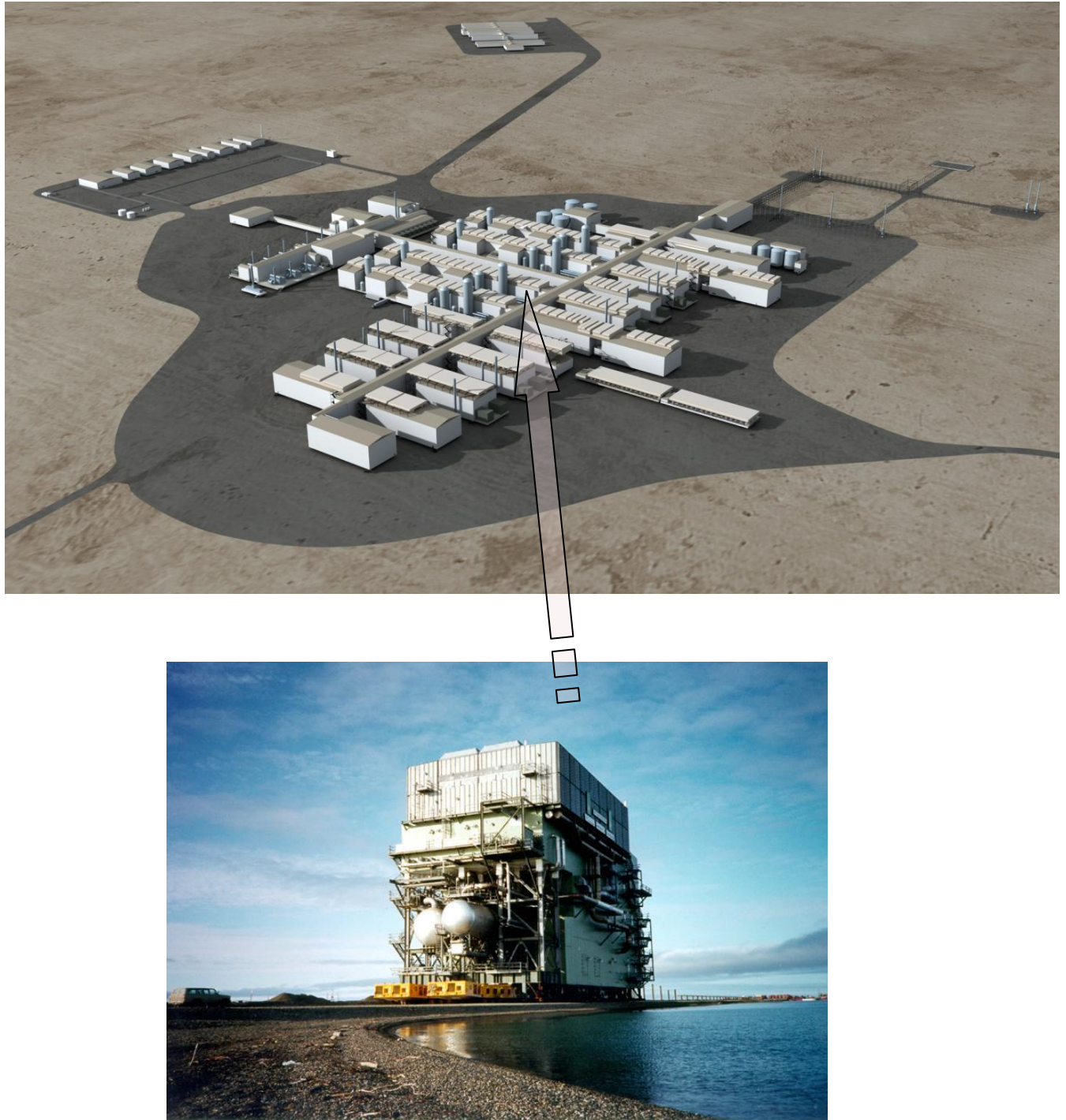


Figure 1. The top illustration shows a potential layout of the GTP. In addition to the main body of the plant shown in the foreground, the buildings to the upper left are maintenance shops, warehouses and offices. In the distance at the top is the construction camp. The photo above is a 5000 ton module on the North Slope being transported on a “crawler”. Several of the GTP modules will be as large as or larger than the module shown above. For purposes of illustrating scale, the arrow shows where a 5000 ton module would fit in the GTP layout.

To achieve these milestones, Denali has undertaken a number of specific tasks, including the following:

- Major equipment items and process conditions have been identified;
- Cost of major equipment has been obtained;
- Logistical costs and sequences have been estimated;
- Safety, hazards, and risk analyses have been completed and have been incorporated into the design;
- Project execution plans have been developed;
- On-site surveys of fabrication yards and other locations for module fabrication and assembly to underpin the project's construction plan have been completed;
- The organizations and costs to take the project through detailed design, construction and start-up are being developed;
- Module layouts and site plot plans have been developed. Civil work to prepare the site has been estimated as has the cost to permit the plant;
- Electrical, instrumentation and control system requirements have been identified and estimated;
- An air quality data management plan for the GTP has been initiated;
- A waste management and disposal plan for the GTP has been initiated;
- An archeological and cultural resources study was completed in the area of the proposed location of the GTP; and
- Camp, warehouse and office requirements have been defined.

2.2.2. Pipeline and compressor stations

For its pipeline team, Denali has assembled a team of experts seconded from its owner companies that have extensive North Slope construction expertise as well as expertise in managing mega projects and pipeline projects around the world. In February 2009, Denali awarded an engineering contract to Bechtel to support Denali's efforts to update the cost estimate for the pipeline.

The key milestones for the pipeline are similar to those for the GTP and are shown below.

1. Develop the design basis in coordination with the GTP team.
2. Develop equipment and materials requirements.
3. Determine the pipeline route and plot layout/design of the compressor stations with an emphasis on process safety and long-term operations integrity.
4. Develop construction, logistics and operations execution plans.
5. Develop project schedule.
6. Estimate capital and operating costs.

In support of these milestones, Denali has advanced work in the following areas:

- Technical Geospatial Information System (tGIS) - Denali has continued work to populate a multi-terabyte tGIS database supporting the preliminary engineering and constructability assessment phase of the project. The tGIS is used in the analysis of the pipeline route, preparation of cost estimates, and the creation of maps and alignment sheets. Data has been sourced from Denali field studies as well as multiple external sources. The tGIS data base includes aerial photography, satellite imagery, base maps, topographic information, fault data, digital elevation models, borehole data, terrain analyses, engineering information, land ownership data, archaeological features, wetlands data, stream crossing data, contaminated site information, existing infrastructure data, historical pipeline routes, wildlife observations, and other information required to engineer the pipeline and compressor stations;
- Borehole data – Denali continues to assimilate borehole data into the tGIS. Denali has acquired data on over 400 borehole locations along the pipeline route from public sources;
- Geo-hazards - Analyses have been completed in Alaska and Canada;
- Thermal-Hydraulics – Denali has developed its own thermal-hydraulics software for modeling flow through the pipeline. The model has been used to locate compressor stations and predict pipeline pressures and temperatures along the entire route;
- Pipeline design – Specifications for pipe, valves, bends and fittings have been developed and vendor quotes obtained. In addition, technologies for pipeline coatings, welding inspection techniques, crack arrestors and heavy wall pipe requirements have been investigated and considered in development of the cost estimate;
- River crossings – The cost of river crossings has been estimated;
- Soil Monitoring - Data from soil monitoring stations was collected to support the engineering for the pipeline;
- Route reconnaissance - Route reconnaissance data in Alaska and Canada was augmented on an as-needed basis;
- Pipeline alignment – Pipeline alignment sheets (see Figure 2 below) have been completed for the entire length of the pipeline. The alignment sheets provide a high level summary of the terrain and construction techniques to install the pipeline;
- Compressor station design – Preliminary compressor station designs have been completed and the cost estimated;
- Process flow diagrams (PFDs) and process and instrument diagrams (P&IDs) – PFDs and P&IDs have been completed for each type of compressor station;
- Building and equipment Lists – All major equipment and buildings have been defined for the project and included in the cost estimate;
- Station layout – A study was undertaken to identify spacing requirements for all equipment and buildings within the compressor stations including building blast requirements, setbacks from process units and fencing criteria. This study formed the basis for selection of the land requirements for each station;
- Pipeline control, data acquisition and telecom – Control, data acquisition, and telecommunication systems for operating the pipeline have been investigated and included in the cost estimate; and

- Logistics – Logistics related costs have been estimated.

2.3. Operations

Denali has incorporated operational considerations into its pipeline and GTP design to insure long term system integrity, safety, and reliability.

Some of the specific items addressed include:

- Operations and Maintenance (O&M) Strategy – This is a comprehensive document outlining how the project will be operated and maintained throughout its life. The O&M strategy influences engineering design as well as capital and operating cost estimates;
- Operations tactics – Denali has developed an operational philosophy for remote operations bases (ROB's) required to support the pipeline. Each ROB will likely be located in or near communities along the pipeline corridor;
- Startup strategy - An integrated startup plan has been developed to ensure the GTP and the pipeline startup efforts are coordinated;
- Preventive maintenance strategy – Strategies have been developed to manage preventive maintenance and key inspections of the pipeline and the GTP;
- Repairs and spares strategy – A spare parts strategy for the pipeline and GTP has been developed;
- Integrated operations and operations assurance – This effort has addressed the use of technology to optimize pipeline operations; and
- Security strategy – A security strategy has been created that is being incorporated into the design of Denali's systems.

2.4. U.S. regulatory and government relations

Before beginning construction of the project, Denali must receive a CPCN from the FERC. To help issuance of a CPCN, Denali applied for and received approval to use the FERC pre-file process in June of 2008. Since the last report to the legislature, Denali has continued to work closely with the FERC as well as other federal and Alaska state agencies to lay the groundwork for the pre-filing phase. The following is a summary of the work completed during the reporting period.

FERC: Since May 2009, Denali has been submitting monthly updates on project activity to FERC. The reports are publicly available on Denali's website (www.denalipipeline.com) and on FERC's e-Library system under Docket PF08-26-000. In May 2009, FERC notified Denali that they had selected Argonne National Laboratory as the third-party contractor to assist FERC staff in the preparation of Denali's Environmental Impact Statement (EIS). Denali has also met with FERC staff in both Anchorage and Washington D.C. to review the preliminary route and the project's status. During August of 2009, Denali conducted a tour for FERC and OFC staff of the GTP site. Denali has also been implementing its plans for open season including preparation of

the open season plan required under FERC's regulations governing the conduct of open seasons for Alaska Natural Gas Transportation Projects.

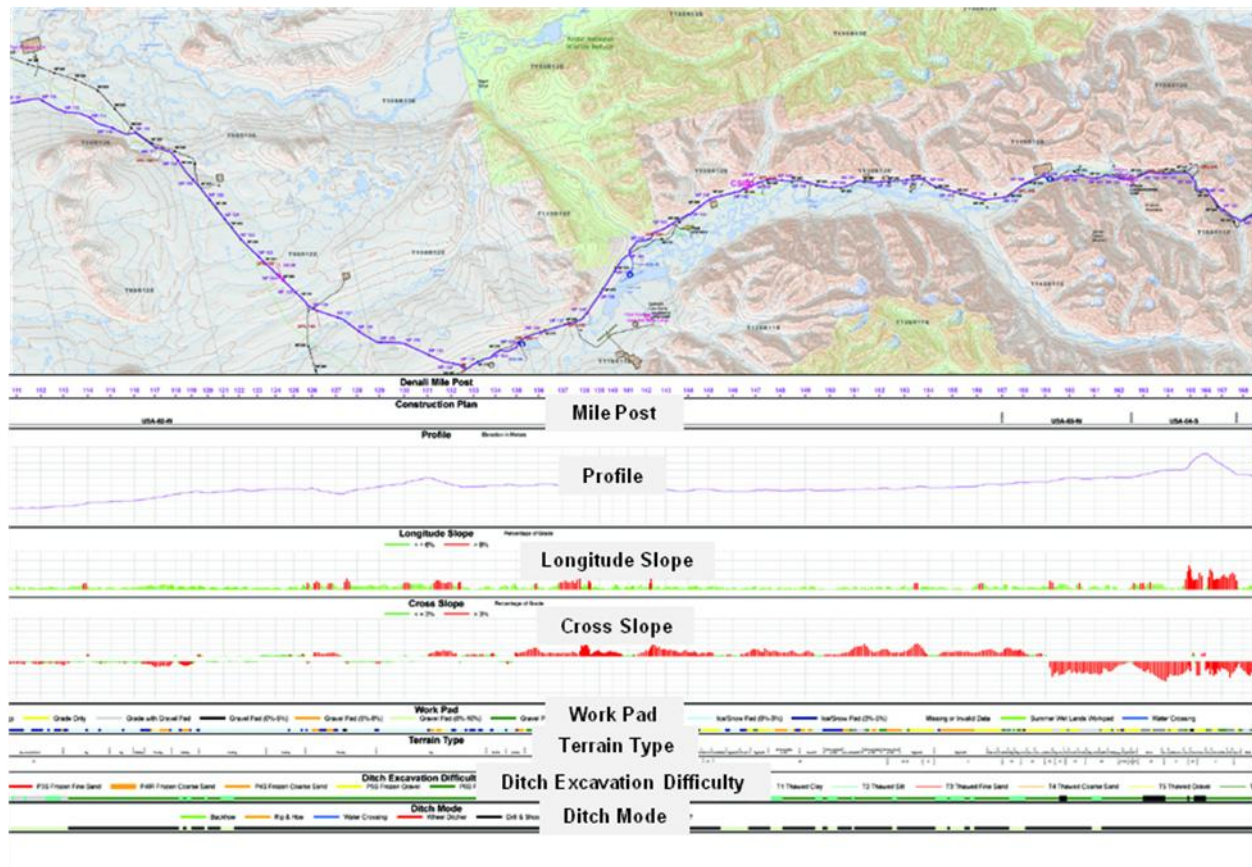


Figure 2. The above is an example of an alignment sheet. The sheet describes the terrain and construction requirements for about 58 miles of the pipeline route from the plains of the North Slope (left side) through Atigun Pass in the Brooks Range. Alignment sheets have been developed for the entire pipeline route.

OFC: Denali updated the Office of Federal Coordinator's Interagency Management Team at their monthly meeting in Anchorage. Denali Canada has updated OFC representatives during OFC visits to Canada. Denali submitted a response to a request from the OFC for a list of required federal and state permits necessary to construct and operate the project. Denali has also assisted the OFC with the development of the Agency Implementation Plan for the Denali Project.

DNR: Denali has executed a reimbursable services agreement with the DNR for activities related to Denali's project. This agreement ensures that state technical and resource employees

will be available to work with Denali as it prepares to file an application for a right-of-way lease with the DNR.

BLM: Denali has executed a reimbursable services agreement and continues to work with the BLM on Denali's right-of-way application over federal lands in Alaska.

Other Agencies – Denali continues to work closely with other federal, state and local agencies on the necessary work required to support their permitting processes. In addition to the FERC and OFC, Denali has met with the U.S. Corps of Engineers (USCOE), Environmental Protection Agency (EPA), BLM, U.S. Fish and Wildlife Service (USFWS), National Marine Fisheries Service (NMFS), U.S. Department of Transportation (DOT), Alaska Department of Transportation and Public Facilities (DOT/PF), Alaska Department of Environmental Conservation (ADEC), Alaska Department of Fish and Game (ADF&G) and DNR on various topics related to the design and construction of the project.

State of Alaska and Federal Government – Denali continued to brief officials and staff about the project.

Pacific Northwest Economic Region (PNWER) – Denali has and will continue participating in PNWER discussions regarding the Alaska gas project.

2.5. Canada regulatory and government relations

The agency responsible for issuing the CPCN in Canada for the Denali project is the National Energy Board (NEB). The NEB process is open to any project proponent. There is no exclusive right to build an Alaska gas pipeline through Canada.

Denali continues to work with key federal, provincial and territorial departments and agencies. Denali has informed key agencies and departments of Denali's progress and supported efforts to create the framework for an efficient review process once the formal permitting efforts in Canada are begun. The following summarizes Denali's work during the reporting period.

NEB: Denali has continued to engage with the NEB regarding the regulatory process.

MPMO: The MPMO is a Government of Canada organization under the Ministry of Natural Resources. It provides overarching project management and accountability during the federal regulatory review process for major resource projects. The Major Projects Management Office has been designated by Canadian authorities to be the "single window" entry point into the Canadian federal regulatory process. Denali anticipates that this action will facilitate an efficient and expedited review process for permits and a Canadian CPCN. Denali has and will continue working with the MPMO on its role in the Canadian regulatory process.

Ministries of Natural Resources Canada (NRCan), Environment Canada, Indian and Northern Affairs Canada: Denali has briefed the ministers of these key agencies as well as their staff on Denali's progress.

Public Works and Government Services Canada (PWGSC): Denali has briefed PWGSC on project and infrastructure issues. The agency manages a significant portion of the Alaska Highway through British Columbia.

British Columbia Government: Denali has briefed the Ministry of Energy Mines and Petroleum Resources, Aboriginal Relations and Reconciliation, and Environment on the status of the project.

Yukon Government: Denali has frequent discussions with various branches of the Yukon Territorial government as described below.

- Denali has continued to brief the Yukon Department of Energy, Mines and Resources on the status of the project.
- Denali has briefed Yukon Transportation on the project and infrastructure issues. Yukon Transportation manages the Alaska Highway through Yukon.
- Denali has briefed Yukon Environment on the project.
- Denali has participated in meetings of the Yukon Working Group, a coordination group of government departments and agencies including the NEB, the Yukon Environmental and Socio-Economic Assessment Board (YESAB) and the Canadian Environmental Assessment Agency (CEAA), that will be leading the regulatory process.

Provincial, Territorial and Federal Governments: Denali has continued to brief officials and staff about the project.

2.6. Community outreach activities in Alaska and Canada

Denali continues to advance stakeholder engagement and community outreach activities in Alaska and Canada. In Alaska, Denali has met with communities, landowners, and Alaska Native organizations to update them on the project. Denali has maintained its office in Tok and has used it to host local activities such as the Upper Tanana traditional place names project with the University of Alaska – Fairbanks (UAF) and USFWS; for procurement training for local village corporation representatives; and as an information center to provide a place for local Alaskans to learn about the project. Denali continues to identify and contact landowners to update them on the project. Denali has mailed a status report to landowners along the proposed pipeline corridor and held a preliminary pre-open season landowner meeting in Delta Junction to give landowners an opportunity to review the proposed route in relation to their property.

In Canada, Denali continues to meet frequently with Aboriginals and other groups to provide updates on the project. Several Aboriginal groups have entered into Cooperation Agreements with Denali and negotiations are ongoing with others. These agreements will assist Denali in learning more about the Aboriginal communities along the proposed pipeline route and provide a forum for identifying issues and opportunities that will create a framework for future

discussions and negotiations. During April, Denali hosted procurement information sessions for Aboriginal groups in Whitehorse, YT and Fort St. John, BC.

Following is a high level summary of 132 outreach meetings Denali has had since May 1, 2009:

1. 19 meetings with Alaska Native groups including village and regional corporations, regional non-profits, tribal councils and communities along the pipeline route.
2. 44 meetings with Canadian Aboriginal groups.
3. 39 public speaking engagements (including presentations to the legislature).
4. 30 meetings with agency and regulatory staff in the U.S. and Canada.

Since the formation of Denali, Denali has participated in over 450 meetings as part of its ongoing stakeholder engagement efforts in Alaska and Canada.

2.7. Timeline

Denali is currently planning to conduct an open season in 2010. Denali's detailed project schedules are proprietary. However, part of the current engineering focus is on development of a project schedule which will be available for review as part of the open season process.

3. ALASKA WORKFORCE AND BUSINESS PARTICIPATION

Consistent with applicable laws, Denali has a hire, buy, and build preference for work in Alaska. The following sections show Denali has continued its commitment to hire Alaskans, work with Alaskan businesses, and advance workforce development.

3.1. The number of Alaska businesses that have received a contract from Denali for work on the project

Since its formation, Denali has contracted either directly or through its owners with 47 Alaskan businesses to support Denali's work effort. This does not include Alaska businesses that are performing work as subcontractors to Denali's prime contractors. The 47 businesses that have provided goods and services to Denali are:

ABR Inc.
Action Security, Inc.
AERO-Metric Air Logistics of Alaska, Inc.
Alaska Green Connections, Inc.
Alaska Northern Courier
Alaska Printing, Inc.
Alpine Meadow, Inc.
Arctic Air Environmental Services LLC
Arctic Office Products
Beacon OHSS, Inc.
Bradley Reid + Associates
Breux Leadership Solutions
C2 North LLC
CES Alaska LLC
CH2MHILL of Alaska
Chumis Cultural Resource Services
Computer Task Group, Inc
CVS, Inc.
Doyon Universal Services LLC
Emerald Consulting Group LLC
F R Bell and Associates
GCI Communications, Inc.
Hawk Consultants LLC
HDR Alaska, Inc.
Hoefler Consulting Group
Immersive Video Solutions LLC
Land Field Services, Inc.
Michael Baker Jr., Inc.
Nana Management Services LLC
North Mail, Inc.

Natural Resources Group
Northern Land Use Research, Inc.
North Slope Telecom, Inc.
Northwest Technical Services
PND Engineers, Inc.
Price Gregory International, Inc.
Professional Business
Resource Data, Inc.
Roto-Therm, Inc.
Ruby Investments, Inc.
Situs Ergonomics LLC
Staser Consulting Group
Stole Rives LLP
Tanana Chiefs Conference
The Chariot Group, Inc.
The University of Alaska – Fairbanks (UAF)
Weston Solutions, Inc.

3.2. The number of Alaskans hired for seasonal and full time, year-around work

Denali has approximately 80 Alaskans working on the project. As workload changes, Denali's manpower loading will change appropriately.

3.3. The jobs available on the project for qualified Alaskans / anticipated to become available to qualified Alaskans

Denali has an Alaskan hire, buy, and build preference. To the extent that Alaskan businesses and contractors are qualified and cost competitive, Denali will utilize Alaskan services for the project. The number of jobs available on the project will depend upon workload which is expected to vary from year to year.

3.4. The extent to which contracts with Alaska businesses and the employment of Alaskans met the commitments made under AS 43.90.130 (15) and (17)

AS 43.90.130 (15) and (17) apply only to the AGIA licensee. However, Denali's Alaska hire buy, and build policy achieves the same goals as the statute. Denali has and intends to:

- Continue employing qualified Alaskans for the project;
- Use qualified, cost competitive Alaskan businesses for work in Alaska; and
- Work closely with the Alaska Department of Labor (ADOL) on workforce development.

In addition, Denali will timely negotiate one or more project labor agreements.

3.5. A description of how Alaska businesses will participate in the next phase of the project

Denali has and will continue to provide business opportunities for Alaska based and other companies through its procurement process. In addition, Denali's website (www.denalipipeline.com) provides the opportunity for Alaskan companies to register their company and services with Denali. Denali will use this database to expand its list of Alaskan service providers. Denali has also been actively engaged in workforce development activities (see Section 3.6) as well as procurement training and information forums (see Section 2.6).

3.6. Workforce development activities

In the May 8, 2009 Update, Denali described two training initiatives that Denali was supporting; a UAF archeological technician program and a surveyor apprenticeship program with Tanana Chiefs Conference (TCC).

The archeology training program consisted of classroom training on circumpolar archaeology and an archaeology field school. Denali provided approximately \$200,000 to support the two courses. The funding provided salaries for a faculty member, a graduate assistant, and up to three graduate research assistants. It also supported field school necessities such as food, a generator, camp equipment, safety supplies, and remote communications and allowed UAF to waive course fees for students in the field school. The field school started May 18th and had 20 students enrolled.

During the June and July field portion of the training, the UAF students sifted through silt at a site near Delta Junction and found artifacts dating as far back as 14,000 years ago, many of them among the earliest found in the New World. The field school prepared students to work as entry-level archaeology technicians and helped make them eligible for employment with firms who provide archaeological services to projects such as Denali.

Denali also partnered with TCC, U.S. Department of Labor (DOL), ADOL, the Teamsters and private employers to create a Surveyor Assistant Apprenticeship Program. This new program was designed to recruit students from pipeline corridor communities and to provide them with a combination of classroom and on-the-job training for a career in the surveying field. Denali provided approximately \$90,000 to help cover the costs for the instructor, classroom, equipment, and supplies for the students for the classroom portion of the training. The project partners included:

- TCC – As the program sponsor, TCC's responsibilities included recruitment of students, maintaining the apprentice records, and dispatching students to job sites for on-the-job training.
- DOL – The DOL assisted TCC with developing the standards for the program. The program was officially registered as an apprenticeship program with the federal government.

- ADOL – The ADOL provided TCC with a grant that covered the students travel and housing for the 8 weeks in Fairbanks. As a registered apprenticeship program, the ADOL provides wage incentives to the employers (up to \$4500) plus financial support to the students.

On May 29, 12 students graduated from the classroom portion of the TCC surveyor apprentice program. Eleven of these students continued on to jobs and received on-the-job training over the summer with participating employers such as Bell and Associates, TCC, Lantech, PDC, USKH and the State of Alaska. Denali will continue to support this program by providing funding for the second year of classroom instruction in 2010.

Denali is actively participating in other workforce development programs such as the ADOL's AGIA Strategic Training Steering Committee, the Partners of Progress in Delta, Inc., industry roundtables, and pipeline career discussions at schools in Tok, Minto, Delta Junction and Anchorage. Denali is also assisting local pipeline communities with workforce development proposals. In addition, Denali has had, and will continue to have, ongoing discussions with labor unions regarding training for crafts that will be needed as the project progresses through construction and startup.

4. MARKET UPDATES AND COST EXPECTATIONS

The emergence of new sources of unconventional gas such as shale gas and the potential for large volumes of LNG imports into the U.S.² has the potential to change the perception of the long term market for North American natural gas. The combination of reduced demand and growth in supply from shale gas and LNG imports raises questions about the competitiveness of natural gas delivered from North Slope sources over the life of the project.

One of the few, if not the only publicly available long range (20+ years) natural gas price forecasts is the one generated by the U.S. Energy Information Administration (EIA). While the EIA forecast is often quoted, it does not represent a consensus view of the market. Ultimately, it is the shippers who will assess the economic viability of the pipeline based upon their own proprietary market perspectives as they determine whether or not they are willing to make the multi-billion dollar, multi-year commitments that will be required to finance and construct the project.

4.1. Significant changes in long range price forecasts for North American natural gas markets

The publicly available EIA long range market price forecast for North American natural gas has not changed significantly in the last six months. However, the recent natural gas price volatility combined with the potential for new supplies of natural gas to compete with Alaska natural gas has highlighted the market risk potential shippers face (see previous section).

4.2. Cost estimates for the development phase and execution phase

Since the May 8, 2009 Update, Denali has nearly completed its work to revise the cost estimate and schedule. The revised cost estimate and schedule will represent a substantial advancement over prior work and will form the basis for Denali's commercial terms. The results of Denali's work will be available for prospective shippers during the 2010 open season.

4.3. A description of any alternatives contemplated to the capitalization plan

Denali's position has not changed from that stated in the May 8, 2009 Update.

² EIA Annual Energy Outlook, Report :# DOE/EIA -0383(2009)

5. SUMMARY AND PLANS

Denali is moving forward on its project outside of AGIA and with funding solely from its owners, BP and ConocoPhillips. To date, Denali has spent over \$120 million to progress the technical, regulatory, commercial and stakeholder elements of the project in both Alaska and Canada. Denali has nearly completed its cost estimate and project execution plans and has initiated pre-open season discussions with potential anchor shippers.

Over the coming months, Denali's focus will be on conducting the work necessary to position itself for a successful open season in 2010. Some of the key milestones and activities are:

- Completing the project cost estimate and execution planning;
- Progressing regulatory work with the FERC, OFC, BLM, DNR, and other federal and state agencies;
- Progressing regulatory planning with the NEB, MPMO and other Canadian regulatory agencies and government departments;
- Furthering engagement with communities, governments, Alaska Natives, Canadian Aboriginal groups, and other key stakeholders;
- Discussing pre-open season needs with potential anchor shippers;
- Advancing commercial and regulatory preparations for open seasons in both Alaska and Canada.

Denali is continuing to focus on development of a credible, robust cost estimate and schedule as the foundation for its open season commercial offering.