APPENDIX

(*See p. 2479*)

NORTHWEST ALASKAN PIPELINE COMPANY

May 21, 1981

Mr. Hal L. Siegele
Senior Vice President
Exxon Company, U.S.A.
800 Bell Street
Houston, Texas 77001

Mr. Frank E. Mosier
Senior Vice President
Sohio Gas Pipeline Company
1750 Midland Building
Cleveland, Ohio 44115

Mr. E. M. Benson, Jr.
Vice Chairman of the Board
Atlantic Richfield Company
515 South Flower Street
Los Angeles, California 90071

Re: Project Financing Plan—Alaskan Pipeline and Gas Conditioning Plant

Gentlemen:

Over the past several months, we have worked constructively with you to develop a mutually agreeable formulation of the concepts underlying a financing plan for the Alaska segment of the ANGTS, and the conditioning plant necessary for transport of Prudhoe Bay natural gas to the lower 48 states. In January, 1981, Exxon presented to the transmission company sponsors of the Alaska segment, on behalf of Exxon, Arco, and Sohio, a conceptual approach to financing which the producing companies could support in a joint approach to the financial community.

After extensive negotiations with you, and giving effect to our mutually held view that time is of the essence in taking a financial plan to prospective lenders and receiving their reactions, the Alaskan Northwest partners are now prepared to utilize your suggested approach as the basis for the discussion of a financing plan for the pipeline and plant with the financial community.

To insure a complete understanding concerning this approach, let me summarize the concepts which would be presented to the financial community at the earliest practicable date:

1. For purposes of financing, the "as spent" cost of the Alaskan pipeline will be $21 billion, and of the plant will be $6 billion. In addition, a pre-committed completion assurance pool of $3 billion will be formed.

2. The debt/equity ratio for all capital investment will be 75:25.

3. The investment limits of all participating companies will be defined from the outset. As a group, the transmission companies will provide equity in an amount not to exceed $5.25 billion. As a group, the producer companies will provide equity in an amount not to exceed $2.25 billion, and be further responsible for arranging for an amount of debt not to exceed $6.75 billion.

4. The Alaskan Northwest partners will own 70% of the pipeline and the plant, and the producing companies will own 30% of the pipeline and the plant. Equity commitments to the completion assurance pool will be made on the same 70:30 ratio.

5. Debt funds (pipeline and plant) will be sought on a project credit basis. The transmission group will be responsible for arranging for $15.75 billion in project debt. The producer group has accepted responsibility for arranging for $6.75 billion in additional project debt. The debt which the producers are responsible for arranging will be accorded terms and conditions equivalent to those accorded other project debt.

6. Each company's participation will be subject to satisfaction of conditions precedent, namely

—The conditioning plant will be included as part of the Alaska segment of the ANGTS.

—Each company's investment will be limited to a sum certain defined in the financing plan.

—All debt and equity participants will issue firm commitments, acceptable to all other participants, prior to construction of the pipeline or plant.

—All necessary governmental approvals and authorizations will be issued and accepted by the participants.

—All parties are assured that the project is economically viable.

—All parties are assured that the Canadian segment will be financed and completed without U.S. company involvement.

—Each financing layer will be afforded equal terms and conditions.