



Hilcorp Alaska, LLC

Kurtis K. Gibson
VP – Marketing and
Business Development

Post Office Box 244027
Anchorage, AK 99524

3800 Centerpoint Dr.
Suite 1400
Anchorage, AK 99503

Phone: 907/777-8407
Email: kgibson@hilcorp.com

September 3, 2015

Alaska Industrial Development and Export Authority
Attn: Procurement Department
Tom Erickson
813 Northern Lights Blvd
Anchorage, AK 99503

RE: Five-page Summary of Hilcorp/Harvest Response to RFP 15142

Dear Mr. Erickson,

Hilcorp Alaska LLC and Harvest Alaska LLC submit the attached summary of the Hilcorp/Harvest response to AIDEA RFP 15142. The summary addresses each of the seven categories identified in your letter dated August 27, 2015.

We look forward to continuing the dialogue with AIDEA and providing solutions to Interior Alaska's high energy cost. Please feel free to contact me with any questions about the attached summary, the associated response to RFP 15142, or any other related matter.

Sincerely,

A handwritten signature in blue ink, appearing to read 'K. K. Gibson'.

Kurtis K. Gibson
Vice President - Marketing and Bus. Dev.
Hilcorp Alaska, LLC

I. Proposal Summary

On August 3, 2015 Hilcorp Alaska LLC and Harvest Alaska LLC submitted a response to AIDEA RFP 15142 indicating a willingness to provide any of the following project alternatives for addressing Interior Alaska's high cost of energy:

1. Merchant facility with LNG capacity for use by owners of Cook Inlet gas (described in RFP 15142 as Primary Option)
2. Delivered LNG to the Fairbanks city gate (described in RFP 15142 as Alternate Proposal 1)
3. LNG for sale FOB at the tailgate of an LNG facility located in Southcentral Alaska (described in RFP 15142 as Alternate Proposal 2)

As indicated in the Project Description and Cost section of the Hilcorp/Harvest RFP response, Hilcorp/Harvest proposes building either a 100,000 or 200,000 gallon per day liquefaction facility to serve the needs of the Fairbanks and North Pole markets. The design capacity of the liquefaction facility will depend in large part on the success of the commercial negotiations between the Alaska Industrial Development and Export Authority (AIDEA), the Interior Energy Project (IEP) and the Interior utilities. Commitments of capacity for LNG off-take will underpin Hilcorp/Harvest's investment in any facility.

Immediately upon having executed definitive agreements with responsible parties (AIDEA, IEP, Interior utilities or some combination thereof), Hilcorp/Harvest will sanction the project (make a Final Investment Decision or "FID"), pursue the necessary permits, and begin procuring long lead equipment and materials in order to expedite "first LNG" to Fairbanks and North Pole customers.

Except in the case of the Merchant Facility or Primary Option, natural gas would be sourced from Hilcorp's existing and future production in the Cook Inlet.

II. Background and Experience of Proposer's firm

The parent company for Hilcorp Alaska, LLC and Harvest Alaska, LLC is Hilcorp Energy I, L.P., a privately held Texas limited partnership, formed in 1994, engaged in the exploration, production and development of oil and natural gas properties and pipelines. Hilcorp's reserves and production are located onshore and in inland waters along the Gulf Coast of Louisiana and Texas, onshore South Texas, in the Cook Inlet and North Slope of Alaska and in the Utica Shale in northeast Ohio and western Pennsylvania. These properties generally consist of long-lived fields with well-established production histories. Our strategy is to increase our reserves, production, cash flow and earnings through the exploration and development of our existing properties and through strategic acquisitions of additional oil and natural gas properties.

As of March 31, 2014, Hilcorp owned interests in over 265 fields containing over 6,800 wells, and a reserve mix of 54% natural gas and 46% oil. Approximately 66% of our proved reserves were classified as proved developed and 39% were classified as proved developed producing. Hilcorp operates approximately 95% of our net production.

Harvest Alaska now operates and owns, directly or indirectly, the entire Cook Inlet gas pipeline system, which it recently consolidated into a single regulated transmission system, along with the CIPL and Swanson River oil Pipelines. Harvest Alaska now also owns an interest in and operates three oil pipelines on the North Slope: Milne Point Pipeline, Endicott Pipeline, and Northstar Pipeline. In addition to Hilcorp Alaska's existing pipeline expertise and personnel, Harvest Alaska also has access to the pipeline operating expertise of Harvest Pipeline Company ("Harvest Pipeline"), its affiliate in the Lower 49. Harvest Pipeline currently has more than 100 employees, and its management team has more than 120 years of cumulative experience in the ownership and operation of petroleum pipeline systems, some of which are operated as common carriers. Harvest Pipeline owns and operates over 1,500 miles of pipelines, transporting crude oil and natural gas as well as performing processing and treating of natural gas.

Hilcorp and Harvest's primary competitive strengths are our technical expertise in operations and reservoir engineering, our cost-focused operations, our acquisition and development expertise, our experienced management team and our disciplined hedging program. We have been successful in increasing both reserves and production from our properties through a combination of exploration and development drilling, workovers, recompletions, secondary recovery operations and cost management.

All vendor quotes and/or contractor proposals are protected as confidential and proprietary under non-disclosure agreements between Hilcorp/Harvest and its vendor/contractor counterparties.

III. Project Description and Costs

The indicative project fees provided below represent the alternatives described in the Proposal Summary section. More specifically, the following project scenarios are:

1. Two separate volume alternatives for a merchant LNG facility which offers liquefaction capacity only (AIDEA Primary Option);
2. Two separate volume alternatives for delivery of LNG at the Fairbanks city gate (Alternate Proposal 1); and
3. Two separate volume alternatives for LNG sales at the tailgate of an LNG facility (Alternate Proposal 2).

The indicative proposals provided below are based upon detailed discussions with LNG equipment and contracting companies within the previous 12 months. They are project specific

and subject to change until such time as commercial agreements can be reached between Hilcorp/Harvest and an Interior Alaska LNG buyer.

AIDEA Primary Option: With respect to merchant liquefaction capacity, the offer is for cost-of-service based rates and consequently is subject to adjustment over the life of the asset. Interested parties should expect to enter into contracts for capacity with a 10-year initial term. Cost components that may affect adjustments to the per-unit rate will receive periodic evaluation.

100,000 gallons per day capacity: \$0.41/gallon or \$4.95/mcf

200,000 gallons per day capacity: \$0.41/gallon or \$4.95/mcf

Alternative Proposal 1 – Delivery at Fairbanks city gate: Hilcorp will provide LNG delivered to the inlet flange of the regasification facility of a Fairbanks utility or business at a fixed price of \$15/mcf in year one and escalating at a rate of 2% annually for the initial term of the contract. Interested parties should expect to enter into contracts for service with a 10-year initial term. Delivered price beyond the initial term of the contract will be determined during subsequent negotiations for natural gas supply, liquefaction and transportation services. This alternative will be made available at initial rates of either 100,000 or 200,000 gallons per day depending upon interest expressed by buyers. Expansions of capacity beyond initial capacity rates and in 100,000 gallon per day increments are also subject to sufficient market interest.

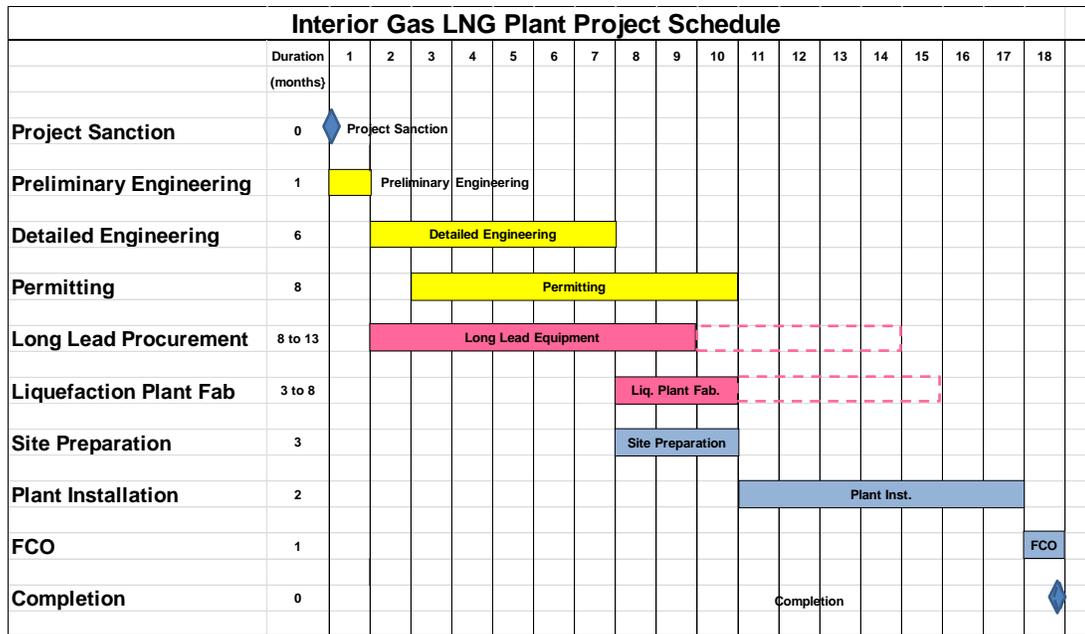
Alternative Proposal 2 – FOB at Plant Tailgate: Hilcorp will provide LNG delivered at the tailgate of an LNG plant for receipt by buyer into ISO containers, rail car, or tank trailer at a cost-of-service based price of \$12.25/mcf. Interested parties should expect to enter into contracts for service with a 10-year initial term. The price for gas (delivered at the plant tailgate) beyond the initial term of the contract will be determined during subsequent negotiations for natural gas supply and liquefaction services. Cost components that may affect adjustments to the per-unit rate will receive periodic evaluation. This alternative will be made available at initial rates of either 100,000 or 200,000 gallons per day depending upon interest expressed by buyers. Expansions of capacity beyond the initial capacity rates and in 100,000 gallon per day increments are also subject to sufficient market interest.

IV. Timeline to First Gas

The following project characteristics apply to all three alternative projects:

Project Timeline: As a consequence of Hilcorp/Harvest's ongoing engagement with LNG equipment and contracting companies occurring over the previous 12+ months, and assuming rapid resolution of commercial issues between Hilcorp/Harvest and Interior Alaska LNG buyers, it is possible the typical 36-month LNG project timeline could be accelerated as indicated below.

Hilcorp/Harvest recognizes the importance of expediting First Gas to Interior end-users and is fully aligned with its customers in terms of providing cheaper energy to Fairbanks and North Pole as quickly as possible. Execution of definitive agreements will ultimately determine the specific timing of First Gas for any of the project alternatives. An aggressive but achievable project execution timeline would allow for deliveries of First Gas to the Fairbanks and North Pole markets within 14-18 months of finalizing definitive agreements.



V. Major Assumptions/Financing Considerations

This proposal does not require AIDEA financing, however Hilcorp/Harvest is always interested in discussing creative financing alternatives that will improve the economics of the project. Lower cost natural gas to the Interior residents will increase the likelihood of fuel conversion for homes and businesses and consequently grow the market for LNG which is in the interest of all stakeholders.

Equity capitalization, rates of return, and cost of debt are sensitivities that can be described and discussed during the course of commercial negotiations.

As indicated in the Project Cost and Description section, Buyers of the service(s) offered herein should expect to make a commitment of no less than 10 years initial contract term. Longer term commitments will likely result in more attractive fuel costs for Interior buyers due to the improved economic certainty realized by Hilcorp/Harvest.

VI. How the Proposed Project(s) will meet/fit into IEP Goals

All energy costs are either identified or indicated in the Project Cost and Description section.

VII. Conclusion

In less than three years as an oil and gas operator in Alaska, Hilcorp and Harvest have had a profound impact on the Cook Inlet basin and the energy consumers that rely upon Cook Inlet resource development. Crude oil production in the Cook Inlet has more than doubled since Hilcorp acquired Chevron's assets in 2012 and Cook Inlet gas consumers have witnessed a shift from supply shortage bordering on crisis to contract certainty well into the next decade. Consolidation of the Cook Inlet gas pipeline system into a single regulated transmission system has further enhanced reliability and driven down costs for all Cook Inlet natural gas consumers. Since late 2014 Hilcorp has worked tirelessly to provide similar relief to Interior Alaska, specifically in the form of the agreements executed in November 2014 to purchase and expand the Titan LNG facility formerly owned by Pentex Alaska LLC. Our extraordinary project execution and operational excellence are a direct consequence of our constant focus on cost control and growing our production and reserves. Hilcorp Energy has made over \$3 billion dollars in investments in Alaska since 2012 and will continue to explore ways to be part of Alaska's energy solution.