Interior Energy Project ("IEP") Commercial Process & Roles

- Letters of Interest ("LOI") solicited and responses received back – January 2013
- Legislation, policy basis – Thru April 2013
- Technical review – Thru April 2013
    - Concept of LNG plant on the North Slope with trucking to the Interior via the Dalton Highway determined to be technically viable
    - Work conducted by HDR and MEI in conjunction with AIDEA IEP Technical Team
    - Analysis of options & recommended architecture for overall system design balancing:
        - LNG plant technology and capacity
        - Trucking capacity
        - FNSB storage and regasification capacity
- SB 23 signed into law by Governor Parnell – May 29, 2013
- June 2013 AIDEA issues Request for Proposals ("RFP") based on technical review and using the financial tools made available by SB 23
- Responses to RFP – July 19, 2013
- Parallel negotiations & analysis of proposals – Ongoing from July thru early November
- IEP Review and Analysis Team
    - AIDEA Development Finance and Infrastructure Divisions
    - AEA
    - Technical: HDR / MEI
    - Legal / regulatory: Alaska Department of Law, Birch Horton, Bracewell & Giuliani
    - Finance / commercial: Western Financial Group ("WFG")
- WFG's background
    - Long term financial advisor to AIDEA on project development and bonds
    - Project finance & Public Private Partnerships ("PPP")
        - Developer / project sponsor
        - Advisor (both public & private side)
        - Investor representative
        - Institutional investor
    - Utility finance
        - Executive
        - Advisor – "ab initio" and ongoing
    - Focus
        - Completing difficult, complex transactions successfully

SB 23 / IEP Overview

- SB 23 Objectives
  - Natural gas for FNSB space-heating customers at "burner-tip" [at the meter] prices ~40-50% below fuel oil
  - Long-term assured supply for preferred customers
  - LNG for Interior Alaska electric utilities
  - LNG for Interior Alaska industrial uses
  - Propane for rural areas

- SB 23 Funding Structure
  - $57.5mm capital appropriation
  - $125mm SETS Loan
    - 3.00%
    - 30 years
    - Ability to defer principal & interest for reasonable period of time
  - $150mm AIDEA Bonds
    - State credit support
    - Market rate terms and conditions

- IEP Program Elements (LNG, trucking, Dist.)
  - Gas supply source
  - LNG plant
  - Trucks
  - Storage and regasification in FNSB
  - Heating Distribution utilities
  - Electric utilities
  - Industrial customers in the Interior

- Preferred Customers
  - FNSB natural gas utilities
  - FNSB electric utilities
  - Regulated utilities outside the FNSB
  - Industrial customers in the FNSB

- LNG Plant & System Basics
  - Site on the North Slope
  - Lease, design, layout, permitting, etc.
  - Pad
  - Pipeline and connection to Fuel Gas system
  - Maintenance shops, camp, etc.

        - Power generation
        - Raw gas processing (“amine”) module(s)
        - Liquefaction “trains”
        - On-site storage
        - Truck loading facilities

Business / Financial Objectives

- How business & financial structures achieve SB23 Objectives
    - Minimum plant requirements
    - Commitment to distribution system buildout with an all-requirements agreement
    - Transparency
    - Effectively leverage State / AIDEA financing with use of private capital
    - Customer priorities
    - Return limits / pricing restrictions
    - Other business “covenants”
        - $20mm minimum project equity contribution by potential private party participants
        - FNSB distribution gas heating system build-out commitments by utilities

- Prudent & effective business structure
    - Project financing characteristics
        - Governance and management
        - Managed technical and construction risk
        - Credit-worthiness / balance sheet commitment
        - Large, proven markets
        - Term-matched commitments
        - Balanced risk allocation
        - Encompassing all program elements
            - Gas supply source
            - LNG plant
            - Trucks
            - Storage and regasification in FNSB
            - Distribution utility
            - Electric utility
            - Industrial customers
    - North Slope LNG Plant
        - Many project finance characteristics
            - Full system: resource supply to final customer
        - Considerable challenges
            - Unproven FNSB natural gas heating market

    - Pricing, customer priority objectives that limit return
    - Alternative Gas Supply that could reach the community
- IEP = project financing with State / AIDEA financial & business support

Technical Fundamentals

- Pentex, MWH, GVEA are essentially the same type of plant in design and configuration – electric-drive, nitrogen-refrigerant process
- Spectrum plant – direct-drive, mixed-refrigerant presents lowest capital cost, but a different operating profile
- HDR / MEI analysis favors nitrogen (Pentex/MWH/GVEA) over mixed-refrigerant (Spectrum)
- AIDEA IEP Technical Team conclusions:
    - Site issues close enough to not be a factor
    - All plant proposals can meet AIDEA / AEA system requirements

Key Elements of Final Term Sheets

GVEA

- GVEA is willing to purchase gas (on negotiated terms) from any sponsor:
    - "Depending upon an agreed upon fixed price that is commercially reasonable, GVEA envisions being able to commit to purchasing between 1.5 to 2.5 BCF of gas annually."
- Not tied to any proposal by a particular company or group
- GVEA willing to assist in any way it can, including:
    - Assigning rights to engineering work product on a North Slope LNG plant
    - Assign its rights in a North Slope site
    - Consent to the project using GVEA's 20-year gas supply contract
    - Contributing project management and grant administration expertise
    - Participate in project development and facility operation

Spectrum

- Business structure oriented to distributing LNG beyond FNSB, with AIDEA securing lower cost gas supply and committed demand in FNSB
- Spectrum proposes to sell <u>processing</u> of LNG – each customer would secure their own gas supply contract and the Spectrum plant will process that gas for a fee
- Completion risk covered, and construction financing, provided by Quanta
- AIDEA financing only required after plant completion
- Willing to transfer Spectrum site and permits to project for a fee of $2.85mm (plus

reimbursement of Spectrum expenses, including a $2,500 per day "management fee", with a 15% margin added)
  - Lowest capital cost estimate for construction of LNG plant
  - Spectrum Term Sheet includes a request for Break-up fee of $2.25mm (plus reimbursement of Spectrum expenses with a 15% margin added)
  - Spectrum would also claim 20,000 gpd of NGSP capacity at preferred customer prices in the event of "break-up"
  - Spectrum expects AIDEA to take all demand risk
    - Proposes that Spectrum could "put" one of two LNG trains to AIDEA if demand doesn't meet projections after 5 years
    - Spectrum would be given a $72 million credit on the then outstanding balance of the SETS loan at Spectrum's option
  - Proposed equity return on Spectrum capital is highest of the proposers (~25%)
  - Interim management fee payments before completion and right to use AIDEA funds before using Spectrum capital

MWH

- Financial investor plus owner's engineer and project manager, with terms closer to pure project financing structure
  - All agreements 30 year term
  - Phased construction with initial capacity matched to initial demand
  - Investor would provide letter of credit to support commitment to fund additional phases
  - Term sheet capital and operating costs are highest of proposers – using AIDEA's highest cost estimate from Feasibility Study since no independent work done on capital plan
- Mid-range proposed equity return (12-15%)
- MWH proposes highest potential private capital commitment - $85mm
- MWH term sheet includes AIDEA commitment of $10mm capital appropriation to GVEA storage and regasification facility in North Pole (linked to GVEA commitment to take-or-pay purchase of LNG)

Pentex

- Pentex plan focused first on LNG supply for FNSB LDC and electric utility, with planned sideline in transportation fuel
- Pentex term sheet integrates LNG business structure with FNG distribution system in FNSB
- Pentex structure includes commitments to take demand risk:
    - FNG LNG purchase commitment
    - FNG distribution system build-out commitment
    - No "escape clauses" except Alternative Gas Supply
  - Pentex proposes AIDEA financing for FNG distribution system expansion, in parallel with Pentex commitment to build-out the system

- Assumes an "economic regulation" structure similar to RCA
- Pentex proposed equity return lowest of the options at 12.4%
- Pentex expects to raise any funds beyond $15mm proposed new cash equity in the capital markets and proposes a 12/31/14 deadline for funding.
- Other $5mm equity proposed to be already expended funds for well-advanced, LNG plant design and engineering