

Dave, Thanks for providing Buzz's email. He is a good friend and a great champion for the Interior.

While I feel his pain, I have an alternative solution to the problem. He views the problem as simply high energy costs. I see the root cause of the problem as a lack of competition in the supply. Based on my experience in trying to bring a badly needed competitive supply project to the Interior, the State impeded the project. The "Interior" itself is somewhat culpable.

In 2012 when we were trying to get a large customer to sign on to take a base load amount, the short list of potentials declined because they were working on State funding for a free LNG plant. Pretty hard to compete with the notion of free.

It would have been very easy to compete with FNG. Prices would have fallen without State involvement. The notion that the State, even with grant funds that don't require repayment, can develop LNG production capacity cheaper than a competitive venture, just played out. Even if it had worked, the final result would be akin to PCE (Power Cost Equalization) where there is no effort to reduce costs overall, rather it just spreads the cost of the few on the many. With State funding of the IEP (Interior Energy Project), you move the expense to all those in the state versus just the cost causers.

I'm not saying the Interior shouldn't get some relief, I'm just tired of seeing it done in a wasteful manner. It would be like those that enjoyed PCE leaving the lights on and wasting the subsidized electricity. We failed to convince AIDEA that a competitive bid scenario would yield the lowest priced LNG capacity. They argued their hands were tied by SB23 that required them to be the developer.

They (AIDEA) developed a process while we were busy leasing land, getting Rights of way, RCA (Regulatory Commission of Alaska) certificates, and everything else needed to develop the competitive supply EXCEPT an off take agreement from a large customer. GVEA, Fort Knox, and others feared signing a long term deal with us and then have the State build their free plant. In all fairness to GVEA, in 2012 they were expecting they would get the grant funds instead of AIDEA. But the Governor didn't see it that way.

If you want to significantly increase the risk of project development, remember that the number of parties involved is the exponent in the risk equation. GVEA's involvement is all but unavoidable, but ***involving AIDEA was at the State's discretion***. After participating in the AIDEA process for all of 2013, in spite of the fact that we produce more LNG every day than MWH and FNG (Fairbanks Natural Gas) combined, had the pad site leased, had the Right of way and RCA certificate, had developed more small scale LNG plants than both FNG and MWH, and had the most North Slope experience, AIDEA selected ***the party with the least LNG experience*** to bring the project home.

In early 2014 we did agree with AIDEA on one thing, that they should buy our subsidiary that held the lease, permits, etc. We sold and moved on. It should not be a surprise that the Governor wants the State to buy FNG. I believe he represented one of the Port Authority projects that then Mayor, now Gov. Chief of Staff **Jim Whitaker** advocated. The difference now is that bonds that require repayment won't be used, rather the State's purse will likely be the source.

Once the Borough decided to form IGU, I supported the notion of it buying FNG's distribution assets and using that platform as a spring board for the IGU effort. Now it appears AIDEA may be the owner of FNG rather than another local gas distribution organization.

There is a logical way forward. AIDEA did buy an excellent site in Prudhoe Bay for an LNG plant. They installed a gravel pad. They could add a shop, camp, and short piece of pipe on their newly purchased ROW and they would have a very nice host site for a small scale LNG plant. I think if they added a request for 3bcf per year of liquefaction to the host site, that several of us would provide competing prices for liquefaction. AIDEA could also play its normal finance role and offer low cost project financing. By doing these things, AIDEA would reduce the developers risk and costs and allow them to submit their best price.

I'm confident that if the above were to happen along with the other suggestions we offered to the Governor in our letter, that the IEP target price of \$15 is very achievable. ...

The State chased Marathon off, what a big mistake that was. Now you have a somewhat tight supply and the notion of adding more Fairbanks load to this source will only serve to keep prices high. Eventually the folks in Anchorage will realize that the little bit of gas Fairbanks is taking is setting the price for all the gas they are buying. Picture two kids, each with their straw in the same coke.... Another version of the few costing the many.

AIDEA spent way too much time and money trying to learn how to get into the LNG business. We wasted valuable time arguing with their "experts" about which process would be best, what location, etc. They should offer the host site, off take agreement, and some financing. GVEA should agree to take the lion's share of the production with a price cap and be the swing consumer. Then, the residential and commercial heating loads that Buzz talks about will be priority base loads. This is how you get lower cost energy, through competition and alternative supplies (Prudhoe versus Cook Inlet). At least that's how we would do it. Thanks for listening.

Ray

p.s. Dave, I'll forward you a copy of my letter to the governor shortly.