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November 21, 2014

||| Tariff Advice Letter No. 37-514

||| Fairbanks Natural Gas LLC
||| 3408 International Way
||| Fairbanks, AK 99701

Regulatory Commission of Alaska
701 W. 8th Avenue, Suite 300
Anchorage, AK 99501

Re: Tariff Advice Letter 37-514
LNG Supply Contract
Our File No: 2102.103

Dear Commissioners:

The tariff filing described below, including the LNG Supply Agreement [LSA] between Harvest Alaska, LLC [Harvest] and Fairbanks Natural Gas LLC (FNG) and the related tariff sheet 46.1, is submitted to you in compliance with the Alaska Public Utilities Regulatory Act and 3 AAC 48.200 - 430.

Tariff Sheet Number		Cancels Sheet Number		Schedule or
Original	Revised	Original	Revised	Rule Number
	46.1 (3 rd rev)		46.1 (2 nd rev)	709 GCA

This filing is for approval of a gas [LNG] supply contract. This filing is not for a new service. No rate or charge will be increased. The filing will not result in termination of any service, and does not conflict with any other schedule or rate. The filing will not in any way adversely affect customers.

FILING REQUIREMENT

In 2003, the Commission exempted FNG from economic regulation.¹ On June 30, 2014, FNG filed a revenue requirements study as part of the process for bringing FNG back under full rate regulation approved by the Commission in Order No. U-12-095(8). New permanent rates are expected by December 2015.

In its order granting FNG's original certificate application, the Commission directed FNG to file its gas supply contracts for Commission approval.² This requirement was eliminated by the exemption order in 2003. It is not clear at this time whether the 1997 requirement for filing of supply contracts will be reinstated, or, if FNG is to start filing supply contracts, when it should begin to do so.

In connection with its rate case, FNG filed a tariff provision for a new gas cost adjustment (GCA) mechanism. The 2003 deregulation order suggested that, in light of the deregulation of rates, FNG's proposed GCA at that time was no longer necessary. FNG agreed and subsequently eliminated the GCA from its tariff.³ Because FNG's rates will be subject to rate regulation and FNG will not be able to change them in response to changing energy costs without a full rate case, a GCA will again be appropriate. Since 2004, the Commission has required natural gas companies to file their supply contracts in support of the GCA adjustments.⁴ Therefore, FNG will be required to file its gas supply contracts in support of its proposed GCA, regardless of whether the 1997 filing requirement is reinstated.

In light of both the restarting of rate regulation and the proposed GCA, it seems appropriate for FNG to begin filing new gas supply contracts, effective June 30, 2014, when FNG filed its rate case. This is the first new gas supply contract since that date.

APPROVALS REQUESTED

FNG requests that the Commission approve the proposed LSA for approximately 850 to 950 MMcf annually of natural gas in liquefied form for a period of ten years. FNG also seeks Commission approval of the proposed change in FNG's proposed GCA to substitute the new LSA for FNG's existing base load LNG supply contract, and for the inclusion of all costs related to the LSA as approved cost elements in FNG's Gas Cost Adjustment.

¹ *Fairbanks Natural Gas Petition for Exemption*, Order No. U-02-048(3)(01/31/2003); AS 42.05.711(d).

² *Application of Fairbanks Natural Gas*, Order No. U-96-129(3), page 9, ordering paragraph 9 (09/04/1997).

³ TA 14-514 (01/01/2004).

⁴ 3 AAC 52.506(a).

BACKGROUND and CONTEXT

FNG is certificated by the Commission to provide natural gas distribution service in Fairbanks. FNG currently obtains natural gas in the form of LNG from two sources. The majority of FNG's LNG supply is provided by Titan Alaska LNG, LLC (Titan), a subsidiary of FNG's owner, Pentex Alaska Natural Gas Company, LLC [Pentex]. Titan purchases Cook Inlet gas from Hilcorp Alaska, LLC [Hilcorp]. The gas is delivered over the Enstar pipeline to Titan's LNG plant at Point MacKenzie, Alaska. There the gas is liquefied, and the resulting LNG is shipped by trailer to FNG's LNG storage facilities in Fairbanks. The price is set based on the costs of gas, electricity, LNG process, trucking, and other costs, and is currently approximately \$15.00/Mcf delivered to Fairbanks.

FNG obtains a smaller winter season supply of interruptible LNG from ConocoPhillips [CP]. This LNG is also manufactured from Cook Inlet natural gas. The point of sale is CP's LNG plant in Nikiski, Alaska. When the costs of transportation to Fairbanks are included, FNG's current costs for this LNG supply source are approximately \$17.35/Mcf.

Pentex and Titan have agreed to sell the Point MacKenzie LNG plant and Titan's other assets to Harvest Alaska, LLC, an affiliate of Hilcorp. The closing of the sale of the plant is contingent on receipt of any necessary regulatory approvals and upon the consent of the Alaska Attorney General. In connection with the proposed sale of the LNG plant, Harvest and FNG have entered into the LSA, which provides FNG a secure supply of LNG for ten years at a reasonable price for its current customers. FNG and Pentex believe that the sale of the LNG plant will also encourage the development of additional LNG capacity in the Cook Inlet.

KEY FEATURES OF LNG SUPPLY AGREEMENT

The key provisions of the Harvest LNG Supply Agreement are summarized below. References are to the section number of the Agreement, and capitalized terms are defined in the Agreement.

Effective Date and Term. The effective date of the LNG Supply Agreement will be the date of closing of Harvest's purchase of the LNG plant. The term of the agreement will be 10 years. [4.1]

LNG Volumes. FNG will purchase sufficient gas to meet the needs of its current customer base, approximately 850 MMcf per year, but up to the Maximum Daily Quantity on any given day. [3.1]

Maximum Daily Quantity. The maximum daily quantity that Harvest must deliver is 50,000 gallons per day, with adjustments for periods in which the production capacity of the LNG plant is less than 50,000 gallons and for the making up of earlier shortfalls. [3.2]

Nominations/Flexibility. FNG will provide Harvest annual and monthly forecasts of FNG's LNG requirements. [3.3(a), (b)] With exceptions only during specified summer months, FNG will have the flexibility to nominate on a daily basis as much gas as it needs up to the Maximum Daily Quantity. [3.3(a), (c)]

Delivery Points/Title Transfer. LNG will be delivered to FNG at FNG's storage facilities in Fairbanks. [3.4, 6.1] Transfer of title and risk of loss will pass at delivery in Fairbanks. [6.2]

Sales Price. The contract price is \$15.00/Mcf delivered to Fairbanks. [5.1] Beginning in the third year, the price is subject to an annual inflation increase of 2%. [5.12(a)]

Sales Price Adjustment to Market. During years 6-10 of the term of the LSA, the price will be adjusted to (or toward) the lowest price for similar or higher quantities available to Fairbanks utilities. If no other source is available, there will be no Market Adjustment. [5.2(b)]

Incidental Transportation of Other Cook Inlet LNG. When FNG requires more than the maximum quantity of LNG that Harvest can deliver, Harvest will provide transportation services for the LNG that FNG purchases from Nikiski. [16.13]

RCA Approval. The LSA is contingent on Commission approval. [16.14]

REASONS FOR APPROVAL

The statutory standard for Commission review of gas supply contracts is set out in AS 42.05.141(d):

When considering whether the approval of a rate or a gas supply contract proposed by a utility to provide a reliable supply of gas for a reasonable price is in the public interest, the commission shall

(1) recognize the public benefits of allowing a utility to negotiate different pricing mechanisms with different gas suppliers and to maintain a diversified portfolio of gas supply contracts to protect customers from the risks of inadequate supply or excessive cost that may arise from a single pricing mechanism; and

(2) consider whether a utility could meet its responsibility to the public in a timely manner and without undue risk to the public if the commission fails to approve a rate or a gas supply contract proposed by the utility.

The ultimate standard is whether approval of the supply contract is in the public interest. For the following reasons, the proposed LSA is in the public interest, and the Commission should approve it.

1. Increased Security of Supply. FNG is currently purchasing LNG from Titan pursuant to a supply contract with a term ending in 2018. The security of the supply from Titan is limited by Titan's gas supply contract. Since Titan has a firm supply until 2018, it can commit to providing LNG to FNG until 2018, but not longer. The LSA has a term of 10 years, so FNG will be assured of a firm supply of LNG until 2025.

Under its current supply contract with Titan, FNG has a firm and secure source of supply for 3 years. Under the LSA, FNG's ratepayers will have a firm and secure source of supply for 10 years.

2. Favorable Price. The contract price is reasonable, and in fact is better for FNG than the potential alternatives. The base price under the LSA is \$15.00/Mcf, and the price escalates 2% annually beginning in year 3, with adjustments to market during years 6-10. The base price under the LSA is similar to FNG's current costs of LNG from Titan, \$15.06. However, Titan's gas supply is priced under the Hilcorp Consent Decree, which has annual price escalation of 4%. Therefore, each year Titan's largest cost will increase 4%, and that increase will be passed on in a price increase to FNG. Under the LSA, FNG's price will stay level for two years, and afterwards increase 2% annually, so in future years there will be a widening gap between FNG's higher supply costs under its existing supply contract and the lower costs it will pay under the LSA. A chart comparing the effects of 2% annual escalation and 4% annual escalation is attached as Exhibit A.

The price term of the LSA also compares favorably with the likely price from other LNG sources. FNG currently purchases interruptible LNG in the winter months from CP. Adding costs of transportation from Nikiski to Fairbanks, the cost of LNG from this source delivered to Fairbanks is currently \$17.35. Under FNG's interruptible supply agreement with CP, next winter the delivered price will increase to \$17.85. The LSA will therefore supply firm LNG next winter at a price \$2.85 less than the alternative supply of interruptible LNG.

Potential future new supplies of LNG are projected to be comparable to pricing under the LSA. WesPac Midstream LLC [WesPac] recently provided FNG with a conceptual outline of a proposal for an LNG supply from a new 250,000 gallon/day LNG plant using Cook Inlet gas. [Exhibit B] WesPac's "estimated" contract price is \$14.57/Mcf beginning in early 2017, under terms that are much less favorable than the LSA. Wespac's proposal is essentially for a take-or-pay agreement under which the buyer will pay a penalty whenever it takes less than a month's projected usage. There is no similar penalty provision in the LSA. WesPac's proposal is also based on a 20 year term, which raises the possibility that Fairbanks utilities will have to pay a termination fee to get out from under the WesPac agreement if pipeline gas becomes available in the mid-2020s. WesPac's proposed plant may provide a viable and economic new

source of LNG for Fairbanks utilities, and FNG looks forward to the opportunity to purchase LNG from WesPac. But, based on current projections, it appears that FNG's LNG purchases under the LSA will be at more favorable terms and pricing than FNG's purchases from WesPac or other potential Cook Inlet suppliers.

Similarly, current projections developed for the AIDEA/MWH⁵ North Slope LNG project indicate that FNG's cost for North Slope LNG will likely exceed the prices FNG will pay under the LSA. [Exhibit C]. It is important to note that this is a project that is still being studied and designed. The financial projections also depend on the use of a large State grant and substantial low or zero cost State loans. Without the large subsidies, the North Slope LNG plant could not even come close to matching the pricing under the LSA.

In assessing the LSA's price term, the Commission should note that in years 6-10 the price under the LSA will be adjusted toward the lowest price available in the Fairbanks market. Therefore the price FNG pays under the LSA will reflect any significant drop in the cost of supplying LNG to Fairbanks. No other LNG supplier has suggested a similar provision. Similarly, no other supplier has indicated a willingness to offer a supply contract without take-or-pay provisions, or the flexibility of the LSA for daily changes in nominations.

FNG has negotiated very favorable terms in the LSA. These favorable terms are not available from FNG's current suppliers [Titan and CP] and will likely not be matched by future potential suppliers, including WesPac and AIDEA/MWH. Commission approval of the LSA will allow FNG to "lock in" these favorable terms for its ratepayers.

3. Incentives for Expansion of LNG Capacity. For several years, FNG has had sufficient distribution facilities to expand natural gas service to approximately 900 new customers. This summer, FNG further expanded its system by adding 32 miles of additional distribution lines. For the most part, these new lines will not actually be used to provide service to new customers until additional LNG supplies are available. The lack of additional LNG capacity is the main impediment to FNG providing gas service to thousands of new customers.

FNG believes that the LSA will have an indirect, but important, effect on future expansion of LNG capacity in the Cook Inlet. As noted above, the price and supply terms of the LSA are very favorable to FNG. Further, Harvest will have an incentive to expand the capacity of the LNG plant, thereby expanding the availability of LNG to consumers in Fairbanks and elsewhere in Alaska. Commission approval of the LSA could therefore result in increased availability of LNG supplies in Fairbanks and elsewhere.

4. Accelerated Timeframe for LNG Expansion. Harvest has both the resources to expand the plant and a strong interest in providing more Alaskans in the interior with less

⁵ Alaska Industrial Development and Export Authority [AIDEA] and MWH Global Inc. [MWH].

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expensive, clean energy. FNG feels confident that expansion of LNG capacity at Point MacKenzie will happen faster with Harvest.

5. Timely LNG Capacity Expansion is Necessary for FNG. FNG is presently determining when and whether to begin construction of a 5 million gallon LNG storage facility. FNG laid 32 miles of distribution lines this summer, and would like to install another 50 miles next summer. Optimal use of the new distribution lines and the large storage facility requires the availability of additional LNG for Fairbanks. The transfer to Harvest will lead to increased LNG capacity in the Cook Inlet, making effective FNG's investments in both storage and distribution lines. Other options for increasing LNG deliveries to Fairbanks are likely to take considerably longer, delaying natural gas service to FNG's ratepayers.

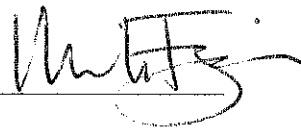
EFFECTIVE DATE

FNG requests an effective date of January 5, 2015, the statutory 45-days following the filing of this tariff advice letter set out in AS 45.05.361 and AS 42.05.411.

Thank you for your attention to this matter. If you have any questions or comments, please direct them to the undersigned.

Sincerely,

ROSE & FIGURA

by: 

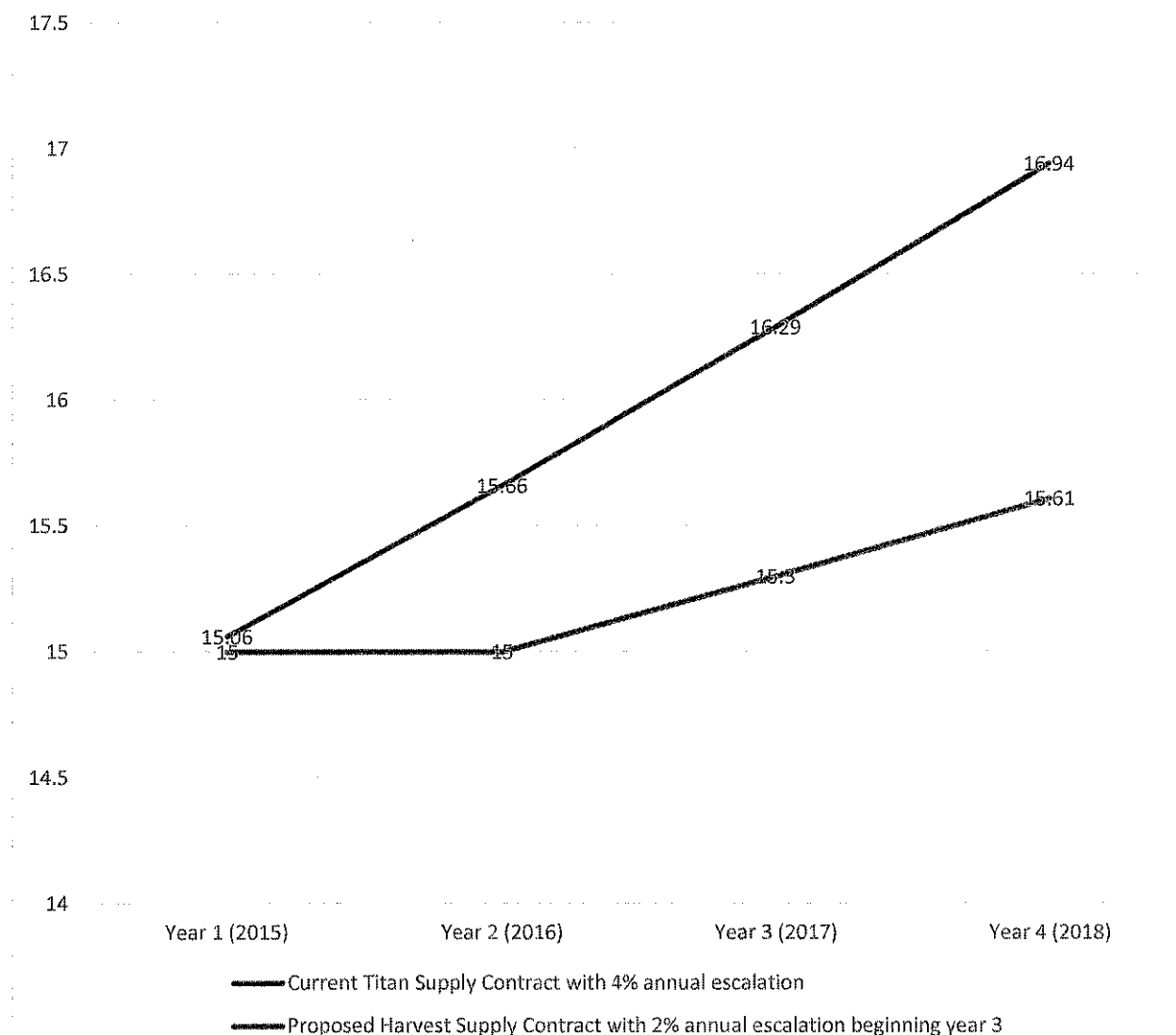
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Enclosures: LNG Sales Agreement
Proposed tariff sheet 46.1

Exhibit A

FNG's Cost of LNG Delivered to Fairbanks (\$/Mcf)





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Dan Britton
Fairbanks Natural Gas
3408 International Way
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Via email: dwbritton@fngas.com

October 30, 2014

RE: Cook Inlet LNG Proposal

Dear Dan,

This letter serves as an expression of WesPac Midstream LLC's ("WesPac") interest to enter into discussions with Fairbanks Natural Gas ("FNG") for the sale and purchase of LNG sourced from a new LNG facility in the Cook Inlet. This letter provides indicative non-binding terms under which WesPac would be willing to sell LNG to you and other utility customers in the Fairbanks area.

As you are aware, WesPac is developing a 250,000 GPD LNG project at Port MacKenzie that is ideally situated to serve Fairbanks and rural Alaska gas markets by marine vessel, rail car, and truck ("Cook Inlet LNG"). Our project is a 100% privately funded, non-state supported alternative to the North Slope LNG project. Since our last discussion, WesPac has made very significant strides in securing gas supply, obtaining site control, and in completing a fatal flaw analysis.

WesPac has reached an agreement to acquire Cook Inlet gas reserves. The parties expect to consummate the transaction by the end of the year. Under the terms of the agreement, WesPac will own and control proven Cook Inlet gas reserves, which will serve as the source of feedstock for Cook Inlet LNG. The reserves will be placed into production by 2016 and can serve the entire Fairbanks market for at least 20 years based on publically available projected demand profiles. As an owner of the proven reserves, WesPac will not only be able to ensure a reliable supply of LNG, but it can also offer a long-term fixed price that meets the needs of the Alaska customer. If there are any delays in supplying LNG from Cook Inlet LNG, WesPac stands ready to supply LNG on an interim basis from the Tilbury LNG expansion project in British Columbia where WesPac has an active interest or other sources.

WesPac has also reached an agreement in principle with the Mat-Su Borough to lease acreage at Port MacKenzie. The parties expect to finalize the lease by the end of the year. WesPac has conducted extensive due diligence and found no fatal flaws, technical or otherwise, with its planned development at Port MacKenzie. Furthermore we have found no major permitting or regulatory obstacles which could delay the start up of construction.

To expedite the delivery of LNG to you, WesPac will install proven "off the shelf" technology to liquefy natural gas and store the LNG in full containment storage tanks at Port MacKenzie. The project will receive gas from a new pipeline lateral connected to Enstar's existing 20" high pressure transmission line on the West side of Cook Inlet and power will be sourced from either a new 11 mw power plant or procured from a local utility. To that end, we fully expect to be capable of breaking ground within 12 months of our final investment decision.

In short, WesPac's offer is to deliver natural gas from "well head to delivery point," which allows WesPac to reliably meet FNG's fueling needs safely and cost effectively. WesPac will liquefy its Cook Inlet gas reserves at Point MacKenzie and then transport the LNG in cryogenic ISO containers by rail or truck to FNG's delivery point. The flexibility, reliability, and cost effectiveness associated with ISO container delivery ensures a safe and low cost LNG supply.

In addition, WesPac understands the Fairbanks utilities must, independently or collectively, develop new standalone storage or a centralized LNG storage and terminal facility in Fairbanks to accommodate seasonal load profiles throughout the year. By a separate agreement, WesPac is ready to assist the utilities with the development and construction of this facility to enable efficient gas distribution to customers. This offer is independent of a LNG off-take contract and would be executed under a separate agreement.

WesPac recognizes that each utility customer has its own unique characteristics such as supply requirements, demand profile, distribution and storage systems, financial capability and regulatory requirements. WesPac will therefore tailor its offer to meet the needs of an individual utility or a group of utilities as market conditions will allow. The terms and conditions contained in this letter are intended to form the basis for future negotiations. WesPac looks forward to opening that dialogue in earnest in the coming weeks.

The key elements of our proposal are as follows:

Seller	WesPac Midstream LLC or an affiliate of WesPac Midstream LLC. WesPac is principally owned by Highstar Capital which is wholly owned by Oaktree Capital with more than \$90 billion in diversified assets under its management
Buyer	Fairbanks Natural Gas, individually or collectively with any other gas or power utility with a defined service territory in and around Fairbanks AK
Primary Term	20 year term with option to extend for two additional 5 year terms upon Buyer's two year advance notice (WesPac will also consider a 30 year term)
Early Termination	Buyer may elect to terminate at the end of the 10th year upon two years advance notice with payment of a termination fee
Annual Schedule	Buyer and Seller will forecast the annual quantities of LNG required to meet Buyer's demand each month of each year at least 6 months prior to the start of this contract. The annual schedule will be non binding until Buyer and Seller set the annual and monthly quantities prior to the start of each successive year
Annual Quantity	Buyer and Seller will establish annual contract quantities (ACQ) for each year based on the annual schedule at least 60 days before the start of each contract year. The ACQ will be firm for that year and until the parties agree to a new ACQ for the next year. If the parties fail to set an ACQ then the prior year's ACQ will be used
Monthly Quantity	Buyer and Seller will establish monthly contract quantities (MCQ) based on the Annual Quantity and Buyers and Sellers ability to absorb daily variations with LNG storage at least 60 days before the start of each contract year. The MCQ will be firm each month for that year and until the parties agree to new MCQs for the next year. If the parties fail to set the new MCQs then the prior year's MCQs will be used

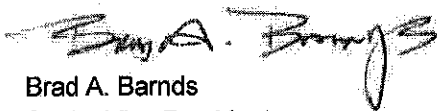
Minimum Supply	Seller will make available to Buyer XX% of the ACQ and XX% of the MCQ, subject to Seller paying a delivery shortfall fee for quantities not delivered
Minimum Take	Buyer will take XX% of LNG actually delivered by Seller; subject to Buyer paying a take shortfall fee for quantities not taken
Supply Source	Cook Inlet LNG, a new 250,000 GPD LNG facility situated at Port MacKenzie, AK with a minimum of 2.5 million gallons of LNG storage and direct access to rail, road and marine loading and unloading infrastructure
In Service Date	The date Cook Inlet LNG is fully operational which is anticipated in early 2017
Interim Supply	WesPac will make available interim LNG supply from British Columbia or other sources on a best efforts and as needed basis until Cook Inlet LNG is fully operational
Delivery Point	Agreed upon delivery point designated as Buyer's "Fairbanks City Gate" location
Method of Transport	WesPac will provide a fleet of ISO containers necessary to meet buyer's daily and annual requirements and arrange for the transport of ISO containers to the Fairbanks City Gate by rail or by truck
Contract Price	<p>A contract price equal to the sum of A + B, where</p> <p>A = cost to liquefy, store, and transport LNG from Cook Inlet LNG to the Fairbanks City Gate ("Tolling Fee")</p> <p>B = cost of gas at the inlet flange of Cook Inlet LNG ("Gas Cost")</p> <p>The estimated contract price commencing in early 2017 is \$14.57 per MMBtu delivered to the Fairbanks City Gate, where A = \$7.43 per MMBtu and B = \$7.14 per MMBtu (i.e. \$6.50 gas cost and \$0.64 pipeline costs).</p> <p>The Contract Price shall be escalated annually pursuant to a mutually agreed upon Consumer Price Index.</p>
Take Shortfall	Buyer will pay a fee each month equal to the quantity of LNG not taken by Buyer as agreed upon (i.e. the MCQ) for such month multiplied by the sum of Seller's unrecovered costs for such quantity ("Shortfall Fee"); Seller will diligently pursue the sale of any LNG not taken by Buyer to mitigate Buyer's shortfall fee obligation. The Shortfall Fee will include Seller's unrecovered fixed and variable costs for owning and operating Cook Inlet LNG including Seller's return, taxes and any fixed transportation costs such as fixed firm pipeline capacity and rail demand charges, if any.
Delivery Shortfall	If Seller fails to deliver the Minimum Supply then Buyer will be excused from paying the Contract Price and Seller will pay Buyer for its reasonable costs in excess of the Contract Price with respect to the quantity of LNG Seller failed to deliver to Buyer necessary to cover such Delivery Shortfall
Financial	Buyer and Seller will provide the other with adequate financial assurances as maybe necessary to effectuate the sale and purchase LNG as contemplated
Regulatory	Buyer and Seller will obtain regulatory and statutory approvals as maybe necessary to effectuate the sale and purchase of LNG from Cook Inlet LNG

WesPac is providing this expression of interest as a means of helping local area utilities, businesses and residents to lower their cost of energy and lower emissions associated with the burning of wood, coal and oil fuel for thermal loads and power generation. WesPac offers a low cost, competitively priced alternative to the North Slope LNG project that is 100% financed by the owners of WesPac. WesPac will independently provide for the construction, operation and maintenance of new liquefaction, storage and transportation services for the delivery of LNG from the point of liquefaction to the delivery point in Fairbanks. WesPac's proposal will also provide that WesPac will own, manage and control long term proven gas reserves sufficient to meet the needs of Fairbanks over the course of the contract term.

WesPac understands that local area utilities, businesses and residents are facing high costs to construct storage and distribution systems to accommodate the use of natural gas in the Fairbanks area. WesPac encourages the Fairbanks utilities and the State to re-allocate the funds envisioned for the construction of the North Slope LNG project to the construction of storage and distribution systems and the conversion of homes and businesses to natural gas. WesPac is not proposing to participate directly in the local storage of LNG, the distribution of gas or in the conversion of homes and businesses but will support that effort directly or indirectly by offering its expertise and experience.

This non-binding expression of interest is intended as a conceptual outline of proposed terms and conditions for a possible gas purchase agreement between FNG and WesPac and does not constitute a commitment by either party to enter into an agreement. We look forward to discussing this letter with you after you have had an opportunity to review. You may contact me at 713-502-1482 or Michael Cox at 949-222-9908 with any comments or questions. We look forward to serving your needs.

Sincerely



Brad A. Barnds
Senior Vice President
WesPac Midstream LLC

AIDEA, partner MWH dispute Golden Valley CEO estimate for Interior gas price

By Elwood Brehmer, Alaska Journal of Commerce

Published: 2014.10.23 03:21 PM

A key player in the Interior Energy Project estimates the initial price of natural gas to Fairbanks will be significantly higher than the state's target, but the state development authority leading the effort disputes those calculations and said the goal of reducing heating costs by 40 percent to 50 percent is still within reach.

The Alaska Industrial Development and Export Authority team has been working for nearly two years on the Interior Energy Project with a goal of getting gas to Fairbanks-area residents at about \$15 per thousand cubic feet, or mcf, of gas. At that price, the trucked North Slope natural gas would be half the energy equivalent price of heating oil at \$4 per gallon.

"I think it will be \$20 to \$23 (per mcf) in the early years and the price will drop, probably drop into the \$16, \$17, \$18-dollar range within four years," said Cory Borgeson, CEO of Golden Valley Electric Association, the regional utility that will likely act as the large, anchor tenant gas customer for the project.

Borgeson said Oct. 22 his estimate is based on project modeling done by AIDEA and its consultant partner MWH Global Inc. The high initial "burner tip" price of gas could be brought down with additional state funding, he said.

MWH Managing Director Rick Adcock said Borgeson's claims are inaccurate. Current models show an ability to get LNG to Fairbanks for \$13 per mcf, he said. That cost does not include storage, regasification and utility distribution costs.

"(Borgeson) was adding up elements in the supply chain starting with assuming a gas price, assuming a tolling fee at the plant, assuming a trucking cost, storage, regas, etc., etc.," Adcock said.

Nick Szymoniak with AIDEA said a target burner tip range of \$15 to \$18 per mcf is still feasible.

Getting area residents to convert to natural gas, a cost that could vary widely between \$1,500 to \$10,000 per household depending on the boiler system, has always been a concern for AIDEA and local gas utilities Fairbanks Natural Gas and the Interior Gas Utility.

Based on the modeling, gas to Golden Valley less distribution costs would be in the \$18 to \$19 per mcf range, according to Borgeson. The feasibility of purchasing the 2 billion cubic feet, or bcf, of gas the utility could use at anything more than \$19 per mcf becomes strained, he said.

All of the major Interior Energy Project players have said an industrial customer is critical to spread capital and operating expenditures and lower the final gas cost.

AIDEA and MWH officials involved in the project also said that even if the initial price comes in higher than their goal, there are ways to smooth the upfront costs over time so as to encourage conversions and build the customer base to a size that will bring the price down.

Interior Energy Project leaders have said plans are to have concept capital and operating costs of the North Slope liquefaction plant available at its Nov. 6 board meeting, an announcement that has been pushed back multiple times.

Gubernatorial candidate Bill Walker has criticized the delay of the gas cost projection, noting that it is currently planned for just days after the Nov. 4 election.

AIDEA spokesman Karsten Rodvik said a final gas cost will not be revealed at the board meeting as Walker has alleged.

The costs associated with the 6 bcf plant hinge largely on how much private investment goes into it and are the largest pieces to the cost puzzle, particularly in the first couple years of gas delivery, when demand will be lowest.

He wrote in a formal statement to the Journal that the authority does not conduct its business based on politics.

"It is important to understand that this is a complex engineering project," Rodvik wrote. "In no way is this a political process."

He added that the timeline has been out for months and noted an Aug. 18 presentation to the Fairbanks Economic Development Corp. that laid out the current schedule.

That schedule did change over the summer. During a June 26 AIDEA board meeting, project leaders said the prices that will comprise the final gas cost should be known by Oct. 1, with investments and purchase agreements in place by the end of October.

The near-term schedule changes come after the first, ambitious gas delivery date was pushed back a year, to late 2016, earlier in the project.

In 2013 the Legislature passed a \$332.5 million financing package, sponsored by Gov. Sean Parnell, for the Interior Energy Project. AIDEA has spread that money to different parts of the inherently complicated plan.

The loan, bond and grant control given to the development authority came after Golden Valley was refused state financing to embark on its own effort to get Slope gas south.

AIDEA has included Golden Valley in the project development and Borgeson said he appreciates the state investment authority's willingness to accept help.

"AIDEA has done everything they can to make this project work and they still have some rabbits to pull out of the hat to get this project to the finish line," he said.

He believes more of the \$275 million of Sustainable Energy Transmission and Supply, or SETS, fund bonds and loans should be put towards the high capital costs of building a gas liquefaction plant on the North Slope, Borgeson said.

The financing plan proposed by MWH and chosen by AIDEA has MWH's private investor, Toronto-based Northleaf Capital Partners, putting upwards of \$100 million into the North Slope plant.

AIDEA purchased a North Slope gas plant pad site from Spectrum LNG for \$1.8 million in late April. Spectrum was at one time a competitor of MWH to lead the Interior Energy Project.

Additionally, the concession agreement between AIDEA and MWH calls for a maximum 12.5 percent return to Northleaf on their investment.

"(Gas distribution) would be much easier to finance once there is a supply of gas to the utilities," Borgeson said.

As to whether or not AIDEA should look to Cook Inlet for a gas supply, Borgeson said the low wholesale cost of North Slope gas is hard to overcome.

"The economics, I think, still point us towards the North Slope but it's worth looking" at Cook Inlet, he said.

Long-term Cook Inlet gas contracts have been nearly impossible to come by in recent years and at a cost of \$8 or more per mcf, the cost benefits realized by purchasing gas in a region with low-cost rail transport available largely disappear.

WesPac Midstream LLC recently presented to the AIDEA board its plan to develop an LNG facility at Port MacKenzie and rail gas north to Fairbanks. WesPac projects it could get privately financed gas to the Interior for about \$14.50, however that does not include regasification and distribution costs.

AIDEA plans to use a 20-year contract Golden Valley secured with BP to supply the project with natural gas, according to Borgeson. Golden Valley entered into the contract when it was still hoping to lead the project.

While the exact terms of that contract remain confidential, AIDEA has used a wholesale gas cost of \$3.30 per mcf in its presentations.

Borgeson said Golden Valley would act as a pass-through for gas and add fees that should be "tenths of pennies per mcf" to recover what it spent to secure the 23 bcf annually contract.

"When we went out to get this gas contract we had folks looking at ConocoPhillips, (ExxonMobil) and BP, so we really spent some significant dollars with advisors and consultants to get this contract and we'd like to recover those costs," he said.

Elwood Brehmer can be reached at elwood.brehmer@alaskajournal.com.

LNG SALES AGREEMENT

THIS LNG SALES AGREEMENT (this "Agreement"), dated November 5, 2014, which shall be effective as of the Effective Date (as defined below), is by and between Harvest Alaska, LLC ("Seller") and Fairbanks Natural Gas, LLC ("Buyer"). Buyer and Seller are referred to herein individually as a "Party," and collectively as the "Parties."

Recitals

A. Seller owns and operates a natural gas liquefaction facility in Point Mackenzie, Alaska with a current nameplate production capacity of approximately 50,000 gallons of liquefied natural gas per day (together with any extensions or modifications to such facility from time to time, the "Facility"), which Facility, prior to the Effective Date, was owned by an affiliate of Buyer, and from which Buyer has previously obtained substantially all of its liquefied natural gas requirements.

B. Buyer is a public gas utility that owns and operates liquefied natural gas storage and distribution facilities in Fairbanks, Alaska.

C. Buyer procures liquefied natural gas to provide natural gas service to Buyer's customers in Fairbanks, Alaska.

D. Seller desires to sell and deliver to Buyer, and Buyer desires to purchase and accept from Seller, certain volumes of liquefied natural gas produced at the Facility, on the terms and conditions provided herein.

NOW, THEREFORE, the Parties agree as follows:

Article 1 DEFINITIONS

"Adequate Assurances" is defined in Section 8.2.

"Affected Party" is defined in Section 14.2.

"Agreement" is defined in the Preamble.

"Annual Base Volume" is defined in Section 3.1.

"Annual Estimate" is defined in Section 3.3

"Buyer" is defined in the Preamble.

"BTU" means British Thermal Unit which is the amount of energy needed to heat one pound of water from fifty nine (59) degrees Fahrenheit to sixty (60) degrees Fahrenheit at a pressure of fourteen and sixty-five hundredths (14.65) pounds per square inch absolute.

"Claims" is defined in Section 11.1.

"Confidentiality Agreement" is defined in Section 16.2.

"Contract Year" means the one-year period commencing on the Effective Date and thereafter the one-year period commencing on each anniversary of the Effective Date.

"Delivery Point" is defined in Section 6.1.

"Delivery Shortfall" is defined in Section 3.2.

"Effective Date" means the date on which the closing under the PSA occurs.

"Facility" is defined in the Recitals.

"Force Majeure Event" is defined in Section 14.2.

"Incidental Amount" means, with respect to any Nominated Quantity to be delivered for a given day, an amount that is less than three percent of the Nominated Quantity for such day.

"LNG" means natural gas that has been liquefied by reducing its temperature at or near atmospheric pressure.

"Maximum Daily Quantity" is defined in Section 3.2.

"Measurement Facilities" is defined in Section 7.1.

"Mcf" means one thousand Standard Cubic Feet.

"Nominated Quantity" is defined in Section 3.3.

"Non-Affected Party" is defined in Section 14.3(a).

"Non-Conforming Product" is defined in Section 2.2.

"Party" and "Parties" is defined in the Preamble.

"Product" means Seller's natural gas that has been liquefied into LNG at the Facility or any other facility owned or controlled by Seller or its affiliates.

"Product Price" is defined in Section 5.1.

"PSA" means the Purchase and Sale Agreement by and among Pentex Alaska Natural Gas Company, LLC, Titan Alaska LNG, LLC and Arctic Energy Transportation, LLC, and Seller dated as of November 5, 2014.

"RCA Approval" is defined in Section 16.14.

"Records" is defined in Section 16.8.

"Representatives" is defined in Section 16.10.

"Seller" is defined in the Preamble.

"Standard Cubic Foot" means the amount of LNG that would occupy a volume of one cubic foot at a temperature of sixty degrees Fahrenheit (60° F.) and at a pressure of fourteen and seventy-three hundredths (14.73) pounds per square inch absolute.

"Term" is defined in Section 4.1.

"Termination Event" is defined in Section 4.3.

"Trailers" means the trailers that Seller acquired pursuant to the PSA or such other trailers as Seller uses to deliver Product to Buyer.

Article 2

LIQUEFIED NATURAL GAS PRODUCT

2.1 Sale and Purchase. Seller shall sell and deliver to Buyer, and Buyer shall purchase, accept, and receive from Seller, Product in the quantities, for the price, and on and subject to the terms and conditions provided in this Agreement.

2.2 Specifications. Seller makes no representation or warranty as to the quality of the Product to be delivered to Buyer other than that it shall meet the specifications provided in Attachment 1. If any Product fails to conform with such specifications ("Non-Conforming Product"), then, upon receipt of notice of any Non-Conforming Product from Buyer (or upon Seller otherwise having knowledge of such Non-Conforming Product), Seller shall use its commercially reasonable efforts to promptly remedy the problem and to deliver, as soon as practicable thereafter, Product meeting the specifications. Following such notice, Buyer shall not be required to accept any Non-Conforming Product. If Buyer knowingly elects to accept Non-Conforming Product, then Buyer accepts all responsibility for any costs, expenses, losses, damages, and liabilities incurred by Buyer arising out of the acceptance of such Non-Conforming Product; provided, however, that the Product Price for any Non-Conforming Product accepted by Buyer where the energy content of such Non-Conforming Product (as measured in BTUs) is lower than the energy content for conforming Product (as measured in BTUs) shall be ratably reduced to reflect such lower energy content. Buyer shall immediately notify Seller as soon as it has knowledge that any Product delivered by Seller to Buyer is Non-Conforming Product, and Seller will take the steps necessary to deliver Product meeting the specifications as soon as practicable.

2.3 Commercial Efforts. Seller acknowledges that Buyer is a public gas utility and will be obtaining Product to provide natural gas service to Buyer's customers in Fairbanks, Alaska. During the Term, Seller agrees to use commercially reasonable efforts to (i) operate and maintain the Facility in accordance with prudent industry practices to comply with its obligations hereunder, and (ii) subject to reductions and interruptions due to Force Majeure Events and maintenance, (x) not reduce the design production capacity of the Facility below its current level of approximately 50,000 gallons of Product per day, (y) maintain the Trailers and transportation facilities sufficient to perform Seller's delivery obligations under this Agreement, and (z) repair

or replace any necessary equipment required for the Facility to attempt to achieve the current design production capacity of approximately 50,000 gallons of Product per day.

2.4 Specific Performance. Seller and Buyer acknowledge and agree that a breach by Seller of any of the provisions of this Agreement may result in material irreparable harm to Buyer and that money damages may not be an adequate remedy for such breach and that Buyer may, in its sole discretion and in addition to any other legal or equitable remedies it may have, obtain specific performance and/or injunctive relief, including temporary restraining order and/or a preliminary or permanent injunction, to enforce or prevent any violation of the provisions of this Agreement.

Article 3 QUANTITY

3.1 Quantity Obligations.

(a) **Buyer's Requirements.** Buyer agrees to purchase, accept, and receive from Seller at the Delivery Point the quantity of Product that is necessary to meet the natural gas requirements of Buyer's current customer base (including seasonal demand variations), which current customer base requirement is approximately 850 MMcf to 950 MMcf per year (the "Annual Base Volume"). Buyer's purchase requirement in the preceding sentence shall not apply to:

(i) volumes in a Contract Year in excess of 950 MMcf per year;

(ii) volumes on a day to fulfill current customer requirements in excess of the daily maximum amount of Product that Seller is capable of delivering (including when Buyer's requirements exceed the Maximum Daily Quantity), either as a result of Force Majeure or for any other reason; and

(iii) volumes to replace Non-Conforming Product that Buyer has elected not to receive from Seller.

(b) **Facility Output.** Subject to Section 3.3 and the other terms of this Agreement, (i) Buyer shall have the right and option to purchase from Seller the entire output of Product from the Facility up to the Maximum Daily Quantity on any day and (ii) Seller agrees to sell and deliver to Buyer at the Delivery Point such quantity of Product if nominated by Buyer under this Agreement.

3.2 Maximum Daily Quantity. Seller shall not be required to deliver on any day in excess of (i) 50,000 gallons of Product or (ii) the then current maximum daily production output of the Facility, whichever is less (the "Maximum Daily Quantity"); provided, however, that if Seller has failed to deliver the amount of Product nominated for any given day up to the Maximum Daily Quantity (a "Delivery Shortfall"), Seller shall be required to deliver such Delivery Shortfall on the subsequent day (or as soon thereafter as Seller has excess capacity available to deliver the Delivery Shortfall), which may result in deliveries for such day exceeding the Maximum Daily Quantity.

3.3 Quantity Estimates and Nominations.

(a) Annual Estimate. For each Contract Year, Buyer shall submit to Seller Buyer's good faith estimate of the quantity of Product that Buyer anticipates it will purchase from Seller during such Contract Year (the "Annual Estimate"), which Annual Estimate shall set forth the anticipated quantity of Product that Buyer will require on a monthly basis. The Annual Estimate for the initial Contract Year is attached to this Agreement as Attachment 4, and the Annual Estimate for each subsequent Contract Year shall be provided by Buyer at least forty five (45) days prior to the commencement of such Contract Year. Although the Annual Estimate shall be a non-binding forecast, Seller shall have no obligation to accept nominations for Product from Buyer in excess of one hundred twenty percent (120%) of the estimate for the month of May, June, July, August, and September as set forth in the Annual Estimate (except to the extent such nominations are delivered by Buyer in connection with Product previously nominated by Buyer but not delivered as a result of Force Majeure or a Delivery Shortfall), and Seller shall have the right to market any such unsubscribed output for such months to third party purchasers.

(b) Monthly Estimate. At least ten (10) days prior to the commencement of each calendar month, Buyer shall submit to Seller Buyer's good faith estimate of the quantity of Product that Buyer anticipates it will purchase from Seller during each day of such month, which shall be based on anticipated weather factors, customer requirements, and Buyer's storage capacity. Although the monthly estimates are non-binding, Buyer will use commercially reasonable efforts to provide accurate monthly estimates, and to the extent Buyer becomes aware that its requirements for any month will vary in any material respect from the month estimate (if for example, the weather is significantly warmer or colder than anticipated), Buyer will provide Seller with notice of such variation as soon as practicable.

(c) Daily Nominations. Buyer shall submit written or electronic nominations to Seller to the address set forth in Article 15 on or before the date that is one (1) day prior to the beginning of each calendar day. Each nomination shall include the volume of Product to be delivered by Seller and accepted by Buyer at the Delivery Point for the following calendar day in accordance with Seller's then current nomination procedure, not to exceed the Maximum Daily Quantity on any such day (the "Nominated Quantity").

3.4 Deliveries and Unloading.

(a) Delivery Point. Unless otherwise designated in writing by Buyer, Seller shall deliver all Product to the Delivery Point, and all deliveries shall be coordinated by Seller and Buyer to enhance the efficiency (and to avoid delays) of the deliveries and unloading at the Delivery Point. All deliveries for any given day shall be appropriately staggered by Seller to avoid overlap of Seller's vehicles at the Delivery Point.

(b) Seller's Responsibility. Seller shall be solely responsible for unloading the Product at the Delivery Point, and Seller shall comply with all applicable laws and shall act with reasonable care in the unloading of Product into Buyer's storage tanks.

(c) Acceptance. Unless otherwise agreed by Buyer in advance, Buyer shall not be required to accept on any given day more than the amount of Product nominated for such day,

plus an additional 10,000 gallons of Product for a Delivery Shortfall. Subject to the preceding sentence, if Seller's delivery vehicle for the delivery of the Nominated Quantity for such day arrives at the Delivery Point and Buyer's facility is unable to accept such delivery within one hour of arrival (except for reasons attributable to Seller), Buyer shall be responsible for all demurrage and other delay costs associated with such vehicle having to stand by to deliver the Product. Buyer shall reimburse Seller for all such costs and expenses within ten (10) days of receipt of an invoice therefor from Buyer.

(d) In the event of any Delivery Shortfall of more than an Incidental Amount, Seller shall immediately inform Buyer of such shortfall and the reason for such delay, and Seller shall use commercially reasonable efforts to deliver the amount of such Delivery Shortfall the next day (or as soon thereafter as Seller has excess capacity available to deliver the Delivery Shortfall). For the avoidance of doubt, in the event of any Delivery Shortfall of more than an Incidental Amount, Seller shall deliver the amount of such Delivery Shortfall to Buyer prior to Seller fulfilling any order for Product from the Facility for any third party.

Article 4 **TERM**

4.1 Term. The Parties' purchase and sale obligations under this Agreement shall commence on the Effective Date, and shall terminate on the tenth (10th) anniversary of the Effective Date, unless terminated earlier as permitted in this Agreement (the "Term").

4.2 Survival. Except as provided in Section 4.3 below, the obligations of Buyer and Seller with respect to payment obligations, disclaimer of warranties, waivers and presentment of claims, indemnification, liability limitations, notice of claims, governing law, dispute resolution, assignment, no waiver, records maintenance, providing records, audit rights, and entire agreement shall survive the termination of this Agreement.

4.3 Termination. If the PSA terminates or if the closing of the transaction contemplated under the PSA does not occur, then this Agreement shall be void ab initio, without further action of the Parties, and will be treated as if it were never entered into by the Parties.

Article 5 **PRODUCT PRICE**

5.1 Price. Buyer shall pay Seller \$15.00/Mcf delivered to Buyer at the Delivery Point, subject to adjustment as described in Section 5.2 (the "Product Price").

5.2 Escalation and Adjustments.

(a) Escalation. Beginning on the second anniversary of the Effective Date, and on each anniversary of the Effective Date thereafter, the Product Price shall be increased to equal the then current Product Price multiplied by 1.02.

(b) Market Adjustment. Beginning on the fifth (5th) anniversary of the Effective Date and each anniversary date thereafter for the remainder of the Term, the Product Price will be adjusted up or down to equal the lesser of (i) the lowest price actually paid by a utility in

Fairbanks, Alaska for LNG (inclusive of all transportation costs to Fairbanks, Alaska) or (ii) the lowest price (inclusive of all transportation costs to Fairbanks, Alaska) offered by a seller (including Seller and its affiliates) with an available LNG source that is ready, willing, and able to sell LNG to Buyer or any Fairbanks, Alaska utility, but only if such sale or offer under clauses (i) or (ii) was made under a contract with a primary term of five (5) years or longer and for volumes in excess of 500 MMcf per year . No such adjustment in a Contract Year shall result in an increase or decrease to the Product Price by more than twenty-five percent (25%) of the then current Product Price. If no such comparable source of LNG is sold or available to be sold to a utility in Fairbanks, Alaska in any of Contract Years six (6) through ten (10), then there will be no adjustment to the Purchase Price for that Contract Year except for escalations under Section 5.2(a).

Article 6 DELIVERY OF PRODUCT

6.1 Delivery Point. Product shall be delivered to Buyer at the inlet to Buyer's LNG storage and natural gas distribution facilities in Fairbanks, Alaska, as described on Attachment 3, or such other points as the Parties may agree in writing (the "Delivery Point"). If the Parties agree to the delivery by Seller of Product to a Delivery Point outside of Fairbanks, Alaska, then the Product Price shall be adjusted in a manner agreeable to both Parties to reflect the decrease or increase in delivery costs to Seller to deliver Product to such alternate Delivery Point. Seller shall not be responsible for any costs or expenses to transport Product downstream of the Delivery Point.

6.2 Title and Risk of Loss. Title and risk of loss to Product shall pass from Seller to Buyer at the Delivery Point, when Seller has unloaded the Product at the Delivery Point.

Article 7 MEASUREMENT

7.1 Determination of Quantity.

(a) Measurement Facilities. Buyer shall, at its sole cost and expense, design, engineer, and construct measurement facilities at the Delivery Point, as described on Attachment 2 and as reasonably approved by Seller (the "Measurement Facilities"). Buyer will design, engineer, and construct such Measurement Facilities in accordance with all applicable federal, state, and local laws and regulations and consistent with generally accepted LNG industry standards. The type, location, operation, and maintenance of the Measurement Facilities shall be agreed upon by the Parties. Seller shall have the right, at its cost and expense, to install, own, operate, and maintain separate check measurement facilities as long as such facilities do not unreasonably interfere with the Measurement Facilities.

(b) Procedures. The procedures for determining the daily volumes of Product delivered hereunder shall conform with the procedures set forth in Attachment 2, or as otherwise mutually agreed to in writing by the Parties. Seller will have the right to witness or have an independent surveyor witness all calibrations of the Measurement Facilities, and Buyer will provide Seller with two (2) business days' prior notice thereof. If Seller requests any additional

calibration of the Measurement Facilities beyond the frequency required in Attachment 2, then Seller shall pay for any such additional calibrations.

(c) Disputes. If the Parties are unable to agree upon measurements of Product volumes delivered hereunder, then the volumes shall, on demand by either Party, be conclusively determined by an independent inspector agreed upon by the Parties. The Parties shall bear equally the costs of any such independent inspector.

7.2 Binding Effect. The volumes of Product sold hereunder, as determined by the Parties or an independent inspector, as applicable, shall be binding on the Parties.

Article 8 BILLING AND PAYMENT

8.1 Payment. By the fifteenth (15th) day of each month, Seller will provide Buyer an invoice showing purchases of Product and amounts due under this Agreement for the prior month. Buyer shall pay Seller for Product by wire transfer into Seller's account in accordance with Seller's instructions, no later than the twenty-fifth (25th) day of each month for Product sold during the prior month, without deduction, withholding, or setoff. If the last day for Buyer's payment falls on any day that is not a banking day in the place designated by Seller for payment, then any such payment shall be made on or before the nearest preceding banking day.

8.2 Adequate Assurances. At any time if Seller has reasonable grounds for insecurity regarding the ability of Buyer to perform its obligations hereunder, if Buyer fails to make any payment when due under this Agreement and such failure continues for a period of five (5) business days after written notice of such failure is provided to Buyer, or if Seller has reasonable grounds indicating that Buyer's creditworthiness is or will become unsatisfactory, then Seller may, at its option, require Buyer to provide: (a) an irrevocable letter of credit in an amount equal to cover any payments for the volumes of Product likely to be purchased hereunder during any two-month period, with terms acceptable to Seller and from a bank reasonably acceptable to Seller, (b) a guaranty executed by a guarantor reasonably acceptable to Seller, (c) such other form of credit security reasonably acceptable to Seller, or (d) prepayment at least ten (10) calendar days prior to the first day of a month of an amount of money reasonably calculated by Seller to cover any payments for Product likely to be purchased hereunder during such month ("Adequate Assurances"). If Seller requires Buyer to provide Adequate Assurances, then Seller shall provide Buyer with written notice of the Adequate Assurances being requested by Seller and the reasons therefor. If Buyer fails to provide the required Adequate Assurances within twenty (20) business days after its receipt of such notice from Seller, then Seller may suspend performance hereunder immediately upon written notice to Buyer.

8.3 Overdue Payments. Any overdue balance shall accrue daily interest charges at a rate determined by Seller's then current policy, up to the maximum lawful rate of interest, plus attorneys fees, court costs and other costs in connection with the collection of unpaid amounts.

Article 9

TAXES

Any new tax, excise, fee, or other charge, or any increase therein, now or hereafter imposed directly or indirectly by law or regulation, upon Product sold and delivered to Buyer under this Agreement, or on the sale or delivery thereof, which Seller is required to pay or collect, shall be paid by Buyer in addition to the Product Price. Seller may include any such amounts in the current invoice, or add them retroactively to the Product Price.

Article 10

PRODUCT CLAIMS AND USE OF PRODUCT

10.1 Presentment of Claims. All claims of Buyer with respect to the quality or volume of Product sold and delivered pursuant to this Agreement shall be deemed waived and forever barred, unless Buyer gives notice to Seller of the nature and details of the claim within sixty (60) days after the later of (a) receipt of the affected Product by Buyer, or (b) Buyer's discovery of the defect. Any such claim that is not asserted as a claim, counterclaim, defense, or setoff in a judicial proceeding instituted within two (2) years after Seller's denial thereof or such shorter time as is provided by law shall be forever waived, barred, and released.

10.2 Risk of Use. As between the Parties, Buyer assumes all risk and responsibility for use, handling, transporting, and reselling the Product (and the natural gas therefrom) downstream of the Delivery Point after the time that Seller has unloaded the Product at the Delivery Point.

Article 11

INDEMNITIES

11.1 Indemnification by Buyer. BUYER WILL BE RESPONSIBLE FOR AND WILL RELEASE, INDEMNIFY, DEFEND, AND HOLD HARMLESS SELLER AND ITS AFFILIATES FROM AND AGAINST ALL CLAIMS, LOSSES, DAMAGES, COSTS (INCLUDING LEGAL FEES), EXPENSES, AND LIABILITIES ("CLAIMS") IN RESPECT OF LOSS OF OR DAMAGE TO PROPERTY OR THE ENVIRONMENT OR PERSONAL INJURY (INCLUDING DEATH OR DISEASE TO ANY PERSON) TO THE EXTENT ARISING FROM OR RELATED TO THE OWNERSHIP, CONTROL, TRANSPORTATION, SALE, DISPOSAL, OR OTHER USE OF PRODUCT AFTER DELIVERY AND UNLOADING BY SELLER AT THE DELIVERY POINT, EVEN IF SUCH CLAIMS ARE CAUSED BY THE SOLE, JOINT AND/OR CONCURRENT NEGLIGENCE, STRICT LIABILITY, OR OTHER FAULT OF SELLER OR ITS AFFILIATES, BUT EXCLUDING ANY DAMAGE CAUSED TO BUYER'S STORAGE FACILITIES OR MEASUREMENT FACILITIES AS A RESULT OF SELLER'S DELIVERY OF NON-CONFORMING PRODUCT (UNLESS BUYER KNOWINGLY ACCEPTS SUCH NON-CONFORMING PRODUCT). IN ADDITION, BUYER WILL INDEMNIFY, DEFEND, AND HOLD HARMLESS SELLER AND ITS AFFILIATES FROM AND AGAINST ALL CLAIMS RESULTING FROM OR ARISING OUT OF ANY BREACH BY BUYER OF ANY REPRESENTATION, WARRANTY, OR COVENANT IN THIS AGREEMENT.

11.2 Indemnification by Seller. SELLER WILL BE RESPONSIBLE FOR AND WILL RELEASE, INDEMNIFY, DEFEND AND HOLD HARMLESS BUYER AND ITS AFFILIATES FROM AND AGAINST ALL CLAIMS IN RESPECT OF LOSS OF OR DAMAGE TO PROPERTY OR THE ENVIRONMENT OR PERSONAL INJURY (INCLUDING DEATH OR DISEASE TO ANY PERSON) TO THE EXTENT ARISING FROM OR RELATED TO (A) THE OWNERSHIP, CONTROL, TRANSPORTATION, SALE, DISPOSAL, OR OTHER USE OF PRODUCT PRIOR TO DELIVERY AND COMPLETION OF UNLOADING AT THE DELIVERY POINT, EVEN IF SUCH CLAIMS ARE CAUSED BY THE SOLE, JOINT AND/OR CONCURRENT NEGLIGENCE, STRICT LIABILITY, OR OTHER FAULT OF BUYER OR ITS AFFILIATES AND (B) ANY DAMAGE CAUSED TO BUYER'S STORAGE FACILITIES OR MEASUREMENT FACILITIES AS A RESULT OF SELLER'S DELIVERY OF NON-CONFORMING PRODUCT (UNLESS BUYER KNOWINGLY ACCEPTS SUCH NON-CONFORMING PRODUCT). IN ADDITION, SELLER WILL INDEMNIFY, DEFEND, AND HOLD HARMLESS BUYER AND ITS AFFILIATES FROM AND AGAINST ALL CLAIMS RESULTING FROM OR ARISING OUT OF ANY BREACH BY SELLER OF ANY REPRESENTATION, WARRANTY, OR COVENANT IN THIS AGREEMENT. SELLER'S MAXIMUM INDEMNIFICATION OBLIGATION TO BUYER UNDER THIS AGREEMENT WILL NOT EXCEED THE AGGREGATE CONSIDERATION PAID TO SELLER BY BUYER UNDER THIS AGREEMENT.

11.3 Limitation of Liability. NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN CONTAINED, THE PARTIES' LIABILITY HEREUNDER SHALL BE LIMITED TO DIRECT, ACTUAL DAMAGES ONLY AND ALL OTHER DAMAGES ARE WAIVED. NO PARTY (EVEN IF NEGLIGENT) WILL BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, SPECIAL, CONSEQUENTIAL, EXEMPLARY, OR PUNITIVE DAMAGES RESULTING FROM, OR ARISING OUT OF, STATUTE, TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE, INCLUDING, WITHOUT LIMITATION, INCREASED COST OF OPERATIONS, LOSS OF PRODUCTION, LOSS OF USE, LOSS FROM BUSINESS INTERRUPTION, INDIRECT LOSS OF PROFIT OR REVENUE, LOSS OF BUSINESS, LOSS OF GOODWILL OR REPUTATION, OR WASTED EXPENDITURE HOWEVER THE SAME MAY BE CAUSED AND REGARDLESS OF SUCH PARTY'S NEGLIGENCE (AND REGARDLESS WHETHER SUCH NEGLIGENCE IS SOLE, JOINT, CONCURRENT, ACTIVE, PASSIVE OR GROSS), FAULT, STRICT LIABILITY, OR LIABILITY WITHOUT FAULT. THE PARTIES AGREE THAT THE FOLLOWING SHALL NOT CONSTITUTE INDIRECT, SPECIAL, CONSEQUENTIAL, EXEMPLARY, OR PUNITIVE DAMAGES FOR PURPOSES OF THE PROCEEDING SENTENCE: (A) LOSSES ARISING FROM FRAUD, WILLFUL MISCONDUCT, OR GROSS NEGLIGENCE, OR (B) LOSSES PAYABLE TO A THIRD PARTY PURSUANT TO A CLAIM FOR INDEMNIFICATION UNDER THIS AGREEMENT.

Article 12

REPRESENTATIONS, WARRANTIES, AND COVENANTS

12.1 Seller's Representations and Warranties. Seller represents and warrants to Buyer, as of the date hereof, as follows:

(a) Quality. Subject to Section 2.2, the Product delivered hereunder shall meet the specifications set forth in Attachment 1;

(b) No Liens. Seller shall have title to all Product delivered by Seller at the Delivery Point, Seller shall have the right to sell such Product to Buyer, and the Product when delivered and sold to Buyer hereunder shall be free and clear of all liens, taxes, and encumbrances;

(c) Approvals. Seller has procured all licenses, consents, and approvals required for its operation of the Facility and manufacture, sale, transportation and delivery to Buyer of Product under this Agreement;

(d) U.S. Entity. Seller represents it is a U.S. entity for purposes of state and federal income and excise taxes; and

(e) Authorization. This Agreement has been duly and validly executed and delivered by Seller and this Agreement constitutes a legal, valid and binding obligation of Seller, enforceable in accordance with its terms, except to the extent its enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors generally or by general principles of equity.

12.2 Buyer's Representations and Warranties. Buyer represents and warrants to Seller, as of the date hereof, as follows:

(a) Authorization. This Agreement has been duly and validly executed and delivered by Buyer and this Agreement constitutes a legal, valid and binding obligation of Buyer, enforceable in accordance with its terms, except to the extent its enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors generally or by general principles of equity;

(b) Approvals. Buyer has procured all licenses, consents, and approvals required for its purchase, receipt, use, and resale of Product under this Agreement and all of its other obligations under this Agreement; and

(c) U.S. Entity. Buyer is a U.S. entity for purposes of state and federal income and excise taxes.

(d) Waivers. All contracts of Buyer for the sale of natural gas from the regasification of Product include provisions waiving consequential damages at least as stringent as Section 11.3.

12.3 Covenants.

(a) Records. Each Party covenants that it will maintain accurate and complete production and delivery records in a prudent and businesslike manner and in accordance with sound commercial practices in respect of Product delivered and received hereunder.

(b) Downtime. Seller covenants that it will use its commercially reasonable efforts to provide Buyer with not less than thirty (30) days' prior written notice of any anticipated

production downtime or disruption to Product availability. If any unexpected downtime or disruption in Product production at the Facility (outside of customary production variances) occurs, then Seller shall give Buyer prompt notice of such downtime or disruption by telephone, together with notice of the then existing Product inventory at the Facility, promptly followed by written confirmation of such downtime or disruption by email. Seller further covenants that it will use its commercially reasonable efforts to perform regularly scheduled maintenance for the Facility, and to perform other scheduled improvements to the Facility, during the months of May, June, July, August, or September. Seller further covenants that it will use its commercially reasonable efforts to coordinate with Buyer regarding any maintenance for the Facility that Seller reasonably anticipates will result in reduced production availability.

12.4 DISCLAIMERS. EXCEPT AS OTHERWISE SET FORTH HEREIN, SELLER MAKES NO OTHER WARRANTIES OR REPRESENTATIONS OF ANY KIND CONCERNING THE PRODUCT, WHETHER OF MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE OR OTHERWISE, AND NONE SHALL BE IMPLIED BY LAW OR OTHERWISE.

Article 13 ASSIGNMENTS

13.1 Restrictions on Assignment. Neither Party may assign any of its rights or obligations under this Agreement without the prior written consent of the other Party, which consent shall not be unreasonably withheld. Any purported assignment without such consent shall be void and ineffective. Notwithstanding the foregoing, no consent to assignment of any right, benefit or obligation shall be required where the assignee is (i) an affiliate of the assigning Party or (ii) with respect to an assignment by Seller, a purchaser of or joint venturer in, or other successor to a significant portion of Seller's interests in the Facility.

13.2 Inurement. Subject to the foregoing provision, this Agreement binds and inures to the benefit of the Parties and their respective heirs, successors, assigns, and legal representatives.

Article 14 FORCE MAJEURE

14.1 Non-Performance. Subject to the following provisions of this Article 14, neither Party shall be responsible for any loss or damage to the other Party resulting from any delay in performing or failure to perform any obligation under this Agreement (other than Buyer's obligation to make payments due under this Agreement) to the extent such failure or delay is caused by a Force Majeure Event.

14.2 Force Majeure Event. "Force Majeure Event" means any event that directly or indirectly renders a Party unable, wholly or in part, to perform or comply with any obligation, covenant or condition in this Agreement if the event, or the adverse effects of the event, is beyond the reasonable control of, and could not have been prevented by, the affected Party with reasonable foresight, at reasonable cost, and by the exercise of reasonable diligence. Force Majeure Events include without limitation the following events (to the extent they otherwise

satisfy the definition): (i) act of God, fire, lightning, landslide, earthquake, volcanic activity, storm, hurricane, hurricane warning, flood, high water, washout, or explosion; (ii) strike, lockout, or other industrial disturbance, act of the public enemy, war, military operation, blockade, insurrection, riot, epidemic, arrest or restraint by government of people, terrorist act, civil disturbance, or national emergency; (iii) acts or omissions of a materials, machinery or equipment supplier of the affected Party, which acts or omissions are caused by any Force Majeure Event, and which acts or omissions result in the inability of the affected Party to acquire, or the delay on the part of the affected Party in acquiring, materials, supplies, machinery, or equipment; (iv) breakage of or accident to machinery, equipment, facilities, or lines of pipe, and the repair, maintenance, improvement, replacement, test, or alteration to the machinery, equipment, facilities, or lines of pipe; and (v) act, order, or requisition of any governmental agency or acting governmental authority, or any governmental law, proration, permit, approval, license, authorization, regulation, or priority.

14.3 Effect of Force Majeure. The Affected Party must, as a condition to its right to suspend its obligations under this Article 14:

(a) promptly notify the other Party (the "Non-Affected Party") in writing with reasonable details of such Force Majeure Event, including the nature, extent, effect and likely duration of the event or circumstances constituting the Force Majeure Event;

(b) use all commercially reasonable efforts to minimize the effect of the Force Majeure Event on its performance under this Agreement;

(c) give prompt notice to the Non-Affected Party of the end of the Force Majeure Event; and

(d) resume full performance under this Agreement as soon as reasonably practicable.

14.4 Burden of Proof. The burden of proof as to whether a Force Majeure Event has occurred and whether the Force Majeure Event excuses a Party from performance shall be upon the Party claiming such Force Majeure Event. **Delivery by Alternate Means.** If facilities upstream of the Delivery Point (including the Facility and trucks and Trailers used to transport Product to the Delivery Point) are damaged, impaired, or otherwise rendered wholly or partially inoperative by a Force Majeure Event or are subject to scheduled maintenance, then Seller shall not be obligated to deliver Product to the Delivery Point (whether or not by alternate means) or to furnish substitute Product from another source, but the Parties agree to promptly communicate with each other and work together to determine the logistics associated with Seller providing LNG from an alternate source and an equitable adjustment to the Purchase Price relating to the delivery of such alternate supply of LNG.

Article 15

NOTICE

Any notice related to this Agreement, and required or permitted to be given under this Agreement by one Party to the other shall only be effective if in writing, addressed to the other Party as provided below, and either (i) delivered in person, (ii) sent by electronic mail and confirmed by registered mail, (iii) delivered by registered mail or (iv) delivered by private,

prepaid commercial courier. A Party may change its designated recipients of notices and addresses for notices under this provision by written notice to the other Party.

If to Seller:

Harvest Alaska, LLC
c/o Hilcorp Alaska, LLC
3800 Centerpoint Drive, Suite 100
Anchorage, Alaska 99503
Attention: Kurt Gibson
Email: kgibson@hilcorp.com
Telephone: 907-777-8300

If to Buyer:

Fairbanks Natural Gas LLC
3408 International Street
Fairbanks, Alaska 99701
Attention: Dan Britton
Email: dwbritton@fngas.com
Telephone: 907-452-7111

With a required copy (which shall not constitute the required notice) to:

Pentex Alaska Natural Gas Company, LLC
c/o Merced Capital
601 Carlson Parkway
Minnetonka, MN 55305
Attention: Hendrik Vroege
Email: hendrik.vroege@mercedcapital.com
Telephone: 952- 745-4448

Article 16

OTHER PROVISIONS

16.1 Governing Law and Dispute Resolution. THIS AGREEMENT AND ANY DISPUTE OR CLAIM OF WHATEVER NATURE ARISING OUT OF OR IN CONNECTION WITH IT WILL BE GOVERNED BY THE LAWS OF THE STATE OF ALASKA WITHOUT REGARD TO ITS CONFLICTS OF LAWS PRINCIPLES. All and any disputes or claims arising out of or in connection with this Agreement including, but not limited to, any question regarding its interpretation, existence, validity or termination, shall be exclusively referred to and finally resolved by the appropriate State and Federal courts in Fairbanks, Alaska and the Parties waive any objection to such proceedings on the grounds of venue or on the grounds that the proceedings have been brought in an inappropriate forum. Each Party stipulates that such courts shall have in personam jurisdiction over each of them for the purpose of litigating any dispute or claim arising out of or in connection with this Agreement.

16.2 Entire Agreement. Each Party acknowledges that it has not relied upon any pre-contractual statements in agreeing to enter into this Agreement. This Agreement and the Confidentiality Agreement dated August 30, 2013 between Hilcorp Alaska, LLC and Pentex Alaska Natural Gas Company, LLC (the "Confidentiality Agreement") constitute the entire agreement of Seller and Buyer relating to the subject matter of this Agreement, and supersede and extinguish any other documents or pre-contractual statements (whether oral or written) related to the same subject matter not expressly repeated in this Agreement. Neither this Agreement nor any document supplementing or amending this Agreement will be binding unless signed by both Parties, and performance prior to such execution will not constitute a waiver of this requirement.

16.3 Amendment. This Agreement may not be amended or modified orally and no amendment or modification shall be effective unless it is in writing and signed by an authorized representative of each of the Parties. An electronic communication shall not be a writing for purposes of this Section 16.3.

16.4 Construction of Agreement. In construing this Agreement, the following principles shall be followed:

- (i) no consideration shall be given to the captions of the articles, sections, subsections, or clauses, which are inserted for convenience in locating the provisions of this Agreement and not as an aid in its construction;
- (ii) no consideration shall be given to the fact or presumption that one Party had a greater or lesser hand in drafting this Agreement;
- (iii) examples shall not be construed to limit, expressly or by implication, the matter they illustrate;
- (iv) the word "*includes*" and its syntactical variants mean "*includes, but is not limited to*" and corresponding syntactical variant expressions;
- (v) a defined term has its defined meaning throughout this Agreement, regardless of whether it appears before or after the place in this Agreement where it is defined;
- (vi) the plural shall be deemed to include the singular, and vice versa;
- (vii) each gender shall be deemed to include the other genders; and
- (viii) each attachment to this Agreement is a part of this Agreement, but if there is any conflict or inconsistency between the main body of this Agreement and any attachment, the provisions of the main body of this Agreement shall prevail.

16.5 No Waiver. No waiver or failure to exercise any option, right, privilege, claim or remedy under the terms of this Agreement by either of the Parties hereto on any occasion or occasions shall be construed to be a waiver of the same option, right, privilege, claim or remedy or of any other option, right, privilege, claim or remedy on any other occasion. No indulgence,

leniency or extension of time, which either Party may grant or show to the other Party shall operate as an estoppel against the Party that granted or provided the indulgence, leniency or extension of time.

16.6 Relationship of Parties. This Agreement does not create a partnership, joint venture, or relationship of trust or agency between the Parties.

16.7 Remedies Not Exclusive. Except as otherwise expressly provided in this Agreement, the specific remedies provided in this Agreement are not intended to be exclusive, and the exercise of any such specific remedy shall not be deemed to be an election of an exclusive remedy. The specific remedies provided in this Agreement are cumulative of all other remedies available to the Parties at law or in equity.

16.8 Records; Audits. Each Party shall keep and maintain true and correct books, records, files, and accounts of all information reasonably related to the transactions contemplated by this Agreement (the "Records"), including all measurement and test results, all information used to determine prices and calculate invoices, and all invoices, statements, and payment records. All such Records shall be maintained for at least twelve (12) months after the month to which they pertain. Either Party may, at its own expense, audit and copy the other Party's Records at any time during normal business hours upon at least fifteen (15) days' notice.

16.9 Counterpart Execution. This Agreement may be executed in multiple counterparts. Each counterpart shall be deemed to be an original, and all counterparts together shall be deemed to be one and the same agreement.

16.10 Confidentiality. This Agreement is subject to the terms of the Confidentiality Agreement. Neither Party shall disclose the terms of this Agreement to any third party without the written consent of the other Party, except to the Parties' affiliates, contractors, consultants, attorneys, accountants, potential buyers and lenders (collectively "Representatives"), or others as may be required by law. In addition, any operating or scheduling information or any turnaround information shared by either Party in the course of executing this Agreement and not available from other sources shall be strictly limited to Persons responsible for executing the terms of this Agreement, including scheduling, operating, maintenance and financial payment personnel. In no manner shall any operating or scheduling information or unit turnaround information be shared with the trading personnel of either Party or the trading personnel of either Party's affiliates.

16.11 Public Statements and Disclosure. Neither Party shall make or permit or authorize the making of any press release or other public statement or disclosure concerning this Agreement or its contents without the prior written consent of the other Party, other than as required by law or an order of a court of competent jurisdiction or the requirements of a regulatory or governmental body, wherever situated. In the event of any such required disclosure, the disclosing Party shall give the other Party as much advance notice of such disclosure as possible.

16.12 Severability. If any term, provision, or condition of this Agreement, or any application thereof, is held invalid, illegal, or unenforceable in any respect under any law, this

Agreement shall be reformed to the extent necessary to conform, in each case consistent with the intention of the Parties, to such law, and to the extent such term, provision, or condition cannot be so reformed, then such, term, provision, or condition (or such invalid, illegal or unenforceable application thereof) shall be deemed deleted from (or prohibited under) this Agreement, as the case may be, and the validity, legality, and enforceability of the remaining terms, provisions, and conditions contained herein (and any other application of such term, provision, or condition) shall not in any way be affected or impaired thereby. Upon such determination that any term, provision, or condition is invalid, illegal, or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to affect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

16.13 ConocoPhillips Facility. Without reducing Buyer's obligations to purchase Product from Seller under this Agreement, upon not less than 60 days' prior written notice from Buyer, Seller agrees to use its commercially reasonable efforts to provide, on an interruptible basis, trucking services to transport LNG produced by ConocoPhillips at its LNG liquefaction facility in Nikiski, Alaska to the Delivery Point. If Buyer requests that Seller provide such transportation service, the Parties shall develop and negotiate a transportation agreement to cover the terms of such transportation service by Seller. Such transportation service shall be provided by Seller at the sole, cost, and risk of Buyer. Until the Parties have entered into such a transportation agreement, each month, Buyer shall pay Seller for all direct costs and expenses incurred by Seller to provide such transportation service plus an administrative fee equal to 10% of such direct costs and expenses.

16.14 Regulatory Commission Of Alaska.

(a) Submission. It is a condition precedent to the effectiveness of this Agreement that it has received RCA Approval. Buyer will submit this Agreement to the RCA for its consideration on or before December 1, 2014.

(b) Buyer's Efforts. Buyer will use commercially reasonable efforts to obtain regulatory approval of this Agreement. Seller shall have no responsibility to take any action or incur any cost to obtain regulatory approval of this Agreement. If RCA Approval has not been obtained by June 1, 2015, either Party may terminate this Agreement upon notice to the other Party, such termination to take effect on the date outlined in any such written notice of termination.

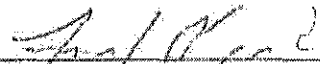
(c) Approval. "RCA Approval" will be deemed to have occurred on the date that an RCA order approving the Agreement without conditions or modifications becomes final and is not subject to further reconsideration or appeal, or on such other date as may be mutually agreed by the Parties in writing.

[Signature Page Follows]

IN WITNESS WHEREOF, Seller and Buyer have executed this Agreement effective as of the Effective Date.

Seller:

Harvest Alaska, LLC

By 
Name FRED T. MUCKE
Title PRESIDENT

Buyer:

Fairbanks Natural Gas, LLC

By _____
Name _____
Title _____

IN WITNESS WHEREOF, Seller and Buyer have executed this Agreement effective as of the Effective Date.


Seller:

Harvest Alaska, LLC

By _____
Name _____
Title _____

Buyer:

Fairbanks Natural Gas, LLC

By  _____
Name Dan Britton
Title President / CEO

ATTACHMENT 1

PRODUCT SPECIFICATIONS

Temperature	-220°F to -260°F
Sub-cooling	Not required (Acceptable to -270°F)
LNG Density at 1 atmosphere	26.5 lb/ft ³ to 29.5 lb/ft ³
Saturated Vapor Pressure at Delivery	25 psia maximum
Gross Heating Value (Volume Based)	950 – 1100 Btu/scf
Wobbe Index Required	1280 – 1314
Specific Methane	Number Not Required

COMPOSITION:

Component	Mol%
Methane	85.0 Minimum
C2 – Ethane	6.4 Maximum
C3 – Propane	2.2 Maximum
C4 – Butanes	0.5 Maximum
C5+ - Heavy NGL	0.04 Maximum
C ₆ H ₆ - Benzene	1 ppm Maximum
CH ₃ OH - Methanol	0.5 ppm Maximum
Nitrogen (N ₂)	1.0 Maximum
Hydrogen Sulfide (H ₂ S)	0 Maximum
Moisture (H ₂ O)	0 Maximum

Contaminants: The delivered LNG shall not contain any liquid or solid contaminants. The LNG shall not contain other elements and impurities (including, but not limited to alcohols, condensates, gas odorants) to the extent that such natural gas cannot be transported, stored and marketed without incurring additional treatment or cost for quality adjustment.

ATTACHMENT 2 MEASUREMENT

Measurement under Section 7 of the Agreement will be either by metering under section (A) of this Attachment, or, until metering equipment is installed and usable at any particular Delivery Point or thereafter upon agreement of the Parties, by weight under section (B) of this Attachment.

A. Measurement by Meter.

Sales Volume Calculation: Primary LNG volume measurement will consist of a temperature corrected liquid LNG volume measured (at delivery point) by a Coriolis, Ultrasonic or Orifice meter (+/- 0.1% accuracy) with a custody transfer quality flow computer, or such other metering device as agreed to by the parties. The flow computer shall total liquid volumes to a standard pressure and temperature, as agreed by Buyer and Seller. Ultimately volumes to be converted to "Standard Volume" in Mcf of gas at 14.65 psia at 60F, to represent the transaction volume, described herein.

Should the normal Delivery Point metering equipment be found inaccurate or not fully functional, the Buyer and Seller may mutually agree to measure volumes sold by the secondary custody transfer method. The secondary custody transfer method require shipments be weighed at a certified scale (as mutually agreed by both parties). Subsequent transaction volume will be calculated by converting mass (weight) to "Standard Volume" as indicated above.

Measurement: Unless agreed otherwise, each Delivery Point measurement station shall consist of (a) measuring equipment conforming to the requirements of American Gas Association Gas Measurement Committee Reports in effect as of the Effective Date, or as amended or supplemented during the term of this Agreement, unless otherwise agreed by the Parties, (b) appurtenant facilities, (c) hydrometers, and (d) data telemetry equipment. Seller shall have access to each Delivery Point measurement station(s) at which Seller tenders LNG at reasonable hours and upon reasonable notice to Buyer, but Buyer will make all calibrations, measurements and adjustments. Buyer will make available to Seller, and will not charge Seller for access to meter data, delivery tickets data and meter calibration data.

Inaccurate Meters. If a meter is out of service or registering inaccurately by a variation greater than one percent (1%), the volumes of Gas delivered shall be estimated:

(A) by using the volumes registered by the check meter or meters of Seller or transport container weight, if installed and accurately registering, or

(B) in the absence of estimation pursuant to clause (A), by correcting the error if the percentage of error is ascertainable by calibration, test or mathematical calculations, or

(C) in the absence of estimation pursuant to both clause (A) and clause (B), then by estimating the quantity of deliveries based on deliveries during comparable periods under similar conditions when the meter was registering accurately.

Testing. Buyer will test the accuracy of the measuring equipment at least once every 90 days. Buyer will give Seller reasonable advance notice so that Seller (or its designee) may conveniently witness the tests. If Seller notifies Buyer that it desires to test the accuracy of any measuring equipment, Buyer will test the accuracy of the measuring equipment promptly after such notification. Seller shall have the right to witness the calibrating, adjusting and testing of the measuring equipment. Buyer shall, on reasonable request of Seller, give its physical test and meter proving reports to Seller. If there is a dispute about any joint test reveals there is an error, Buyer shall pay all costs associated with the joint test. If the joint test reveals there was no error Seller shall pay all costs associated with the joint test.

Correction. If any measuring equipment is found to be inaccurate by less than one percent (1%), previous records of the equipment shall be considered accurate. If any measuring equipment is found to be inaccurate by more than one percent (1%), any previous records of that equipment will be corrected to zero error for any period known definitely or agreed upon. If a period of inaccuracy is not definitely known or agreed upon by the Parties, the correction shall be made for a period of one half (½) of the time elapsed since the date of the last test. The correction shall fully settle all claims based on the inaccuracy. Any measuring equipment found by test to be inaccurate, even if such error is less than one percent (1%), will immediately be adjusted or replaced, as appropriate, to measure accurately.

Records. Each Party shall preserve for a period of at least six (6) years all test data, charts and other similar records for amounts of Gas made available and purchased under this Agreement.

Standards. Buyer shall determine, or shall rely on the information provided by others to determine, the volumes of Gas received and purchased hereunder as follows:

(A) The unit of volume measurement shall be one Standard Cubic Foot of Gas with correction for temperature and pressure deviation from the Ideal Gas Laws according to ANSI/API 2530 or AGA Report No.8, as amended and as applicable.

(B) The average absolute atmospheric pressure shall be assumed to be fourteen and sixty-five hundredths (14.65) pounds per square inch for all measurement purposes, irrespective of actual elevation or location of any Receipt Point above sea level or variations in actual atmospheric pressure.

(C) The specific gravity of Gas shall be determined by the use of a spot test method or, if the Parties later agree in writing, by the use of a recording gravitometer generally

accepted in the industry. If a recording gravitometer is used, the arithmetic average of the specific gravity of Gas flowing through the meters shall be used in computing Gas volumes. If a spot test method is used, the specific gravity of the Gas shall be determined at quarterly intervals, or more often if changes in specific gravity indicate that such determination is necessary. Any such test shall determine the specific gravity to be used in determining the volumes of Gas delivered and purchased hereunder effective the first Day of the Month following the date of such test and shall be used until the results of a subsequent test become effective.

(D) The temperature of Gas shall be determined by a recording thermometer so installed that it will record the temperature of the Gas flowing through the meters. The average of the recorded temperatures to the nearest one degree Fahrenheit (1°F) obtained while Gas is being delivered on any Day shall be used in computing the volumes of Gas made available to Buyer by Seller on such Day.

(E) Seller shall have the right to audit Buyer's records of the volumes of Gas made available and taken hereunder for up to two (2) Years following delivery of such Gas to Buyer.

5.7 Check Meters. Seller and Buyer shall have the right to operate and maintain check meters and other test equipment and devices at or near any Delivery Point at the sole expense of the Party who installs the check meters.

B. Measurement by Weight.

Sales Volume Calculation. Sales Volume will be calculated by first determining the weight of the LNG transferred, and then converting the weight to a measurement of gas volume.

Determination of Weight of LNG. Within one hour before the delivery, Seller will determine the gross weight of the truck and trailer by weighing the combination at an agreed-upon State of Alaska licensed weigh station within 30 miles of the Delivery Point. Within one hour after the delivery, Seller shall determine the tare weight by weighing the combination at the same weigh station under identical conditions. The difference between the gross weight and the tare weight is the weight of LNG delivered.

For trailer load to be measured by weight, the components of the LNG loaded onto the trailer shall be determined by chromatographic analysis by Seller in the 3 months preceding the loading of the trailer. The mole fraction of each component with a mole fraction greater than one ten-thousandth shall be recorded.

Conversion from Weight to Volume. The Sales Volume in Mcf will initially be determined by calculation using 1 MCF = 42 U.S. pounds LNG. This volume will be adjusted if requested by either Party to the actual equivalent volume of natural gas based on the particular components of the LNG delivered.

ATTACHMENT 3 DELIVERY POINT



SS2_SitePlan.pdf



SS1_SitePlan.pdf

**ATTACHMENT 4
ANNUAL ESTIMATE**

FOR INITIAL CONTRACT YEAR (Mcf/month)

January	120,000
February	110,000
March	120,000
April	63,000
May	33,000
June	14,000
July	20,000
August	21,000
September	39,000
October	73,000
November	117,000
December	120,000
Total	850,000

CancelingSecond RevisedSheet No. 46.1**FAIRBANKS NATURAL GAS, LLC****e. Determination of Gas Cost Adjustment**

	Estimated Purchases*	Estimated Rate on (Date)	Total (A x B)	N
(1) <u>Base Gas Supply Contracts</u>	(A)	(B)	(C)	
a) Harvest Alaska, LLC	Mcf	\$/Mcf	\$ _____	
b) System Base Gas Supply	Mcf		\$ _____	
c) Current Average Cost of System Base Gas Supply		\$/Mcf		
(2) Additional Supply Contract				
a) Conoco Phillips Alaska	Mcf	\$/Mcf	\$ _____	
(3) Gas Withdrawn From Storage	Mcf	\$/Mcf	\$ _____	
(4) Total Current Cost of System Gas Supply	Mcf		\$ _____	
(5) Current Average Cost of System Gas Supply		\$/Mcf		
(6) Estimated Gas Cost Balance Account @ <u>(DATE)</u> ((Over)/Under Collected)			\$ _____	
(7) Other Adjustments			\$ _____	
(8) Total Costs			\$ _____	
(9) Total Sales (Mcf)*			_____	
(10) Weighted Average Unit Cost of Gas and Gas Cost Adjustment			_____	

* For a ____ month period beginning _____, _____.

Tariff Advice No. TA37-514

Effective: _____

Issued By: Fairbanks Natural Gas, LLCBy: Dan Britton Title: President