

Attachment C – Notification Letter to State Officials

August 18, 2010 *as amended on 8/23/10*

Attn: Thomas E. Irwin
Alaska, Commissioner of Natural Resources;

Patrick S. Galvin
Alaska, Commissioner of Revenue;

Larry Persily
Federal Coordinator for Alaska Natural Gas Transportation Projects;

Steve Haagenson
Executive Director, Alaska Energy Authority

Sirs:

Energia Cura (**EC**) is pleased to inform you that it will announce and commence a NBOS (non-binding open season) on 8/26/10, in behalf of Fairbanks Pipeline Company (**FPC**) to secure indicative interest from Alaskan communities and enterprises located between Prudhoe Bay and Eielson AFB for firm, bundled natural gas and/or NGL commodities. Future correspondence will provide your offices information on the organization of **FPC's** staff including their qualifications and record of previous achievements. We will also include the same for the Fairbanks Holding Company (**FHC**) after it completes negotiations to acquire **FPC's** interests and operate said interests as its wholly owned subsidiary.

EC and **FPC** have evaluated numerous ways to deliver affordable gas to the Interior of Alaska over the past decade including various forms of a small-bore pipeline network. **EC** completed a market and power source study for a Client earlier this summer. When adding this new load center and its significant proposed outtakes near Livengood, Alaska to its hydraulic simulations and cost of service studies, **FPC's** economic models have been invigorated to such point as now warrants this NBOS.

EC is administering this NBOS for **FPC** to define market interest in firm measures to complete its initial design criteria and resultant cost of service analyses in a credible, accepted manner. Participation in this phase of the open season is non-binding for all companies partaking in the NBOS process including those parties initiating this NBOS (**EC and FPC**), and those indicating specific interest via the procedures set forth within **FPC's** standard NBOS package. **FPC** may elect to proceed without holding a subsequent BOS (binding open season), or it may elect to suspend the Project altogether based on its NBOS findings. If findings further validate sufficient volumes are attainable to commence its project, **FPC** may elect to initiate discussions with **IPs** (interested parties) to execute Binding Condition Precedent Agreements more expediently than by conducting a BOS (Binding Open Season). **FPC's** NBOS targets those **IPs** interested in securing firm, bundled natural gas service of ≥ 0.25 Bft³/annum and/or NGLs, supplies $\geq 10,000$ gal/annum over its private transmission network.

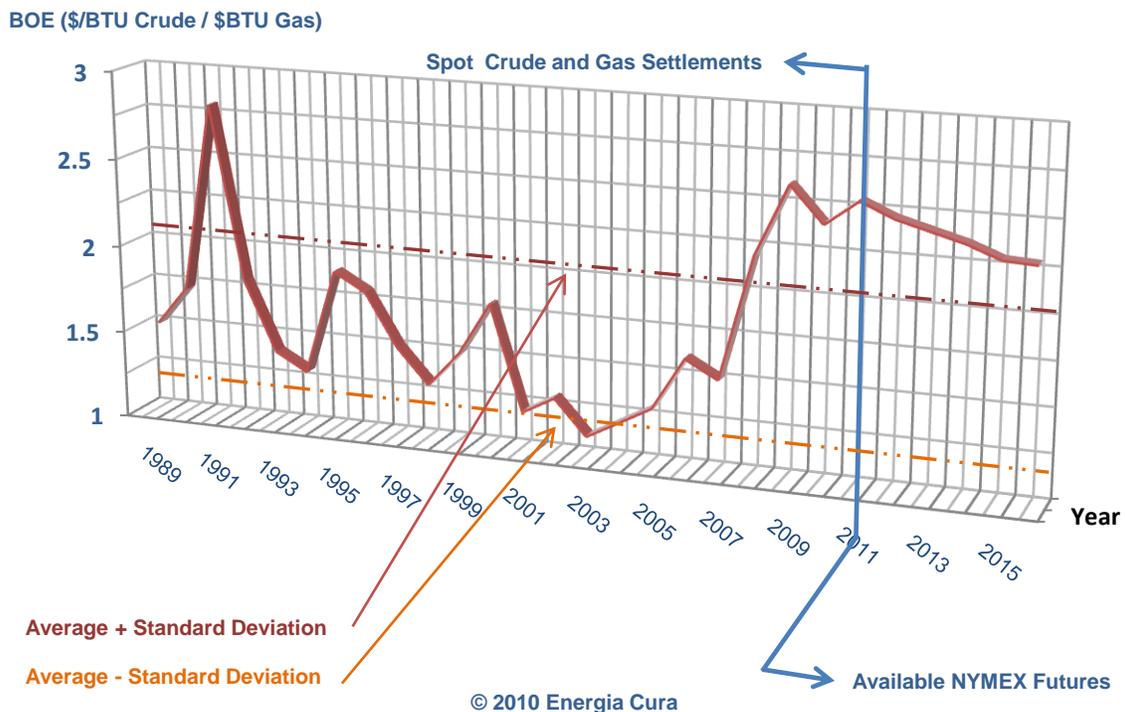
Project Objective

FPC's prime objective is to provide expedient economic relief to thermal markets located along its primary and secondary transmission corridors by supplying affordable commodities to ready Alaskan load centers by 2014. **FPC's** current design criteria employs proven economic transportation models that can be placed into service well in advance of the commercial operation of either competing interstate pipeline and various intrastate pipeline projects now being evaluated under subsidies from the public sector/s.

EC expects the supply/demand imbalances apparent in today's gas markets to dominate for at least the next six-and-a-half to ten years as further explained within **FPC's** BOS Brochure. This document is currently scheduled for release to **IPs** and to your offices on 9/29/10. **EC** provides more complete arguments in this Brochure supporting its opinions that at least another sixteen years to twenty years will elapse before ANS gas supplies are made available to Interior communities and its local enterprises via the interstate systems. Within this assumed duration, Interior consumers will further accrue at least an additional \$1.5 billion in avoidable outlays if one assumes that the interstates will indeed reach commercial operation by 2026. **EC** points out that this supposition is both uncertain and at the same time, somewhat naïve.

As demonstrated in the excerpt below culled from Section 2.0 of **FPC's** Brochure titled "Macro-Economics" (and as bolstered by current EIA projections), the gas markets will continue to speak against the feasibility of the large bore interstates for at least the next decade and possibly, beyond 2030. In comparison, **FPC's** small-bore project can deliver affordable gas to Interior Alaskans by 2014, promptly curtailing their extraordinary energy outlays and on-going exodus of wealth.

1989 - 2016 Heat-Equivalent Price Ratio of Oil & Gas
(June 21, 2010)



FPC obviously does not intend its project to compete with either proposed large-bore interstate system. Instead, it intends for its systems to deliver affordable gas to Interior consumers and to the builders of the interstate systems until such point in time as they are placed into service. Consequently, **FPC's** secondary objective is to design both its primary and secondary transmission lines in such manner as to provide residual value once its systems are converted into tangent gas or liquid service in support of future downstream and interconnection opportunities. Accordingly, our design basis and economic model are built around such term of service and practicability. Should **FPC's** transmission system be called into longer service, the economics only improve.

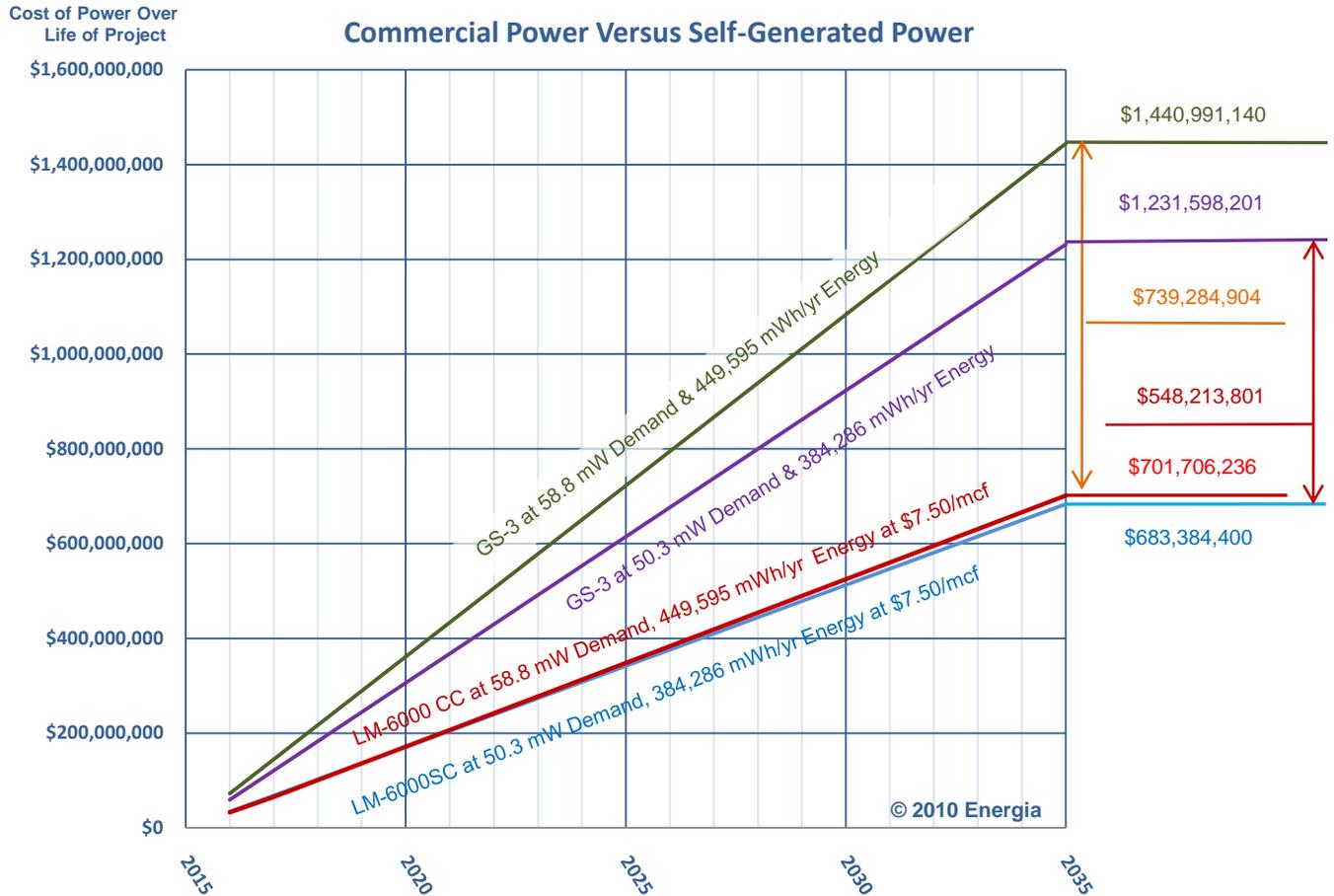
FPC also does not intend its project to compete with any of the intrastate variants in the vanguard, including Alaska Pipeline Development Corporation's Pipeline stretching from Alaska's North Slope to Anchorage, hereafter called the "Bullet Line". Instead, **FPC** intends its small-bore, primary transmission segments to complement this project with a working connection when this line eventually intercepts **FPC's** traverse last conceived to be north of Livengood. If the Cook Inlet Bullet Line is built and completed in 2020 as last proposed, **FPC** will have already aggregated major Interior load increments into working service through its primary and secondary transmission segments providing an interconnection point North of Livengood with ready opportunity for this South Central project. This assumes that the Bullet Line's ultimate net back to mileage tariff at the Livengood milepost will be able to compete with either the interstate (once built) or **FPC's** historical and future cost of service at the 2010 crossing. As evidenced by the recent cost of service assessment performed for this line by Black and Veatch, this currently is not the case. **EC** opines that **FPC's** fit for purpose approach utilizing small-bore HP line pipe for its primary transmission segments and coiled HP flow lines for its secondary transmission segments, including its practical ROW assignments adjacent to the Dalton and Elliot Highway Corridors, will net the lowest attainable cost of service possible for Interior consumers. As further argued by **EC**, and as witnessed by the CEA Marathon gas contract recently submitted for RCA review, the Bullet Line suffers from certain fundamental conceptual flaws surrounding its basis for tenderable markets. Recent Cook Inlet Basin studies estimate that roughly 17 to 18 Tcf of natural gas remains available at depth. **EC** maintains that these reservoirs will soon be eagerly developed by more sound deployments than a medium-bore pipeline traversing between the North Slope and Cook Inlet can afford. More specifically, the drilling of gas-wells more feasibly located near the Cook Inlet's deeper reservoirs.

The last of the Cook Inlet Basin islanded-market contracts will soon expire at the end of this year, as the Basin's legacy of sub-index rates perishes in tandem. As compelled by the likes of the CEA/Marathon contract and recent incentive programs implemented by the State, required investments will soon emerge. In the interim, when the Kenai LNG's Plant license terminates at the end of this year, its feed-stock volumes can be appropriated and reallocated by the State to serve the Basin's purported thermal-gas shortages for at least another decade as indicated and supported by its own studies. Assuredly, State officials are cognizant of this option.

As the future of the Cook Inlet Basin unfolds, the Interior's fixation on distillates will unabatedly persist at avoidable rates now priced well over 30% of those in the common markets. The consequences of this fixation are made evident in Section 3.0 of **FPC's** project Brochure titled "Micro Economics". **EC** has included two excerpts from the Brochure on the following pages. Both dramatically illustrate the formidable barriers to entry now facing one of **EC's** recent Clients evaluating the investment of approximately \$1.3 billion for a new facility within the Interior of Alaska and along **FPC's** proposed Corridor.

The first excerpt weighs the costs for a currently proposed project in the Interior for purchasing commercial power as burdened with the amortization of required electrical transmission infrastructure. It further compares and weighs the option for this project to self-generate power using gas supplies priced at \$7.50/mcf over its twenty-year life. Even under its low-load case of 40-60 mW, its accrued life-cycle savings range from \$548 to \$739 million.

Excerpt 1 from FPC's Project Brochure

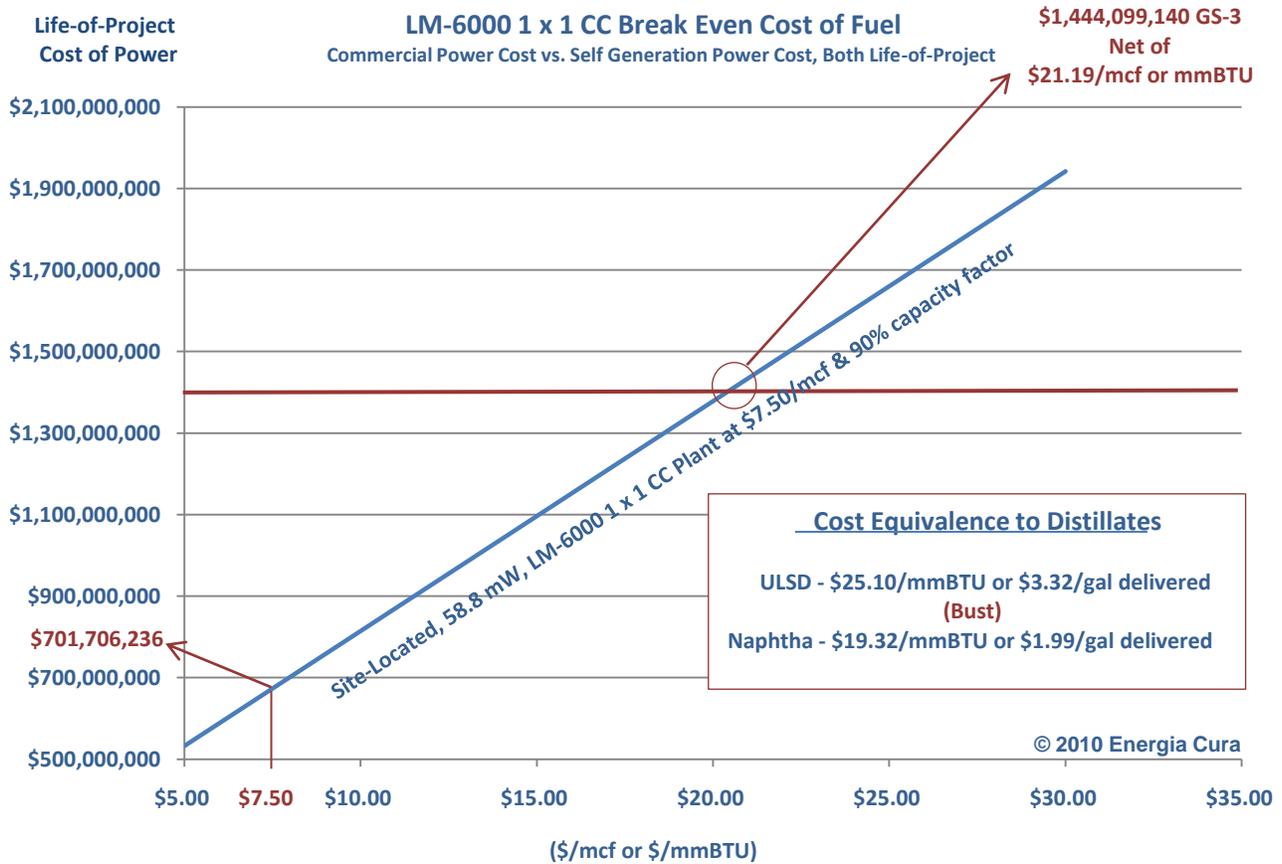


The following charts in the second excerpt document recent distillate market spots and illustrate their associated break-even cost when again, weighing the options for this project to purchase commercial power against self-generating power. Note that this evaluation assumes that distillates required for this Client to self-generate are available in sufficient volumes, when in reality, this availability is especially uncertain in the first place. Both excerpts demonstrate in very salient terms that any new enterprise proposed in the Interior faces significant, if not insurmountable barriers to entry. Likewise, existing enterprises and struggling residents of the Interior face similar challenges stressing their ability to compete and their ability to save their earnings, respectively. **FPC's** brochure includes econometric assessments showing the benefits associated with the lower attainable cost outlays for thermal energy and electrical power this project will collectively provide to Interior residents and to current and future Interior enterprises alike. The output from forward models employed in the assessment also demonstrate in very dramatic terms, the economic drag induced by these avoidable outlays by using the velocity of money (or velocity of circulation) to inversely calculate more explicable and distinct instances of attainable improvements to Interior residents' quality of life. The assessment's summary clearly demonstrates that **Interior Communities and their enterprises require energy solutions sooner, not later.**

Excerpt 2 from FPC's Project Brochure

6/29/10 Market Spots

Naphtha	Nymex Crude	ICIS - Waterborne	FHRA Refining		Naphtha	Naphtha	Energy delivered	
	mid-day spot	HVY Naphtha	Margin	Truck	Delivered	(BTU/gal)	(\$/mmBTU)	
	\$71.26	\$1.861	\$0.07	\$0.06	\$1.99	103,000	\$19.330	
ULSD	CME	New York Harbor	Tesoro		ULSD	ULSD	Energy delivered	
	Gulf Harbor	ULSD	ULSD WSR-Rack	Truck	Rail	Delivered	BTU/gal	\$/mmBTU
	\$2.436	\$2.541	\$3.143	\$0.06	\$0.11	\$3.31	132,000	\$25.098



Capacities – Fit for Purpose

Recent informal discussions held with **IPs** and potential investors have raised the issue of **FPC's** decision to limit its Project's gas transmission capacity to match tangible and incontrovertible interest. Integrated hydraulic simulations and cost of service evaluations conducted by **EC** over the past decade signify that its system design criteria need to be precisely regimented to size **FPC's** delivery infrastructure to meet existing and/or guaranteed future demand that in whole, aggregate to a specific minimum annual throughput. If the NBOS process identifies sufficient volumes, **FPC's** fit-for-purpose approach will prove to be the most expedient and economic means for curtailing avoidable \$1.5 billion in future outlays by Interior consumers to meet their challenging sub-arctic energy requirements. These sums are far in excess of the installation capital and operating costs associated with **FPC's** proposed transmission systems. The benefits associated with the velocity of these monies circulating in local communities need not be argued in this letter. **FPC's** project Brochure includes standard econometric models illustrating the impact of higher disposable income streams on future investment potentials within local Interior economies.

FPC will specify its line-pipe at higher-pressure ratings than originally required for initial gas transmission operations to accommodate modest growth by ramping its compression horsepower within economic limits. Alternatively, **FPC** may elect to negotiate a compression service agreement to use the existing Central Gas Compression Facility instead of installing its own compression. In either case, recent economic reports suggest that the Interior's energy demand should remain relatively stable until such time as either the interstate pipelines or the intrastate Bullet Line may consign **FPC's** system capacity (now estimated at roughly 12 Bft³/annum) to inconsequential status, and then to tangent gas and/or liquid service.

Build-Out Strategies Under Current Evaluation

As opposed to other projects under evaluation for distributing North Slope gas to Alaskans, **FPC's** project has received no subsidies or incentives from the State. Subsequent to the closure of the NBOS, and after **FPC** concludes its final integrated hydraulic and cost of service simulations, **FPC** will request in-kind contributions from the State related to provision of geologic, LIDAR data, and ROW assignments directly adjacent to its Dalton and Elliot Highway Corridors. **FPC** proposes to exchange these in-kind contributions for a matching equity position in **FPC's** holding company - as capped by the industry average for ROW development divided by total capital cost of 7.2% for similar cross-country projects as documented within FERC filings through 2008. Similarly, informal discussions held with Alaskan firms seeking investment opportunities indicate that four of Alaska's largest pipeline construction arms are interested in exploring similar in-kind or direct equity participation. Preliminary concepts now under discussion with these firms include one-third to one-quarter lay assignments per entity ranging from approximately 112 to 150 miles per spread/entity, with effective construction management of all spreads under a single entity - Price Gregory International.

Summary Request and Action Required

Please note that **EC** plans to administer **FPC's** NBOS under rules of conduct set forth within FERC, AGA, ERGEG, and CEER guidelines assuring open, non-discriminatory, and transparent access for Alaskan consumers.

EC hereby requests acknowledgment of this notification by the State and welcomes any recommendations it may have to move this project forward as soon as possible. Find **FPC's** NBOS timetable located on the following page. **EC** will forward summations of its final hydraulic simulations and its estimated low to high range of cost of service based on its NBOS findings to your offices during the first or second week of October 2010.

FPC Non Binding Open Season Timetable

Date	Step	Event
8/26/10		Date of NBOS Issuance & Posting:
Float	1	Request for Basic NBOS package via Email <i>Elective request for detailed BOS Brochure at \$2,225 per bound copy sent via Fed-Ex, and fully refundable to parties upon consummation of binding condition precedent agreements with FPC.</i>
36 hr turn	2	EC Transmittal of Confidentiality Agreement to IPs via Email
Float	3	IP Submittal of Signed Confidentiality Agreements to EC and FPC via Email in PDF.
36 hr turn	4	Transmittal of NBOS package to IPs via Email in PDF
9/29/10	5	Deadline - Submittal of Indicative Interest from IPs via Email in PDF
10/6/10	6	Preliminary FPC Response to Expressions of Interest/NBOS Capacity Assignments
10/20/10	7	Detailed FPC Response to Expressions of Interest/NBOS Capacity Assignments

We are attaching a CA (confidentiality agreement) to this notification to protect **EC's** and **FPC's** intellectual property as included in part within this letter and as expected to be further divulged in future correspondence with your offices. Notice that the CA includes term limits appropriately tied to said risk exposure.

EC warmly thanks you for attention to all matters discussed within this writing and further requests that you execute and return the attached CA along with the State's response acknowledging receipt of this notification of **FPC's** intent to announce its NBOS by August 26, 2010 or sooner, if your response merits.

Sincerely,

(Signature included in hard copy sent via registered post)

Alexander S. Gajdos

(Signature included in hard copy sent via registered post)

Thomas R. Chapman

*Principal Partners, Energia Cura;
on behalf of the Fairbanks Pipeline Company and the Fairbanks Holding Company*