

The Arctic Fox Natural Gas Pipeline

THE FAIRBANKS PIPELINE COMPANY

AN ALASKAN SOLUTION

The Primer # 1
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What is The Arctic Fox?

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The Arctic Fox Natural Gas Pipeline

The Arctic Fox is small, but he is also smart, nimble, and quick

In this short primer, let us show you the clever ways he has devised to “Give Back to Alaskans”

If you find interest in this primer, he encourages you to spend a little time on his website, because unlike other gas projects, he has made **all** his information accessible for public review

The Fox does not merely bark one-liners at you. He believes that you are not only intelligent enough to understand the facts, but entitled to see them

The link to his website:

<http://www.fairbankspipelinecompany.com>

Email him with any questions:

fpc-nbos@energiacura.com

What is the Arctic Fox Natural Gas Transmission Pipeline System?

The Arctic Fox is a high pressure, natural gas pipeline that will run from Prudhoe Bay to North Pole, Alaska to deliver natural gas to the Interior at less than half today's energy costs

You have been reading about ways to put North Slope gas to work for many years. What is different about this project?

- It was not developed on a “build it, then fill it” approach. In contrast, this pipeline was developed on a “fill it, then build it” approach
- This pipeline is designed to efficiently run like a private company, but owned by Alaskans. Why? Because more wealth is generated from natural gas transportation than from the gas itself. And guess what... with Alaskan ownership, this wealth is all retained in Alaska
- This pipeline gives back to the Alaskans who elect to own a piece of it. At \$100/share that pay back 11% dividends every year (\$11.07 per share), its share price is designed to let Alaskans of virtually any means to invest and gain from its future earnings
- Because this pipeline will deliver energy to Alaskans at half the cost, it does not have to wait for exportation markets to permit its construction. It can be built today, not 10- to 30 years from now
- Using North Slope gas to meet Alaskan requirements stretches our proven gas reserves and its future value into the next century for our children's use. A big exportation pipe will exhaust our proven reserves in 22.5 years in exchange for paltry returns to the State in Gas Royalties
- How does the Arctic Fox compare to all the projects you have been reading about for the last thirty-years? Find the direct comparisons on the next slide.

The Quick Comparison of Gas Options for Alaska

<p>Why so many question marks? Because other project's information is held in confidentiality. Find all the Arctic Fox's info on its publicly accessible website</p> <p>http://www.fairbankspipelinecompany.com</p> <p>Qualifying Project Characteristics</p>	Trans Canada Denali AGPA -Valdez Gottstein Condo AGDC Bullet Line	ANGDA Beluga to Interior Pipeline	GVEA/FNG LNG Truck Caravan	Arctic Fox 12" Pipeline Case 1	Arctic Fox 18" Pipeline Case 2
1 Feasibly tied to exportations	Yes	Yes	No	No	No
2 Competitive in the next 10 to 20 years	No	No	No	Yes	Yes
3 Capital risk is high (relative)	Yes	Yes	No	No	No
4 Market based with nominations in hand	?	?	Yes	Yes	n/a
5 Serves the highest number of Alaskans	No	?	No	Yes	Yes
6 Can be In operation in this decade or next	No	No	Yes	Yes	Yes
7 Can be in operation by 2015	No	No	Yes	Yes	Yes
8 Reaps highest royalty value for ANS gas/unit	No	No	?	Yes	Yes
9 Requires production incentives from State	?	?	No	No	No
10 Requires State Subsidies	Yes & ?	Yes	Yes	No	Yes
11 Contains future escalation of CI gas prices	No	No	No	No	Yes
12 Capital risk based on Alaskan needs	No	No	Yes	Yes	Yes
13 Lowers Interior energy costs by at least half	?	?	No	Yes	Yes
14 Pipeline or system owned by Alaskans	No	No	No	Yes	Yes
15 Retains > 85% wealth-in-resources in-State	No	No	Yes	Yes	Yes
16 Pays dividends to Alaskans at 11% ROI	No	No	No	Yes	Yes

What's Up With The 18" Arctic Fox Option?

Lowering the Interior's energy costs by half through a 12" line seems obvious enough, but what happens if we apply some common sense and future planning for the sake of our Anchorage neighbors?

If the Arctic Fox pipeline is increased in size from 12" to 18", it will have the capacity to move not only the Interior's gas, but also all of Anchorage's gas requirements through the next century.

While Anchorage has been blessed with very low energy prices for almost four decades, the flip side is that gas companies were not willing to risk the cost of drilling for more gas against these cheap gas prices

Anchorage gas prices have risen over the last three years to the point where gas companies are now willing to drill deeper to meet future gas requirements. The problem is that drilling deeper means that gas sold from these more difficult wells will be at higher price because it costs more to produce

So... for our Anchorage neighbors, the question now becomes how high will prices go? Many including the State have guessed at where these prices will end up, but the truth is that only the Arctic Fox really knows

While there is yet another gas study underway for \$16 million to make a 24" line work from Prudhoe Bay to Anchorage, the truth is that this pipe is 70% oversized. Yes... another pipe dream contingent on markets that do not exist or huge State subsidies that will virtually wipe out its bank account.

What the Arctic Fox has told our State's Administration is that instead of spending \$7 to \$13 billion on a 24" line, LNG facilities (and whatever else it takes to export our gas), lets look at where it makes sense today

We need not look far because its right here in Alaska where moving this gas to the Interior can lower energy costs by more than half. To increase the size of the Arctic Fox from 12" to 18" will only cost \$287 million, far less than the many billions to take North Slope gas to where gas fields already exist and where drill rigs are already moving in to find more gas. But at what price? Read on

How Does the Arctic Fox Know?

We all know that a fox is a clever creature, but how can this little Arctic Fox be clever enough to be able to contain future Anchorage gas prices?

By upsizing the Arctic Fox from 12" to 18" down to Livengood, North Slope gas is moved 418 miles closer to Anchorage - enough gas to support its growth into the next century.

By using the same integrated hydraulic and economic models the Fox used for the 12" line from Prudhoe Bay to North Pole, he was able to determine not only the cost of transporting gas through this small line, but also upsizing this line to 18" and another future 18" line from Livengood to Anchorage. He saw where an 18" line would be big enough to carry all the gas Anchorage and the Interior would into the next century.

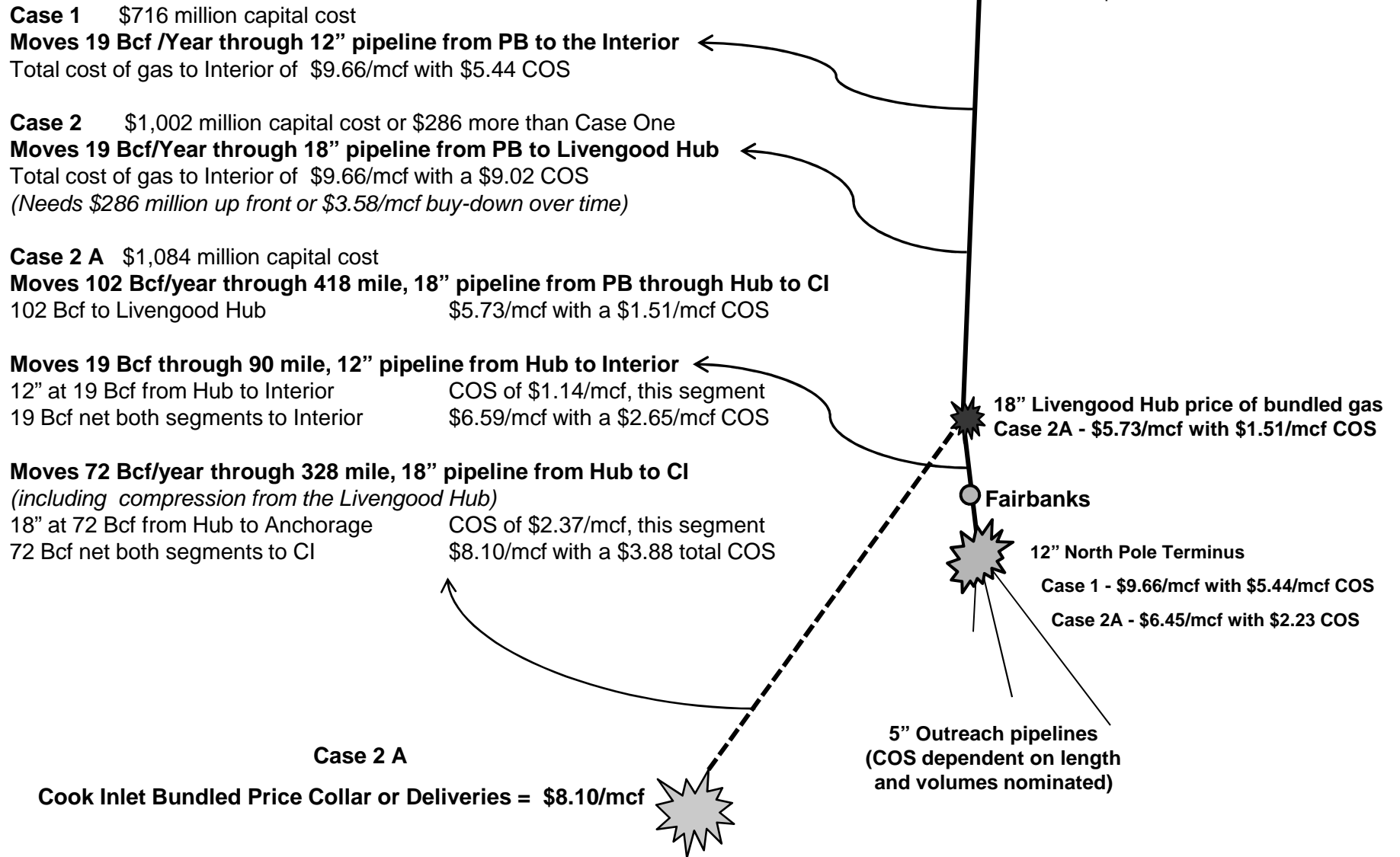
Being a canine, the Fox named the cost of gas transportation from Livengood to Anchorage through a future line the "Anchorage price collar". This number is a certain price point that the Fox thinks all Alaskans should know – both those who buy and those who sell the gas Anchorage uses

The Fox's "Anchorage price collar" number is \$8.27/mcf . He calculated this number by assuming that he would move 102 Bcf/yr of gas from Prudhoe Bay to Livengood, then 72 Bcf/ yr from Livengood to Anchorage through a future 320 mile, 18" pipeline while moving up to 30 Bcf from Livengood to the Interior through his 12" line.

So what's his "Anchorage price collar" really worth? Well... from an Anchorage consumer's perspective, that depends on where the price of deeper gas will end up in several years. From the State's perspective, it would cost \$287 million to buy its Anchorage constituency this "insurance policy"

So why does the Arctic Fox call this an option? Because he already he will soon have everything in place to bring gas to the Interior through a 12" pipeline and deliver energy to the Interior at half today's cost

What does the Arctic Fox and its Option Look Like ?



The Summary of the Arctic Fox's Work on Alaskan Options and Prices

Assumptions

Current Cook Inlet Gas Demand	72 Bcf/Year
FPC Interior Gas Demand	19 Bcf/Year
FPC and Cook Inlet Gas Demand	91 Bcf/Year

Estimated Cost of Treated and Compressed Gas **\$4.22/mcf (Adder to all Cases Below)**

COS (Cost of Service or Tariff) Delivered		To Interior	To Cook Inlet
Case 1	FPC 12" Pipeline Stands Alone at 19 Bcf/yr	\$5.44/mcf	N/A
Case 1 – A	FPC 12" Pipeline Stands Alone at 30 Bcf/yr	\$3.43/mcf	N/A
Case 2	Install 18" Pipeline & Livengood Hub	\$9.02/mcf	(State buys-down final COS)
Case 2 - A	Install 18" Pipeline to Cook Interior	\$2.82/mcf	\$4.05/mcf
Total Cost of Bundled Gas (COS + Gas)			
Case 1	FPC 12" Pipeline Stands Alone at 19 Bcf/yr	\$9.66/mcf	N/A
Case 1 - A	FPC 12" Pipeline Stands Alone at 30 Bcf/yr	\$7.65/mcf	N/A
Case 2	Install 18" Pipeline & Livengood Hub	\$9.66/mcf	(State buys-down final COS)
Case 2 – A	The Cook Inlet Price Collar or 91 Bcf deliveries	\$7.04/mcf	\$8.27/mcf

So Who Will Own the Arctic Fox?

The Arctic Fox will be owned by FPC (the Fairbanks Pipeline Company)

FPC (the operating company) will be wholly owned by the Alaska Holding Company (the equity company)

The goal is to capitalize the Arctic Fox with 100% Alaskan equity (zero debt) by offering shares to:

- Alaskan Residents
- The State of Alaska Permanent Fund
- Alaskan companies hiring Alaskans and those making in-kind-contributions to the project
- The Fairbanks Pipeline Company's Industrial Load Centers (customers)

AHC plans to issue only common shares at \$100 per share

The Arctic Fox requires \$716,000,000 to build and start his operations (12" line @ 19 Bcf/yr to 30 Bcf/yr)

At \$100 par value, this transcribes into 7,160,000 total shares in the Alaska Holding Company

The State of Alaska Permanent Fund will first be given 515,520 (7.2% of total) shares in exchange for the State's in-kind contributions such as pipeline easements, environment al permits, geophysical, survey, and LIDAR data. This leaves 93% or 6,644,480 shares available to offer Alaskan residents and companies

The Alaska Holding Company will return dividends of \$11.07 per year, per share to its Alaskan owners

Par shares will be the currency basis for in-kind contributions issued as payments for services rendered by Alaskan companies participating in FPC's in-kind-contribution program (sweat-equity)

Share and Equity Distribution

Estimates below are based on the Stand Alone 12" Pipeline flowing at 19 Bcf/yr or 30 Bcf/yr

Total Capitalization/Equity = \$716,000,000 or 7,160,000 par shares

ESTIMATED PAR SHARE DISTRIBUTION AND SEQUENCE

1	State of Alaska Permanent Fund <i>(In exchange for the State's in-kind-contributions)</i>	<i>(up to)</i>	515,520
2	Companies purchasing FPC gas <i>(up to their % of gas nominated vs. FPC's total nominations)</i> <i>(purchased shares)</i>		1,771,158
3	Alaskan engineering, construction, logistics and financial companies <i>(shares purchased or earned through in-kind-contributions)</i>		1,698,800
4	Alaskan residents and companies hiring Alaskans <i>(purchased shares)</i>		3,174.522

Exporting Alaskan Gas at Fire-Sale Prices?

"History doesn't repeat itself, but it does rhyme"

"Never allow someone to be your priority while allowing yourself to be their option"