

Energia Cura / Fairbanks Pipeline Company

Quick Facts and Project Updates, December, 2010

1.0 FPC System Basics and Hydraulic/Economic Simulation Parameters

System Split Includes Primary and Secondary Transmission Segments

Primary Line-Pipe: 12" OD API 5LX, X-65 or X-72 grade depending on final flow regimen selected for primary transmission segments (single, dense, or two phase flows)

Traverse: From the CGF to North Pole - Roadside Dalton, Elliot & Richardson Highways

Secondary Line-Pipe: 5" x .250" WT, VHP, triplex coated coiled tubing flow-lines

Traverse: From Primary Outtakes to Load Centers - shared or discrete roadside and/or cross country

Average Line Pipe ΔP = < 1,350 psi across primary transmission, up to 495 psi at Client's curb

Compressor Station – None, assuming compression agreement with ANS Producers (in final gas cost)

Treatment Facilities – None, assuming specification grade gas (as adder to well head value)

NGL Transmission System Options to be Evaluated in Final System Design Criteria Review

1. Dense-Phase Flow Regimen from the CGF to North Pole
2. Two-Phase Flow Regimen from Atigun Pass south
3. Parallel installation of 5" x .250" VHP, triplex coated flow line in tight-liquid service

1.1 Potential for a Merged FPC/AGDC System (AGDC = ANS to Anchorage Bullet Line)

Primary Line-Pipe: API 5LX 18" OD & 10" OD API 5 LX, both X-65 grade

18" Traverse: From the CGF to Livengood - Roadside Dalton, Elliot Highways

10" Traverse: From Livengood to North Pole, Roadside Elliot and Richardson Highways

2.0 Construction Facts/Statistics

Lays: Three contractor assignments. One contractor to assume overall management of all three spread assignments.

Length of Primary Transmission Segment/s: 514 miles from the CGF to North Pole pending final design alignment

Start up: Mid 2014

Current Capex and Volume Spreads: Based on current simulations, \$709 - \$716 million for roadside installation of Primary Transmission System across 19 Bcf/yr COS spreads. Secondary Transmission Systems will carry discrete cost of service pricing allocations (will not be significant factor in the final bundled price due to their limited lengths and the economies associated with coiled flow lines. Final simulations will be completed at the end of this month after all volume nominations have been logged through the close of FPC's non-binding open season. The open season has been extended to meet with APSC, Villages and ADOT on NBOS to acknowledge interest and if interest exists, to determine final volumes. Potential APSC loads are large enough to significantly lower FPC's final COS (through additional spreads).

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3.0 FPC Service Model and Price Basis

FPC Bundled services = transportation and commodity to the curb per quality & pressure specifications.

Bundled Price = **COS** (cost of service), **plus** **CF** (commodity fundamental or purchase price of ANS Gas & NGLs

COS = Capital amortization **plus** operation and maintenance costs, **plus** 13.4% rate of return on 100% equity

CF = US Avg well head index **minus** discount for poor quality, **minus** sharing in the risk for installation of conduit to market, **plus** compression, **plus** treatment. This assumes that North Slope producers will install and operate compression and treatment facilities and then recapture their investment and required margins for assuming this risk through their commodity sales. The CAPEX (capital expenses) required for FPC to install these facilities or for the producers to modify their existing facilities is projected to be about equal, whether FPC or the producers construct them. FPC has adopted this strategy primarily to reduce its on-going OPEX (operating expenses). For FPC to locate operation and maintenance personnel and facilities on the North Slope would be very costly and redundant to what Producers have in place today. Significant savings to consumers, now estimated to be approximately **\$1.08/mcf** can be attained if ASN Producers leverage their resources to operate and maintain these facilities over the long term. This includes the margins they would rightfully expect to receive for underwriting this capital risk.

Our current **COS** (called a tariff on pipelines certificated under a public convenience model) is currently:

\$5.49/mcf at volume spreads of approximately **19 Bcf/year** on **12/6/10**

Note that our **COS** is expected to drop significantly once additional gas volumes are nominated by Eielson AFB, Alyeska Pipeline Service Company, and GVEA. Our open season has been extended in anticipation of securing these additional volumes by March, 2010. If not, FPC will move forward without these handsome nominations that can further depress .

CF negotiations with all three ANS gas producers commenced last September. Negotiations are expected to conclude in March, 2010, with contracts in hand to purchase natural gas and NGL commodities.

4.0 FHC/FPC Equity Model

No subsidies: FPC developments are being funded by Energia Cura. The State of Alaska has been offered an equity position in FHC (Fairbanks Holding Company) the “equity company”, parent of FPC (Fairbanks Pipeline Company) the “operating company”. Equity assignments for ADOT , ADEC, ADNR and ADOR participation in securing project easements and permits are capped at “**up to 7.2%**” of total project cost. The balance of FHC/FPC equity assignments are based on a two-tier approach:

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4.1 Tier 1 Equity and Future Earnings Assignments

State of Alaska - 7.2% ownership

This equity will be provided to the State in exchange for their in-kind contributions related to providing easements and obtaining the project's permits. Per FERC filings, the average cost for similar pipeline projects to obtain their right of ways and permits in 2009 represented 7.2% of their total project cost.

Load Centers - % TBD

Entities purchasing FPC's gas (such as GVEA, FNG, etc.) can nominate to purchase equity (ownership & future earnings of the pipeline company) **up to the proportion of their nominated gas volumes versus that of FPC's total nominated gas volumes**. For example, if GVEA represents 30% of total annual gas volumes, then it can acquire up to a 30% ownership position in FPC.

4.2 Tier 2 Equity and Future Earnings Assignments

FPC anticipates that Interior Load Centers cannot fill all available equity assignments without incurring debt service that both would dilute their earnings and leak monies out of State through interest payments on loaned monies. Consequently, Energia Cura is now working with **State Native Corporations and other Alaskan based companies** (in-State employers) to form a single cohesive investment entity that will invest through in-kind project contributions by their engineering and construction subsidiaries and by the more straightforward purchase of equity assignments.

4.3 Beyond Tier 2 Primary Assignments

While FPC's pipeline is a small-bore system, its length from the North Slope to the Interior unavoidably drives the preponderance of its project's capital requirements. These capital requirements are significant enough to challenge the cash portfolios of both Tier 1 and Tier 2 participants. Consequently, FPC's Phase II developments include a study into various organizational models including the formation of a public company (Fairbanks Holding Company) that may own the operating company (Fairbanks Pipeline Company). If this study shows promise, **State residents** may be able to participate over the counter in smaller proportions than feasible through a simple incorporated partnership model. This concept may require the review the US Securities Exchange Commission, State Department of Commerce, and possibly the State Attorney General's offices prior to its release in Phase III of FPC's project development. If an incorporated public corporation shows promise, it will be integrated by FPC into its Tier 2 capitalization assumptions and its future organizational development will be incorporated into FPC's Phase III development schedule. A public model will take more time and resources to organize than a simple incorporated partnership – quantifying this time and cost is included in the study.

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4.4 Equity/Debt Ratio Target

Project development objectives are to secure a 100-E/0-D ratio within the Fairbanks Holding Company. To maximize obtainable earnings and contain the velocity of monies in local circulation to the highest extent possible, all Tier 1 and Tier II equity nominees will be requested to purchase their equity assignments on either an in-kind contribution basis or form a cash position.

This project's authority does not extend into equity nominees' business models. As a result, funding equity assignments on a cash or in-kind contribution basis is beyond this project's control. The obvious result from acquiring debt to service equity assumptions is the reduction of the investment model's earnings potential as discounted for interest payments on loaned monies.

5.0 Organization

FHC = Fairbanks Holding Company = the parent equity company.

FPC = Fairbanks Pipeline Company = the operating company.

The operating company will return its standard rate of return to the holding company.

The holding company will return its earnings in proportion to its equity assignments via quarterly dividends under either case of its formation into a private or public incorporated model.

6.0 Project Socio-Economic Objectives

- 1) To put Alaska's ANS gas to best economical use today within State borders when market conditions do not feasibly allow its exportation for comparable gain.
- 2) To lower annual Alaskan household costs. At less than half the Interior's cost of energy today, gas delivered at \$10/mcf will lower Interior household spending of their pre-taxed retained earnings by close to \$2,000 per year. At currently nominated 19 Bcf/yr of gas volumes priced at \$10/mcf, avoided spending in the Interior will accrue to \$3.54 billion in 20-years. Assuming that only 58.5% of these savings will be passed on to consumers by the Interior's various load centers on average, approximately \$2.08 billion will be contained within local circulation. The velocity of these monies will add jobs, business opportunities, and generally improve the quality of life of State residents. Energia Cura will release further econometric data in FPC's forthcoming OBS Brochure based on socio-economic statistics published by the US Census, State of Alaska, UAA, UAF, Municipal, Borough, and other local institutions.

The suggestion for the State to deposit its FPC's equity and future earning assignments directly into the Permanent Fund distributes this wealth to as many Alaskans as possible. While benefits to Interior and rural residents will come primarily in the form of avoided costs, FPC's organizational model aims to assign all its equity and future earnings to Alaskans to optimize retention of these monies within State lines.

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While we agree that this suggestion may be seem presumptuous, Alaska's Constitutional Reserve Budget of \$12.3 billion compares favorably with California's \$13 billion budget shortfalls today. The State's sizeable savings account ranks best in the nation and offers our government an operating cushion for at least the next 13 years. Consequently, we point out that our presumption and beliefs are at the same time:

Practical

The Alaska Permanent Fund Corporation is already well equipped to purchase (or simply accept), and manage equity instruments as it does today.

Possible

Governor Parnell noted in this year's State of the State Address that our budget reserves are sufficient to "suspend the gas tax for two years" and cushion the State's operations "for at least the next 10 years". If Alaska can afford to give multinational corporations this type of break on gas royalties, it can certainly afford to put a portion of this wealth into its citizens' pockets, since most do have a ten-year reserve in their household budgets.

Purposeful

We believe that all Alaskans, not just those in the Interior, should benefit from Alaska's own use of its gas resources. No better way than in the Permanent fund and FPC's Tier I and II equity assignments. Saying it another way: **In Alaska, by Alaskans, for Alaskans today, not tomorrow.**

FPC's self-supporting business model lowers the barriers to entry for prospective In-State investments such as the proposed Livengood Mine. As demonstrated in the NBOS documents previously sent to your office, affordable In-State deliveries of ANS gas would lower this Mine's energy costs by about \$3/4 billion over its 20-year life. This mine can add jobs and monies in local circulation, collaterally adding more jobs and future enterprise.

7.0 Market Conditions and Project Socio-Economic Benefits

When FPC's pipeline system lowers energy prices closer to those in the lower 48, Energia Cura estimates that up to 28% of our current business enterprises can attain margins similar to their lower 48 analogues, supporting their continued existence and future growth potential.

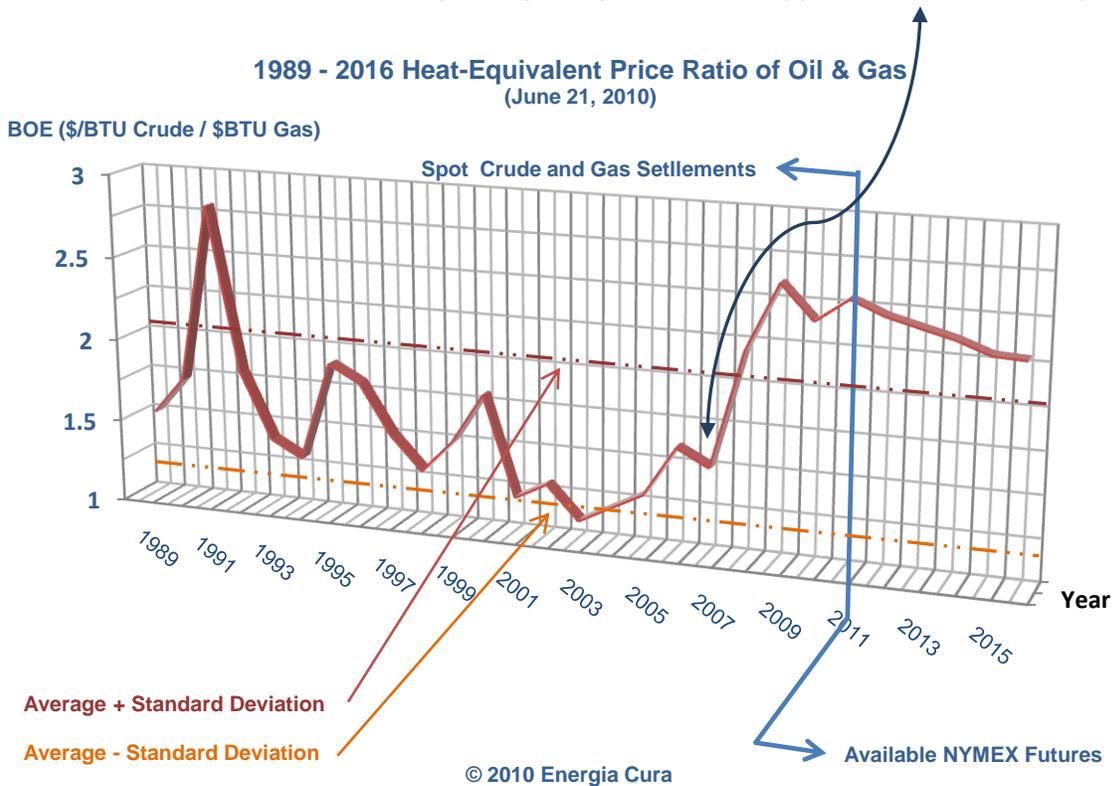
The intrinsic strengths of FPC's business model do not require or request State subsidies. Changes in US gas economies were not born yesterday or last year, but as early as 2006. The energy industry and its underlying economics are complex and while it may be unreasonable to assume that publicly available market intelligence may not be apparent to individuals outside the gas industry, one **could and should** assume that well-compensated experts should be keenly aware of the market factors affecting Alaska's wealth in resources. For example, the chart below was compiled last summer from readily available crude and gas commodity pricing information on the NYMEX website.

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Historical spot and futures shown in the graph are precise mathematical expressions that transcend opinion - expert or otherwise. Individuals entrusted to manage our State's wealth in resources should be at once, both cognizant and responsive to market indices that articulate and drive commodity values. Gas developments have ensued in our State for over 33 years and continue today. Turning a blind-eye to the reality of the market place will make these expensive studies and developments fundamentally infertile. See below:

Introduction of Shale Gas – Production still growing today as its cost dropped under \$3/Mcf this year



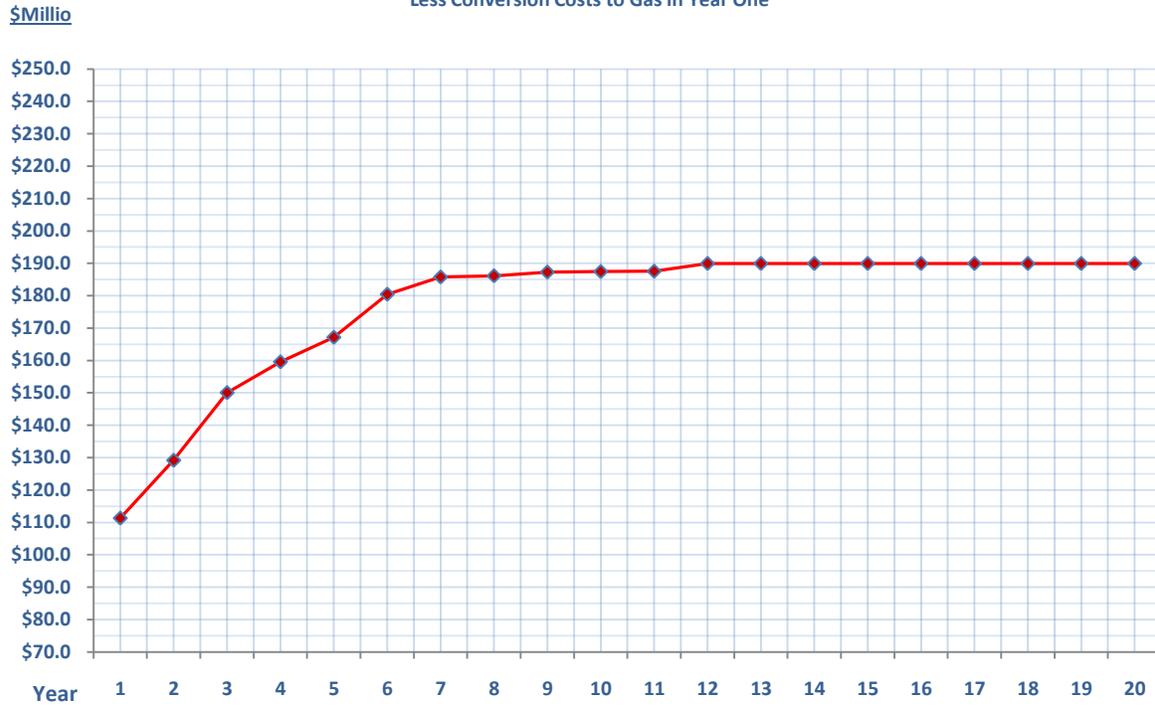
As markets continue to speak against grand gas exportation schemes, 1/6th of the State's residents are unnecessarily paying twice (on a wholesale basis) for their energy requirements. With 19 Bcf/yr of gas movements to Interior markets priced at < \$10/mcf FPC's gas line can infuse Alaska's economy with the \$2.08 - \$3.54 billion now crossing State lines for the Interior's purchased energy. See the charts on the next page illustrating both the yearly and cumulative potential to avoid these costs (\$3.54 billion) and to retain the velocity of these monies (\$2.08 billion) within local circulation.

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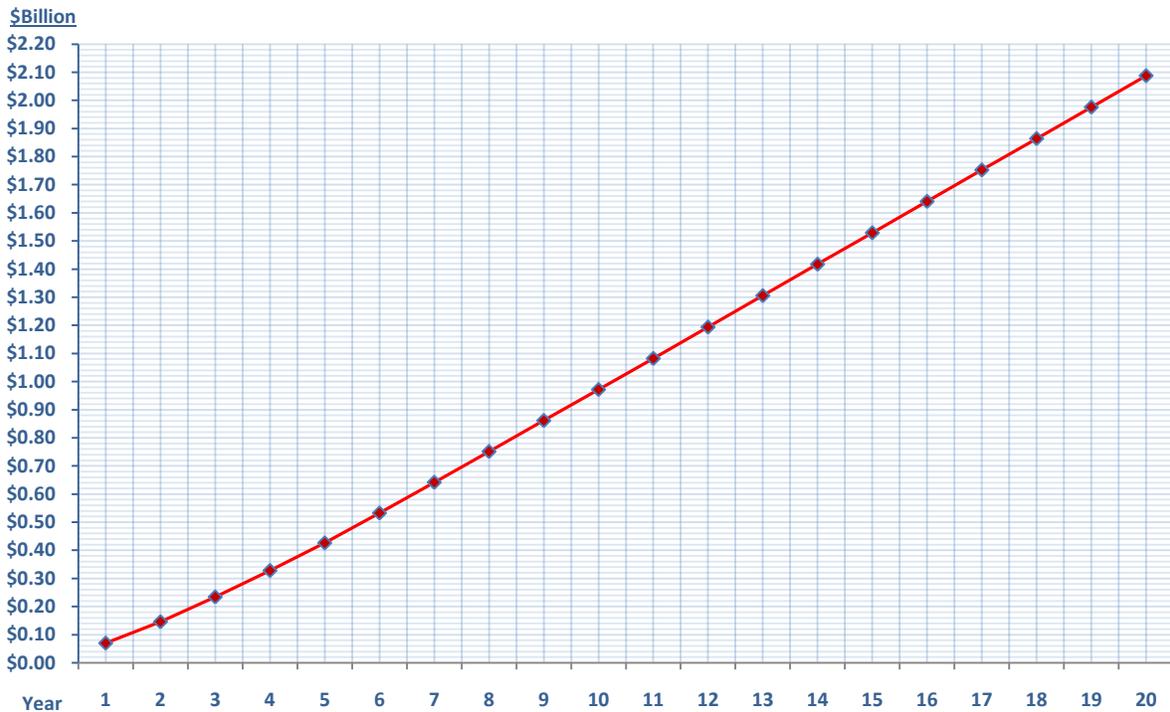
Total Avoided Costs to Alaskan Load Centers/Residents Per Year

Yearly Avoided Interior Energy Costs Based on 19 Bcf/yr FPC Gas Priced at \$10/mcf
Less Conversion Costs to Gas in Year One



Cumulative Economic Improvements Based on Load Centers Passing Only 58.5% of their Savings on to Consumers

Cumulative Avoided Interior Energy Costs Based on 19 Bcf/yr FPC Gas Price of \$10/mcf Less Conversion Costs to Gas in



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The negative impacts on the CI's future gas floor and ceiling prices posed by the availability of higher cost ANS gas from a marketing perspective (price escalation) are complex. However, a far simpler and more obvious argument exists. No matter if the State subsidizes the ANS gas fundamental or the pipeline for its delivery to the CI markets, the net effect is one of the same; the State's attainable retained wealth from development and sales of both CI and ANS gas may be compromised. Recent CI wholesale contracts and the awakening of E&P developments inspired by these contracts for production of CI's 18 Tcf remaining gas reserves is already old news. Even the most fundamental analysis shows that current CI gas volumes spread across \$7 - \$12 billion in capital recovery will both drive gas prices well beyond those now set in current wholesale contracts and reduce the State's net benefit from extraction and sales of these resources. The bullet line's current 24" proportions spells close to 70% excess capacity over current saleable CI demands, so its emplacement can only lead to the following results:

1. A significant increase in the CI's current gas fundamental floor & ceiling prices because marketers of new CI gas productions will use the highest cost alternative option as their opening and creep price targets.
2. Subsidized exportations of our valuable ANS gas resources while moving both CI and ANS gas reserves toward earlier depletion. The only gainful application for either CI or ANS resources in gas-phase today is through utilizing this gas for in State use, where it now provides salient value irrespective of the paradigm shift in today's common gas markets.

7.0 General and Market Reference Data

Past Average Alaska Residential Gas Price \$/mcf or mmBTU:

2004	\$4.88	2005	\$5.73	2006	\$6.84	2007	\$8.68
2008	\$8.72	2009	\$10.24				

Basis:	Primarily Anchorage, Recent FNG Interior peak price \$24/mcf
Recent GVEA naphtha Cost:	About \$19.78 energy equivalent price
Recent Retail Heating Oil Cost:	About \$21.43 energy equivalent price

FPC gas fundamental basis as the commodity component of bundled service - Average US Natural Gas Well-Head Price:

2002	\$2.95	2003	\$4.88	2004	\$5.46	2005	\$7.33
2006	\$6.39	2007	\$6.25	2008	\$7.96	2009	\$3.71
2010	\$2.67						

FPC Gas Source: State physical ANS royalty assignments and/or ANS Producers. Negotiations are in progress.

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December 7, 2010, Avg BOE Spot Spread (\$/mmBTU)

\$83.90/mmBTU Crude & \$19.78/mmBTU Gas
Or:
A 4.24 BOE crude premium to natural gas

December 7, 2010 BOE Future Spread (\$/mmBTU)

\$83.93/mmBTU Crude & \$22.50 mm/BTU Gas
Or:
A 3.73 BOE crude premium to natural gas

FPC Bundled Gas Cost at Current Volume Nominations

<\$10/mcf Delivered to Interior Load Centers

Please access page three of our December, 2010 [Market Watch](#) report for an explanation of the BOE factor and how it signifies the value balance in our current energy economies.

After December 15, 2010, please visit our website-in-development to access more detailed information on FPC's project by and for Alaskans. To access the website, please type [fairbankspipelinecompany](#) into your browser's address or query bar.

Note that the launch date for the website is December 15, 2010. It's target completion date is set for March 1, 2011. We welcome any assistance the community may provide in completing the website's development by reporting errata encountered or your general comments via return Email to:

FPC-NBOS.com.