

**Prepared Remarks of
Rick Adcock, Managing Director,
MWH Infrastructure Development, Inc.
to
The Joint Legislative Budget & Audit Committee
Alaska State Legislature**

Juneau – February 12, 2015

Mr. Chairman, Members of the Committee, thank you for the invitation to speak to you today.

My name is Rick Adcock, and I am Managing Director of MWH Infrastructure Development, Inc. MWH Global, our parent company, is a global engineering and construction firm. We have served Alaska for over 35 years, and our Anchorage office has 30 employees working on infrastructure and other projects throughout the State. Just over one year ago, AIDEA selected MWH as the Concessionaire to the Interior Energy Project (IEP), to develop and bring private financing to the Northern Gas Supply Plant (NGSP) project.

The State's investment in the IEP, through AIDEA, was intended to attract private-sector partners to finance and develop the supply and delivery of liquefied natural gas (LNG) from the North Slope to Interior Alaska. The expectation was that the State funds would be supplemented by private capital, and that the private sector would execute and operate the NGSP project on the North Slope.

Over the course of last year, we made significant progress toward the goal of delivering gas to the Interior in 2016. I will summarize our accomplishments in the next 15 minutes, but what you will hear is that:

- There is a large gas supply under contract and available to the project through GVEA, which can meet all expected long-term demand from the Fairbanks utilities, and which has significant additional capacity to meet new demand from other Interior communities, mines, the military, and other future Interior economic development activities.

- A highly-qualified, private-sector team was assembled to develop, finance, build, and operate the NGSP, in order to utilize that gas supply to produce LNG for delivery to Fairbanks.
- Other elements of the supply chain were under development in parallel, and most of the commercial contracts required for the overall project were either executed, or in advanced stages of development.
- The project is real and viable. MWH remains committed to this project and we are ready to pick up where we left off.

As of mid-December, we had assembled the pieces to meet the goal of delivering gas to Fairbanks in 2016. In addition to a signed Concession Agreement with AIDEA, we had achieved a joint venture to utilize GVEA's long-term gas supply agreement; an EPC contract; an operating and maintenance agreement; initial commitments, pending final due diligence, for over \$100 million of capital from institutional infrastructure fund managers; and nearly final terms for off-take agreements with GVEA and FNG.

Despite the progress on the project, it became clear that we would need an extension of the December 30, 2014 deadline for financial closing, in order to complete documentation on these arrangements and to allow our funding partners to complete their due diligence. An extension to March 31, 2015 would have been adequate for these purposes, and the extension would not have delayed first gas to Fairbanks in 2016.

On December 22, 2014, AIDEA informed us by letter that they were not prepared to extend the financial closing deadline under the Concession Agreement unless MWH agreed to certain new terms under that agreement. MWH and AIDEA did not reach agreement on these changes and the CA was terminated in January 5, 2015.

Now, I will turn to summarizing our private-sector approach over the last year to deliver the project on a schedule and at a cost aligned with the goals of the IEP.

The IEP was originally conceived of as a public-private partnership, or P3. In the P3 model, a single private entity is responsible for bringing together a team to provide the services needed to design, construct, finance, and operate a project. The public sponsor may retain certain traditional government functions like dealing with regulators, but the general purpose of a P3 is to enable the public sector to harness the expertise, resources, and efficiencies that the private sector can bring to the financing and delivery of projects like the IEP.

A key feature of any P3 project is the transfer of much of the risk generally taken by the public sector, over to the private entity. This is often accomplished through a concession that grants the private entity the right to perform what is typically a government function for a specified period.

On September 19, 2014, after seven months of negotiations, AIDEA and Northern Lights Energy, LLC (NLE), a subsidiary of MWH, entered into a Concession Agreement, which granted NLE the exclusive right to develop the NGSP project. The Concession Agreement did not, however, confer ownership of the project to NLE. Rather, it allowed for the exclusive use of the assets for 30 years, after which time the assets would revert to AIDEA control. Under the Concession Agreement, NLE agreed to contract for the design and construction of the plant, the operation and maintenance of the plant, and to source the private financing for the project.

The Concession Agreement was very prescriptive in how the private financing could be structured. Even though the project required well over \$100,000,000 in private capital, the Concession Agreement capped the amount of equity that could be invested at \$50,000,000, thereby creating the need for additional private debt. Moreover, equity returns were capped at 12.5% and, in the event this cap was exceeded, some of those additional returns would be used to lower the price of gas to the utilities.

In addition to the capped upside on its equity participation, NLE was required to bear considerable risk under the Concession Agreement. If the cost to construct the project exceeded the available overrun reserves, NLE would be required to pay the additional costs associated with completing the project. Also, all technical and financial risks of operation were to be borne by NLE.

Although the Concession Agreement granted NLE certain exclusive rights, it was not a monopoly. Alternative gas supplies, hydropower, and other competitive pressures would have constantly put NLE returns at risk. NLE also took financing risk because it would bear any increase in interest rates or insurance premiums. Finally, NLE assumed the credit risk of off-takers -- AIDEA did not backstop off-taker default risk, and the SETS subordination provided only limited protection.

So, NLE was willing to take a significant amount of risk that would normally be borne by AIDEA in a traditional procurement, including completion risk, financing risk, operations risk, competition risk, and credit risk. However, the project was not without some risk to AIDEA, including the risk of a State-sponsored alternative gas supply, the risk of repayment of the SETs funds by subordinating them to the equity, permitting risks, and site risks.

In delivering the project, MWH assembled a committed team of more than 40 professionals to execute the IEP, including partners and consultants who are recognized experts in the commercial, legal, financial, and technical aspects of the project. In order to facilitate decision making, throughout the project we worked very closely with AIDEA management, staff, and technical advisors by coordinating and collaborating on project activities on a daily basis.

Developing a successful project required clarity around, and confidence in, the cost of a safe, efficient, and well-constructed North Slope plant. The EPC contractor activities associated with developing a cost estimate are typically a closed-door process performed in support of competitive or lump-sum bid proposals, but MWH and AIDEA requested an open-book approach by our contractor. In

a demonstration of commitment to the project, our contractor accepted this higher level of scrutiny on their estimating process, opening their doors to AIDEA, MWH, and their corresponding technical teams.

During the period from June through December 2014, the EPC contractor worked diligently with MWH and AIDEA staff to define and refine the project. The construction cost estimate and plant configuration process included working sessions to evaluate scope, demand, project assumptions, technical needs, logistics, detailed equipment specifications, and costs. From the onset of the project, the EPC contractor hosted weekly coordination calls and working sessions, which included participants from AIDEA and their technical advisors, MWH and their technical advisors, operations specialists, and third-party estimate reviewers.

At the conclusion of this effort, MWH had confidence in the configuration of the project and pad, and in the cost estimate that was developed. The estimating process was reviewed by a third-party entity with 30 years of experience estimating oil and gas projects on the North Slope. Their summary report of findings indicated that the estimate basis utilized by our EPC contractor was sound.

The development of the project site on the North Slope was included as a scope of work to be executed by the EPC contractor under a cost-reimbursable contract to AIDEA. The contractor completed pre-work on the North Slope pad in September 2014. All permits necessary to support the pad construction were obtained by AIDEA.

Engaging, informing, and securing commitment from the key Fairbanks off-takers was another critical step in developing the project. Throughout 2014, MWH met regularly with the three Fairbanks utilities: FNG, IGU, and GVEA. The Concession Agreement identified those utilities as *Preferred Customers*, and granted priority of supply in accordance with North Slope LNG availability. Frequently, MWH scheduled meetings in Fairbanks to apprise the utilities of our progress, solicit input on the project, discuss off-take contract structures, review demand curves, and generally assess the developing IEP supply chain. The project required ongoing participation and contributions from the utilities, and

MWH established a collaborative environment where all could engage constructively, even though the utilities have very different business models.

MWH developed a real project. There was, and is, a deep understanding of the site, the plant, the market, and the costs. We have a project that can deliver natural gas from the North Slope at a competitive price, significantly reducing the cost of energy in the Interior.

MWH and GVEA were partners in the development of the North Slope LNG project. The terms of our joint venture agreement provided for (1) making natural gas for the NGSP available through GVEA's existing gas supply agreement with a North Slope producer, and (2) ongoing marketing of gas to the Interior utilities on a preferred basis, as well as to other Interior users.

The existing gas supply agreement originally allowed GVEA to serve as the aggregator of Interior natural gas demand. The contract contains numerous attractive terms for a utility gas supply, including the contract length, an attractive raw gas price, the security that comes from an abundant supply of natural gas, proximity of gas infrastructure to the LNG plant, and a large volume available for purchase to meet future Interior energy demand. The contract is a logical and compelling natural gas source for the Interior Energy Project, because it is a secure and adequate gas supply to cover the requirements of the initial project, as well as several plant expansions, at an attractive price. GVEA had stated its willingness to provide gas to the utilities with no markup, other than to cover general administrative costs, and the cost of obtaining the original gas contract. These costs would amount to a few pennies per Mcf in the delivered price of gas.

As part of our development efforts, MWH met with many other potential off-takers, including industrial entities, mining companies, institutions, and military bases. Most expressed sincere interest in seeing the project successfully completed, so that they would have the fuel option of natural gas in Interior Alaska. Preliminary findings suggest a longer-term market for natural gas that far exceeds the

supply provided by the initial 6 Bcf plant production capacity. The NGSP would not only provide energy to these consumers, but the Concession Agreement required that a percentage of the profits from these non-utility sales be used to reduce the cost of LNG sold to the preferred utilities: IGU, FNG, and GVEA.

By mid-December 2014, our team had a high degree of LNG cost certainty. We had advanced the NGSP from a study-level concept and cost estimate, well into the design phase with site plans, process & instrumentation diagrams, and bid quotations on major pieces of equipment. These, in turn, led to a cost estimate and firm construction schedule by the EPC contractor. The team had achieved substantial agreement on the terms and conditions of a guaranteed maximum-price EPC contract.

NLE awarded an operations and maintenance contract for the NGSP, and executed the joint development agreement with our investor partner to provide over \$100 million of private investment capital for the NGSP.

After several months of discussions, our team confirmed LNG demand estimates with the Fairbanks utilities. We had agreement, in principle, subject to board approval, for an off-take agreement with GVEA and, with similar conditions, for an agreement with FNG that met its forecast demand.

MWH worked in close collaboration with GVEA, FNG, and IGU to analyze and assess storage and trucking costs in an effort to reduce uncertainty around other supply chain costs. AIDEA's proposal to provide \$10M in grant funding to a utility trucking consortium helped to lower those costs further.

As a result of this effort by our team and partners, NLE was able to offer agreements to the three Fairbanks utilities to supply LNG, delivered to Fairbanks, at a preliminary price in the range of \$13 per Mcf. Though some areas of cost uncertainty remained, NLE was confident in the numbers presented.

We continue to maintain our interest in moving forward with our work on the IEP, and we have indicated this to AIDEA on several occasions. We believe that the work performed over the last year demonstrates that LNG can be delivered from the North Slope at a price that can address the Interior's economic challenges resulting from the high cost of energy.

Natural gas resources on the North Slope can be procured at prices that are well below the reported prices available from other sources. The total amount of gas available through the existing North Slope contract that would supply the NGSP is more than adequate to meet the Interior's energy needs for years to come. Interior utility customers, as well as industrial users, would have long-term access to affordable LNG, in quantities sufficient to support investments in the Interior's economic growth. And, the region's air quality would benefit greatly from substitution of natural gas for the fuels that are currently used.

At this point, the North Slope option for supplying LNG to the Interior has been thoroughly assessed. Once the Administration and the Legislature investigate the other alternatives just as thoroughly, if the North Slope option is found to be the best option for delivering affordable energy to the Interior, then the private-sector team led by MWH stands ready to revive the project.

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