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Via email to: Representative.Mike.Hawker@akleg.gov

Representative Mike Hawker, Chair LBA
State Capitol Room 502
Juneau, Alaska 99801

Chairman Hawker:

On behalf of WesPac Midstream LLC (WesPac), I am pleased to take this opportunity to share with you background on WesPac, as well as its plans to distribute Alaska gas to Alaskans.

Background

WesPac is a midstream development company owned principally by a private equity investment fund sponsored and managed by Highstar Capital (Highstar), an infrastructure investment firm with expertise in energy project development. Highstar is wholly-owned by Oaktree Capital Management, L.P. (Oaktree), a global investment management firm with more than \$90 billion in diversified assets under management, and considerable experience in the energy industry. The Boards of Directors at Highstar and Oaktree are enthusiastic backers of WesPac's Alaska LNG initiative, and, as described herein, WesPac, Highstar and Oaktree (collectively, WesPac) have made significant progress towards establishing a commercial project. In the coming months, WesPac will move vigorously to secure a market for its Cook Inlet gas and begin construction of its plant to facilitate future sales of Alaska gas into various Alaska markets.

WesPac specializes in developing small to mid-size liquefaction plants, and delivering LNG to customers with unique gas supply needs. For example, among other projects, WesPac is developing the first LNG project in North America dedicated to serving marine markets in Jacksonville, Florida, and is the exclusive LNG supplier for TOTE's vessels operating between Jacksonville and Puerto Rico. WesPac also is a partner in the expansion at Fortis BC's Tilbury plant in Vancouver BC, which is the only LNG plant in construction on the west coast capable of meeting the unique demands of customers in the Pacific Northwest and Hawaii, and WesPac will supply LNG from its Tilbury plant to West Coast markets.

WesPac first came to Alaska in 2012 to evaluate the possible import of LNG to meet the Long Term Gas Supply group's projected need for new gas in South-central Alaska in light of what was then thought by many to be depleted gas resources in the Cook Inlet. WesPac was intrigued with the possibilities for establishing an LNG facility in Alaska, as the markets in the state share the same characteristics of other North American markets WesPac serves with its small to mid-size LNG projects. Specifically, outside of markets in South-central Alaska, WesPac plans to use ISO containers (moved by marine vessel, rail or truck) and/or built-for-purpose barges to deliver market-appropriate gas volumes to communities across Alaska, whether that might be the relatively larger volumes of LNG required to meet demand in Juneau or Unalaska, or the smaller volumes required in rural communities along the coast in the Bering Sea and Southeast Alaska. WesPac's model also is ideal for meeting the demands of remote industrial users. The flexibility, reliability, and cost effectiveness associated with ISO container and/or barge delivery ensures a safe and low cost LNG supply.

While WesPac initially envisioned importing LNG from the Tilbury plant as a bridge supply until new investment in Cook Inlet gas exploration and development programs developed additional gas reserves, few people anticipated how quickly new Cook Inlet gas reserves would be identified. To the State's credit, tax incentives implemented by the Legislature served their intended goal and brought significant new investment from independent oil and gas companies to the Cook Inlet basin, which resulted in the discovery of significant new gas reserves.

As independent oil and gas companies identified additional gas reserves in the Cook Inlet basin over the last several years, WesPac adapted its business plan to supply markets across Alaska using Cook Inlet gas. As described below, WesPac is now partnering with Cook Inlet gas producers to supply its Port MacKenzie LNG facility, which will establish WesPac as the only entity on the West coast of the United States with the ability to source LNG from two locations both uniquely situated to serve Alaska markets (both urban and rural) with the most reliable and lowest cost gas.

Port MacKenzie LNG Facility

WesPac is currently in advanced negotiations to lease lands in the Port MacKenzie (Port) area owned by the Matanuska-Susitna Borough (MSB). WesPac intends to develop, own and operate a small to mid-scale LNG facility, and utilize common cargo transfer areas operated by the Port. The LNG facility may include all of the equipment necessary for gas processing, refrigeration, cryogenic operations, distribution, transfer, power generation and materials necessary to liquefy, store, regasify and deliver LNG and/or natural gas by truck, rail and marine vessel. The lease will include the use of storage yards and dock facilities to load and transfer LNG cargo onto marine vessels, and loading areas to transfer cargo onto rail cars and trucks for rail transport.

The proposed project will require significant upland acreage for the LNG facility and additional easements for a natural gas pipeline, power lines, cargo loading areas, power generation and fill material. The LNG facility will be capable of liquefying up to ~20 million cubic feet per day (MMCFD) of produced natural gas, and producing up to ~250,000 gallons per day (GPD) of LNG. The development will also include the construction of a 2.5 million gallon LNG storage tank, ISO container storage and loading areas. Subject to market interest, WesPac may add a LNG revaporization unit to deliver gas on peak sendout days to utilities and other end users with access to the existing Cook Inlet gas pipeline infrastructure.

Natural gas feedstock would be delivered to the LNG facility by a new natural gas pipeline interconnected to the existing 20-inch high pressure pipeline operated by ENSTAR on the west side of the Cook Inlet. Feedstock natural gas would be supplied by one or more Cook Inlet gas producers.

WesPac conducted appropriate fatal flaw analyses and believes that the Port MacKenzie site is suitable for an LNG facility. Fatal flaw analyses completed to date includes high-level land management and right-of-way review, vapor dispersion, geotechnical, land remediation, ice, marine and dock evaluations. WesPac will work with the U.S. Army Corps of Engineers, the U.S. Department of Transportation Office of Petroleum and Hazardous Materials Safety Administration, the MSB, the Port Authority, local permitting agencies, the State of Alaska and others to finalize the fatal flaw evaluation of the site as an LNG facility prior to making contract commitments and a final investment decision.

To date, WesPac has not engaged a construction firm to perform a full FEED analysis, which is largely unneeded until WesPac has secured a firm off take agreement for LNG. WesPac also has not engaged an EPC contractor, which, I understand, is something for which we have been criticized and has been used to suggest that this project is not real. On that point, I note that WesPac has ongoing working construction contractors and EPC activities at its Tilbury, and Jacksonville, LNG facilities. In fact, today, **WesPac is working with three EPC contractors** at various projects around the country, each of whom is currently constructing LNG projects in North America. WesPac is leveraging its experience on in-process

LNG development projects around North America as the basis for the delivered cost estimates that it has provided to AIDEA/AEA, Interior utilities, and other potential customers in Alaska. WesPac is highly confident in our estimates and is willing to stand behind them in binding commercial contracts.

WesPac will be a major owner of ISO containers given the breadth of the remote markets it will be serving in the continental United States, Alaska, the Caribbean, and Hawaii. As a result, WesPac engaged five ISO container manufacturers and foresees no significant issues in the design, use or transport of ISO containers by truck, rail or vessel. WesPac understands that ISO containers require some specialized adaptation depending on the final use and delivery method. WesPac, however, has the requisite experience in the application of the different ISO technologies and configurations, including intermodal transport, manifold systems, bunkering applications, truck loading and dispensing, among other considerations, to make this work for the Alaska market. WesPac has also been working with the Alaska Railroad to evaluate options for transporting ISO containers by rail, and has been assured that all Federal Railroad Administration approvals can be secured in a timely fashion.

To date, WesPac, without State subsidies or support, has made substantial investment on siting, permitting, engineering, environmental mitigation and market development in Alaska.

BlueCrest/WesPac Commercial Arrangement

BlueCrest Energy Inc. (BlueCrest) and WesPac (together, Cosmo Partners), have entered into an agreement (Agreement) to jointly develop the substantial proven gas reserves at the Cosmopolitan field near Anchor Point, Alaska (Cosmo Field). Under the terms outlined in the parties' agreement, BlueCrest is the designated operator of the field and WesPac will fund development of the offshore gas resources, including the drilling of wells and the construction of offshore platforms and pipelines.

The Cosmo Partners plan to begin drilling the first of 11 new wells in 2015, and place into service a new monopod platform capable of delivering 30,000 MMBtu/day to the market by 2017. A second monopod platform with a combined sendout rate of not less than 60,000 MMBtu/day is planned by 2019.

The lead times and capital expenditures necessary to drill, construct platforms and connect pipeline infrastructure are contingent on having a working relationship with a creditworthy buyer.

WesPac's Business Proposition

WesPac's believes its 250,000 GPD LNG facility at Port MacKenzie is ideally situated to serve Alaska markets. Since 2012, WesPac has spent considerable time and resources evaluating the feasibility of delivering LNG via truck, rail and marine vessel to coastal and rural communities throughout Alaska. WesPac, free of state subsidies, has also conducted power studies to analyze the costs of converting power plants and it has held workshops and met with utilities, industrial users, and state and local government officials from such communities as Ketchikan, Juneau, Yakutat, Cordova, Valdez, Seward, Nikiski, Anchorage, Mat-Su, Fairbanks, Kotzebue, Bethel, Naknek, Dillingham, East Aleutians Borough, Kodiak, and Unalaska to explain the costs savings associated with LNG deliveries. WesPac has also spent considerable time briefing AIDEA and the Alaska Energy Authority to assist their understanding of the costs and challenges associated with using LNG to displace diesel in rural and coastal Alaska.

In sum, WesPac has the capital, expertise, and wherewithal to bring the discrete parts of a successful LNG project together: supply, liquefaction, transportation, storage, regasification, distribution, and conversion. If the state's objective is to deliver the lowest cost energy to customers, WesPac believes that the private sector should cover liquefaction and transportation costs and absorb merchant risk, while the state deploys its limited capital to infrastructure that directly interfaces with Alaska end-users such as distribution pipelines to homes. To this end, WesPac is poised to deliver, free of state subsidies, low-cost

LNG to Alaska markets by mid-2017 and is willing to work with any and all interested parties to find the optimal capital, project, and delivery solutions.

WesPac would be pleased to provide the committee more specific information related to its Alaska projects and continuing this discussion in the coming weeks.

Sincerely,



Brad Barnds
Senior Vice President

cc: President of the Senate Meyer
Speaker of the House Chenault