



BUILDING A BETTER WORLD

December 30, 2014

Mr. Ted Leonard
Executive Director
Alaska Industrial Development and Export Authority
813 West Northern Lights Boulevard
Anchorage, AK 99503

By email: TLeonard@aidea.org

Dear Mr. Leonard:

Thank you for your letter of December 22, 2014 regarding AIDEA's desire to reach financial close by December 30, 2014 and setting forth conditions for granting a one-time 90-day extension of the Concession Agreement for the development of the Northern Gas Supply Plant (NGSP). The following is our response.

First, we believe it is important to recognize the progress that has been achieved. Since being selected by AIDEA to undertake development of the NGSP in January 2014, MWH has developed the NGSP to within 90 days of financial closing. Our thoroughly vetted capital cost estimates resulted in an LNG price at the North Slope -- the pricing reference point established under the Concession Agreement -- which was within the acceptable pricing range for the Interior Energy Project (IEP) as described to us by AIDEA. Most importantly, the NGSP LNG price is lower than alternative LNG prices from Cook Inlet, where an LNG supply source adequate to meet projected gas consumption in the Interior has not yet been developed. Additionally, alternative supplies from Cook Inlet, if they ever materialize at levels to meet Interior demand, are not subject to the preferential pricing to the utilities that is required of the NGSP by the Concession Agreement.

The major development milestones achieved to-date by our subsidiary, Northern Lights Energy, include:

- confirmation of demand estimates from the three primary Fairbanks utility customers;
- agreement in principle, subject to Board approval, of a tolling services agreement with Golden Valley Electric Association (GVEA) to serve as anchor tenant for the NGSP at volumes which make it commercially viable, and a tolling services agreement with Fairbanks Natural Gas (FNG) that meets its forecasted demand;
- identification of a large group of secondary customers who would benefit from the LNG produced by the NGSP, thereby contributing to the economy of the Interior and improving the performance of the NGSP to the benefit of all consumers;
- optimization of the size and configuration of the NGSP, and integration of the other components of the IEP supply chain;
- advancement of the NGSP from a study-level concept and cost estimate well into the design phase, with 3-D modeling and development of 68 design drawings, including site plans and process & instrumentation diagrams. This design has been used to support construction planning

and vendor RFP development with subsequent bid quotations on major pieces of equipment, all leading to our EPC contractor's cost estimate and a construction schedule for first gas by September 30, 2016;

- value-engineering of the NGSP design by a team that included independent engineering reviewers from MEI (retained by AIDEA) and NANA WorleyParsons (under subcontract to MWH), and thorough evaluation of the cost estimate by Turner & Townsend Larkspur, specialists in cost analysis on North Slope projects, thereby validating the design and cost estimate prepared by our EPC contractor;
- substantial agreement with our EPC contractor on the terms and conditions of a target price, contingencies, and guaranteed maximum price for the engineering, procurement and construction contract;
- completion of preparatory site work on the 15-acre pad on the North Slope;
- substantial agreement on the terms of a gas supply joint venture between MWH and GVEA to use the existing gas supply agreement between BP and GVEA for the NGSP;
- award of an operations and maintenance contract to TDX Power, an Alaska Native Corporation subsidiary, that will provide jobs to the North Slope Borough; and
- execution of a joint development agreement with our equity partner, an infrastructure investment fund, providing for approximately \$170 million of private debt and equity investment capital for the NGSP.

AIDEA representatives have been kept apprised of all of these key project development activities on a current basis, and in many cases AIDEA representatives have participated in negotiations and provided feedback on open issues with Northern Lights Energy's counterparties.

As a result of this effort, we offered agreements to the three Fairbanks utilities to supply LNG in 2016 at a preliminary price of around \$13 to Fairbanks – a price that is lower than alternative LNG supplies which have not yet been developed, and lower in cost than the equivalent amount of energy provided by fuel oil. All of this progress has been made possible by the investment of several million dollars by AIDEA and a similar sized at-risk investment by MWH. The bottom line is that Northern Lights Energy's NGSP project is on track for a successful financial close and can meet the energy needs of Fairbanks and the Interior.

Despite this progress and effort, financial close will not occur by today, December 30, 2014, as called for in the Concession Agreement. In an effort to preserve the substantial value that MWH's development activities have created and to continue advancing the project, I sent an email to AIDEA Board Chairman Dana Pruhs stating our intention to request an extension at the December 16, 2014 AIDEA Board meeting. At that time, we believed the NGSP was on a path that would lead to financial closing during the first quarter of 2015 and -- based on verbal discussions -- that the utilities supported the extension request.

However, during AIDEA's Board meeting of December 16, 2014, comments from the public and the utilities indicated that there is not a community or political consensus on the current direction and structure of the NGSP. In particular, there were criticisms of the costs associated with plant construction and private sector participation in the IEP. We understand from your letter of December 22, 2014 that support from all three Fairbanks utilities is both an AIDEA desire and a political imperative for the project to move forward.

Moreover, your letter of December 22, 2014 rejected an extension request and laid out a list of conditions that would need to be met before AIDEA would consider an extension. In our view, these conditions

discourage further at-risk development by MWH because, among other things, the lack of exclusivity and the inability to enforce remedies under the Concession Agreement would allow AIDEA to unilaterally block the NGSP at their sole discretion, and would make securing private funding all but impossible. These conditions would undermine the commercial integrity of the Concession Agreement and make it impossible for MWH and other counterparties to undertake the commercial activities that are necessary for financial close.

As a consequence of the positions stated during the December 16, 2014 AIDEA Board meeting, our EPC contractor has advised us that, because of the political risk facing the NGSP and the uncertainty over whether continued design and procurement funding will be authorized by AIDEA, they are archiving their design work and reassigning their engineering team. Their major equipment vendors have advised that failure to proceed in a timely manner will result in cost increases, as well as delays in the schedule commitments they provided in November and early December that would have allowed for first gas to reach the Interior by 2016.

Given the lack of a utility consensus on the direction of the IEP, the conditions of your December 22, 2014 letter, and the stand-down by our EPC contractor, we are withdrawing our request to extend the deadline for financial closing under the Concession Agreement.

As outlined above, significant progress has been made in addressing the energy needs of Fairbanks and the Interior. The concerns raised by some constituents during the December 16, 2014 AIDEA Board meeting call into question the basic configuration of this project as a concession and public-private-partnership. Without the involvement of MWH, the momentum of the NGSP will stall with no clearly defined driver and path forward. In order for MWH and our debt and equity financing partners to go forward, AIDEA needs to reaffirm its position on the role of the private sector in the IEP in light of the lack of united support from the Fairbanks utilities. MWH and our project finance partners are businesses and therefore cannot invest development capital unless there is both a reasonable expectation of a return on that investment, and assurance that the project enjoys the necessary community and political support to be successful.

If AIDEA remains committed to a private sector concessionaire as the builder and operator of the NSGP, which is a cornerstone of the IEP, then MWH, through our subsidiary and concessionaire Northern Lights Energy, will continue to work towards financial close of the project, which may now take longer than 90 days due to our EPC contractor standing-down from the project.

However, if AIDEA wishes to terminate the concession and pursue the project using only public funding sources, then MWH will continue to cooperate with AIDEA to support that process and will make the work products of Northern Lights Energy available for appropriate and fair compensation.

It would be helpful to discuss, in the next day or two, how we move forward with this decision and/or financial close.

Sincerely,
MWH Americas, Inc.



Chris Brown, Vice President & Alaska Regional Manager

cc: Cory Borgeson, GVEA
Mark Davis, AIDEA