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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

July 17, 2009

Alaska State Legislature
Alaska State Capitol
Juneau, AK 99801

Dear Alaska Legislators:

In accordance with the legislative intent language of Section 19 of SCS CS HB113(FIN) directing me to submit monthly written reports to all legislators, this is the second monthly report on the evaluation and development of an in-state natural gas pipeline. I hope these short summaries are helpful and I certainly welcome any calls or e-mails with requests for additional information.

Much of the activity in June focused on the commercial working group's first meeting. Two dozen representatives - BP, ConocoPhillips, ExxonMobil, Anadarko, Chugach Electric Association, Golden Valley Electric Association, Agrium, Enstar, Barrick Gold Corporation and contractors and subcontractors on this effort - met for two days in Anchorage to review the project.

Baker, a worldwide engineering firm with offices in Anchorage, is the lead contractor for the evaluation and assessment project. The commercial working group listed the questions, the known and missing information, and the research and analysis needed to define the project. Work assignments were handed out with a schedule determining the order of the pieces for the project to proceed on schedule.

The work breaks down into several categories for planning and analysis - the pipeline and compressors along the route, the North Slope gas conditioning plant, other necessary North Slope infrastructure, a natural gas liquids extraction plant, permitting, Fairbanks and Interior Alaska needs, Southcentral customers (utilities and industry), other possible users around the state, and alternatives - to meet Alaska's natural gas needs.

This state-funded effort will prepare an estimate for the cost of moving gas down the pipe (pipeline tariff), not the cost of gas to consumers. That final cost will depend on the cost of production, distribution charges and market issues, all outside of this assessment.

Our work continues to focus on three principal aspects of the project: Define the project, determine the demand for gas, and calculate the cost of service (tariff) for the pipeline.

The project drivers are a stable, affordable energy supply for businesses, residential customers and to promote economic growth.

Baker is managing the work on the pipeline alternative route analysis, in addition to construction cost estimates for the project. The focus of their work will be to identify the capital cost of each option and the potential customers, in addition to potential environmental impacts. I expect to have cost comparisons and analysis by this fall of the two pipeline routes for moving North Slope gas south — the Parks Highway or Glenn Highway — so that a decision can be made on which route is best for the project and the people of Alaska.

Baker is working under a cost-plus fixed-fee contract, not to exceed \$5 million. Payments to Baker were not included in June totals. These costs will be reflected in the July report.

The environmental services contract was awarded in June to ASRC, on a cost-plus basis not to exceed \$2 million. ASRC's role will be to gather environmental data in support of the EIS process for the pipeline right-of-way application, looking at both the Glenn and Parks highway routes. The contract started in June; payments will be reflected in the July report.

Administrative costs for June were \$19,419; year to date they total \$98,621. Other work last month included:

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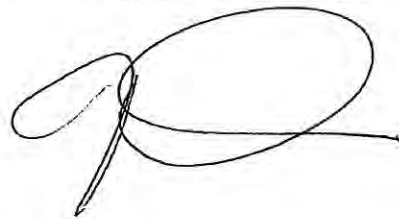
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- Meetings with the federal lead agency (U.S. Army Corps of Engineers) to discuss how the permitting process would proceed.
- Planning work started on the option of a pipeline extension to the west to potentially serve the Donlin Creek mine.

The work program for July includes detailed review of a potential pipeline route around Denali National Park, completing a draft of the alternative routing analysis, a field trip with key state and federal agency personnel to plan permitting of the project, and starting site selection and analysis for the gas conditioning plant on the North Slope and also for a natural gas liquids extraction plant at tidewater. In addition, we will obtain mapping for a routing study of the pipeline to western Alaska

A long-term natural gas supply is important to Alaska and I appreciate your support as we move forward make this project a success. Please call on me if I can provide any additional information as we work toward answering that one big question for Alaskans.

Sincerely,

A handwritten signature in black ink, appearing to read 'H. Noah', with a large, stylized loop at the end.

Harry Noah
Project Manager
Alaska In-state Natural Gasline