

# Alaska Industrial Development and Export Authority

**Overview of Interior Energy Project and Potential  
Purchase of Pentex Alaska Natural Gas Company, LLC**

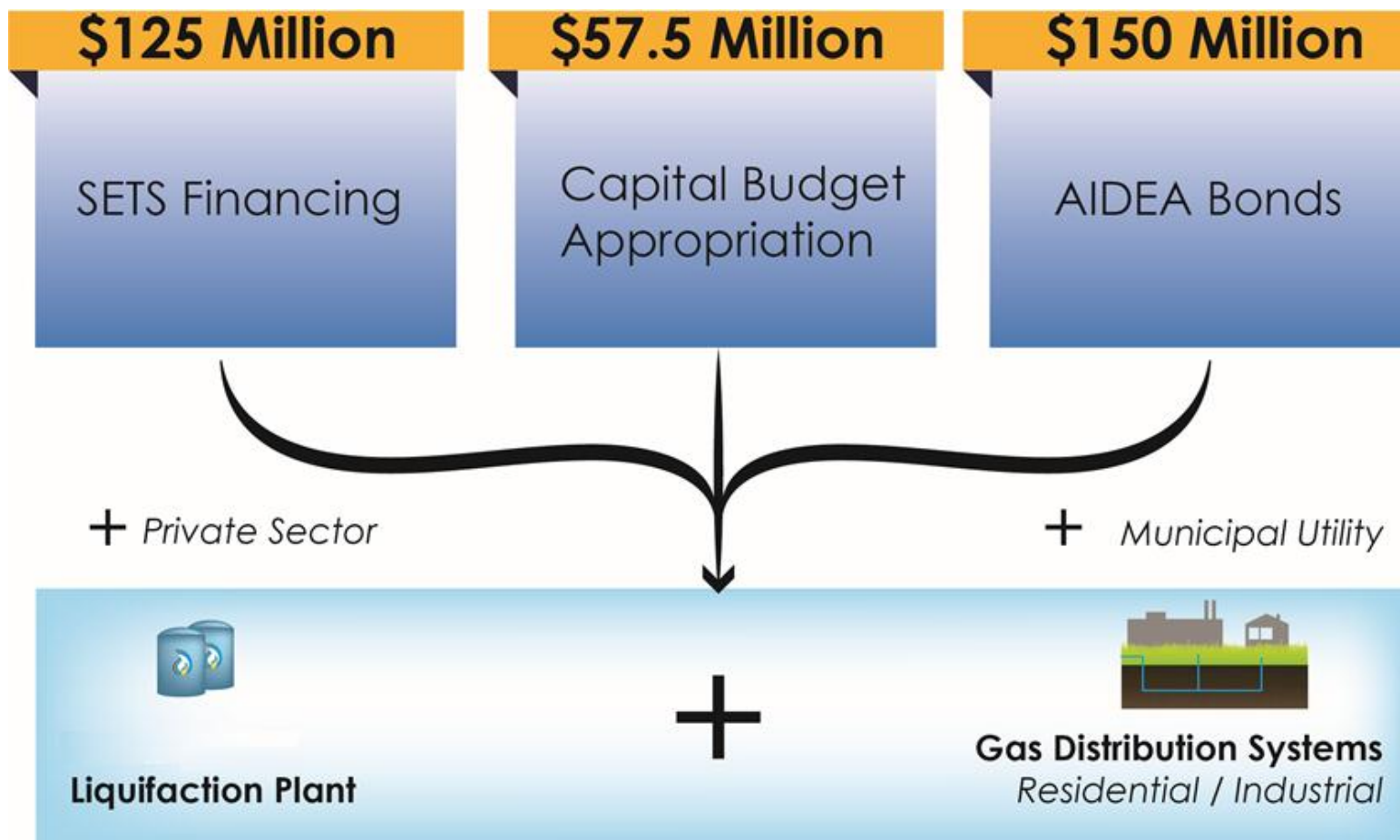
**Senate Special Committee on Energy**

**February 5, 2015**

# IEP Goals

- Supply natural gas to Interior Alaska:
  - At the lowest cost possible
  - As many Alaska customers as possible
  - As soon as possible
- IEP investments compliment alternative sources of gas supply from a natural gas pipe line
- Lower PM2.5 in nonattainment areas of Interior

# SB23 Finance Package



# Interior Energy Project: Full Supply Chain Focus

Natural Gas  
Supply and  
Liquefaction



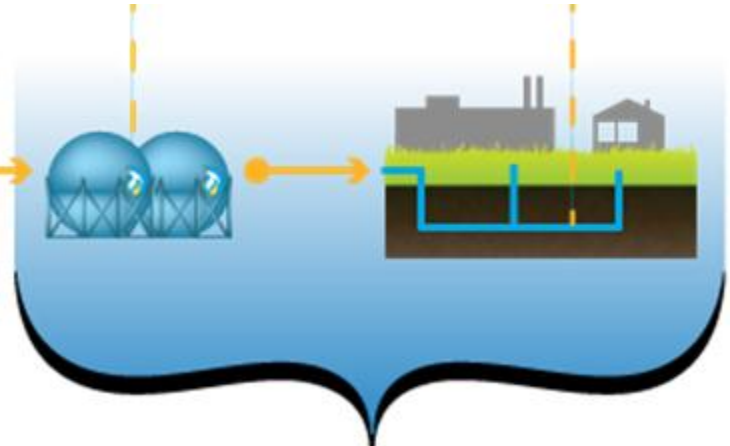
AIDEA and  
Private  
Industry

Transportation:  
Trucking or  
Railroad



Private Trucking  
Contractors or  
Alaska Railroad

LNG Storage  
and  
Regasification



Interior Gas Utility  
Fairbanks Natural Gas

Natural Gas  
Distribution  
System



## IEP: Current Status

- Pursued development of a North Slope supply of LNG with a private partner through a concession agreement format
- AIDEA and AEA are now leading an effort to evaluate alternative sources natural gas
- AIDEA is financing the buildout of natural gas distribution in Fairbanks and North Pole
- AIDEA and AEA is working with parties to optimize each aspect of supply chain

# Concession Agreement Overview

- Concession Agreement was a legal framework for a public-private partnership
  - MWH was the project developer
  - Northleaf, a Canadian investment firm, was the private partner which would provide financing, construct, and operate LNG facility through Northern Lights, LLC
  - AIDEA would provide financing and would own LNG facility
  - AIDEA would take the risk of a natural gas pipeline
- Concession Agreement set out conditions required for financial close
  - AIDEA had to agree to project costs and commercial terms
  - MWH would provide construction and operating agreements
  - Negotiate and secure LNG supply with utilities
  - Develop a financial model with an agreed LNG price

# Concession Agreement Results

- Concession Agreement terminated due to inability to complete financial close by December 31, 2014
  - Higher capital cost than projected
    - EPC cost for North Slope LNG plant: \$228 million not including \$20 million contingency and capitalized fees
  - Utilities could not commit to buy sufficient LNG at commercial terms presented to them
  - Present low oil prices increased the utilities' demand risk
  - Delivered projected price of \$13 to \$14 per Mcf in conjunction with projected distribution cost of utilities didn't meet community price goals
- Progress achieved on the North Slope project
  - Detailed Design & Cost for North Slope LNG Facility
  - LNG plant operations team formed
  - Estimated trucking and storage costs

# Focus on Full Supply Chain

- Natural Gas Supply
  - Existing North Slope natural gas supply agreements
  - Exploring concepts to purchase low price Cook Inlet natural gas
- LNG Plant
  - Exploring costs of new LNG capacity in Cook Inlet
- Transportation
  - Working with the Alaska Railroad on costs and logistics for a Cook Inlet solution
- Storage
  - AIDEA will work to build FNG's cancelled storage project
- Distribution
  - Ongoing AIDEA financing of buildout
  - Integrating the Interior utilities to lower costs
- Conversions
  - Existing natural gas conversion working group



# Natural Gas to Interior: Next Steps

- Alternative sources of natural gas supply are being evaluated
  - Deliberate and public process, led by AIDEA and AEA
  - A new Project Charter outlines the process
  - Interior utilities & community will be heavily involved
- Potential LNG sources include both the North Slope and Cook Inlet
  - Also investigating non-LNG supply (e.g., small diameter pipeline, propane, etc.)

# Natural Gas Conversions

- Conversion Working Group meets regularly to discuss home and business conversions as part of the Interior Energy Project
  - Formed on July 8, 2014
  - Regular participation from representatives of Alaska Energy Authority, Alaska Housing and Finance Corporation, the Fairbanks North Star Borough, Fairbanks Natural Gas, and the Interior Gas Utility
- Surveyed the community's willingness and cost to convert
  - Estimate the total community conversion rate and gas use
  - Estimate the demand for conversion financing
- Working towards a comprehensive program to coordinate the financing of conversions to natural gas

# Natural Gas Distribution

- In 2014, AIDEA financed:
  - FNG's build out of 33.4 miles of pipe in Fairbanks
  - IGU's system design and purchase of pipe
- The AIDEA Board approved IGU's application for a \$30 million financing
  - Summer 2015 construction of Phase 1 (North Pole build out – 72 miles reaching 2,177 customers)
- In 2015, FNG projects to build out approximately 26.2 miles of pipe in Fairbanks
- With the proposed purchase of Pentex, AIDEA would acquire FNG

# Pentex Acquisition Overview

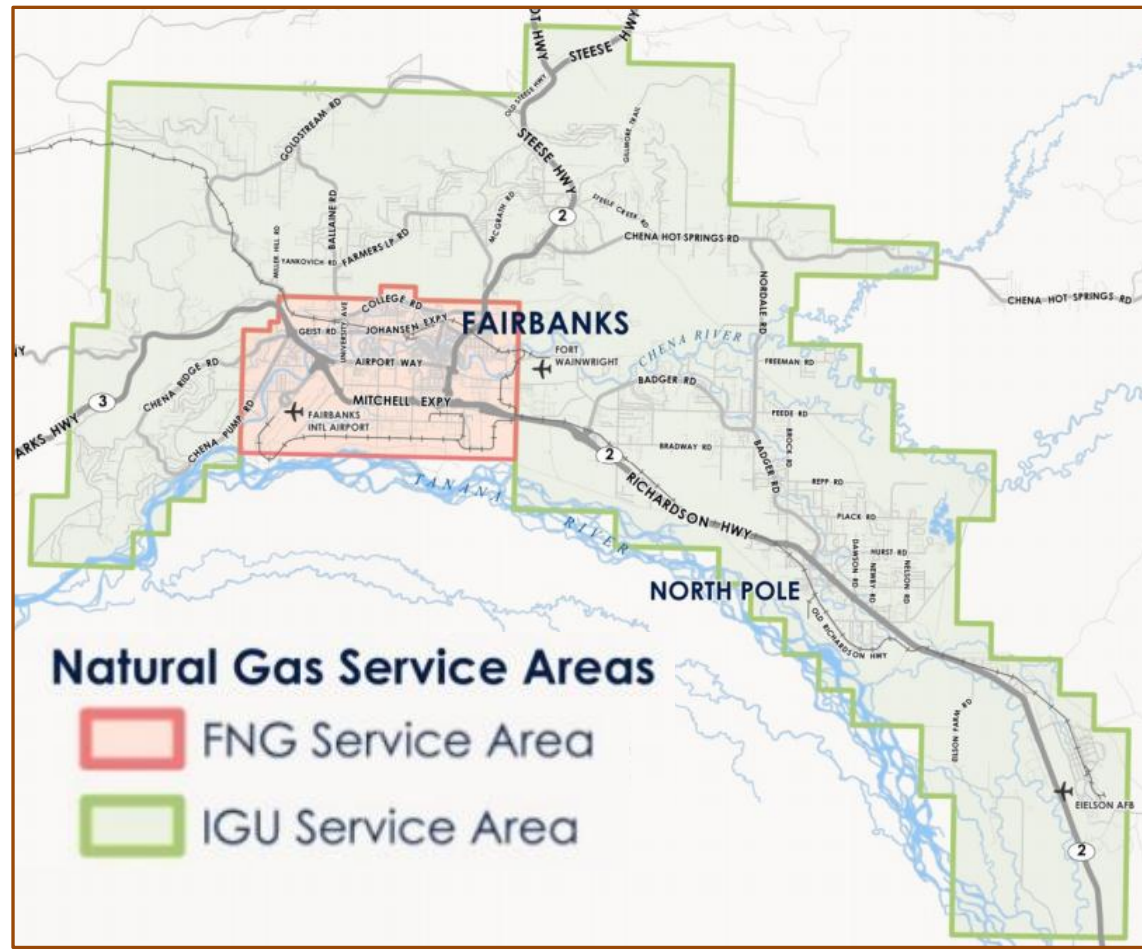
- AIDEA signed a Letter of Intent to purchase Pentex Alaska Natural Gas Company, LLC
  - Signed January 26, 2015
  - Non-binding
  - \$52.5 million price includes all Pentex assets
- Letter of Intent provides framework for evaluating the proposed purchase through a public process
- Subject to AIDEA due diligence, AIDEA Board vote, and regulatory approval
- Intended to reduce distribution costs by creating an integrated system which will accelerate expansion and reduce operating cost
- Opens up options for new LNG supply

# Pentex Acquisition: Key Points

- Strategic investment that can play a critical role in achieving the long-term success of the IEP
- Expecting to integrate distribution systems by ensuring coordination between utilities, avoiding duplication
- Investment is expected to provide immediately price relief to existing FNG customers due AIDEA's cost of capital being substantially lower than that of FNG
- Investment will allow AIDEA to restart construction of LNG storage in Fairbanks. Expanded storage is key in creating an integrated and efficient distribution system for Fairbanks
- Investment would be of short duration with the goal of working with community to transition to a single utility serving the Interior
- AIDEA would not directly operate the utility

# Benefits of Utility Coordination & Integrated Distribution System

- Reduce construction cost
- Reduce O&M and overhead costs
- Restart FNG's efforts to build storage
- Unified effort to purchase LNG
- Faster expansion of service to customers through coordinated build out of system



# Impact on the Pending Sale of the Titan LNG

- AIDEA will acquire Pentex as an entity, inclusive of Pentex's interest to sell the LNG facility and trucking assets to a Hilcorp subsidiary
  - AIDEA's acquisition of Pentex would not displace any pre-existing contractual obligations for asset sale and LNG supply agreements
  - AIDEA will carefully review these agreements as part of its due diligence
  - LNG supply agreement under consideration by RCA
  - Existing LNG supply agreement provides less than 20% of Interior needs
- Pentex, under AIDEA ownership, may explore with Hilcorp expanding the Titan LNG plant
  - Acquisition of Pentex may provide an opportunity to quickly bring more LNG to the Interior

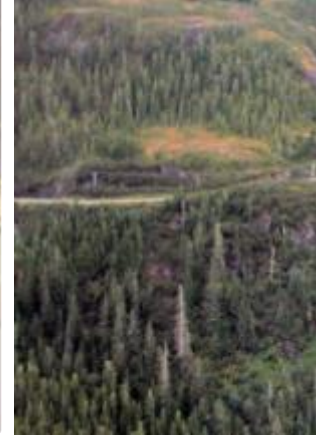
# AIDEA Due Diligence

- Full due diligence will be completed before the deal is approved
  - Full financial, technical, and legal review
  - Ensure proposed purchase price reflective of fair market value
  - Examine the existing agreements with Hilcorp
  - Complete finance plan that shows AIDEA will recover its investment with rate of return under AS: 44.88.172
  - Ensure purchase will advances the Interior Energy Project goals and promotes economic development
  - Solicit review and advice of local governments



# AIDEA's Next Steps

- Commence due diligence review to confirm whether the Pentex acquisition is a prudent investment for AIDEA
- Negotiate definitive agreement with Pentex
- Solicit advice from local governments
- Submit due diligence and finance plan to Board through AIDEA's public hearing process
- Proposed transaction would be considered by Board and voted on by Board in a public meeting



# Alaska Industrial Development and Export Authority

**Questions?**