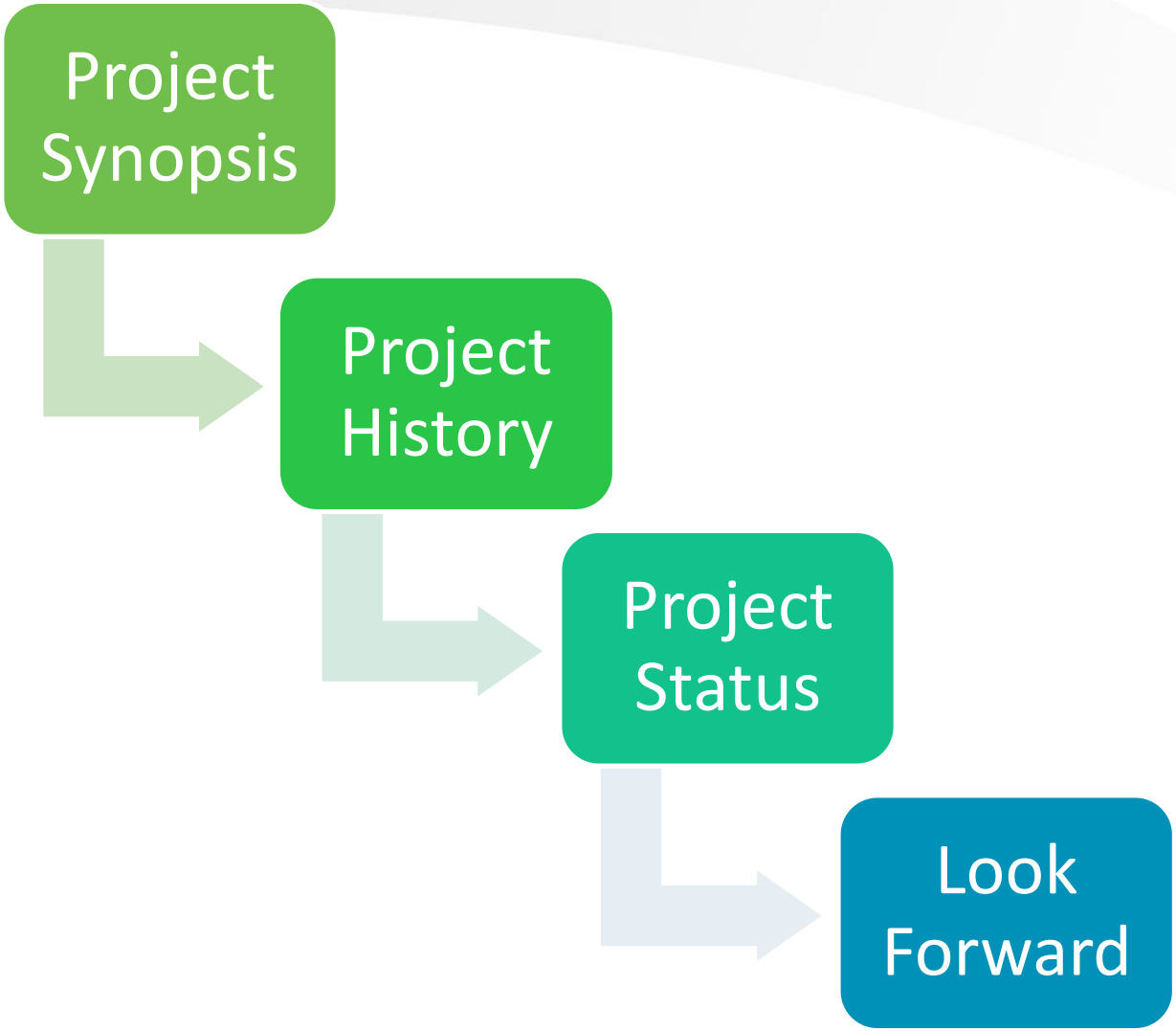
INTERIOR GAS UTILITY

Senate Resources Committee Presentation

Interior Energy Project Update

March 31, 2017

Presentation Summary



Project Synopsis

Interior Energy Project PURPOSE AND GOALS

Interior Alaska

". . . to bring low-cost energy to as many residents and businesses of Interior Alaska as possible, as quickly as possible ..."

Stabilize the Economy

Improve Air Quality

Interior Energy Project PURPOSE AND GOALS
Statewide

Provide "Proof of Concept" for an alternative, more sustainable Model of State Development Support

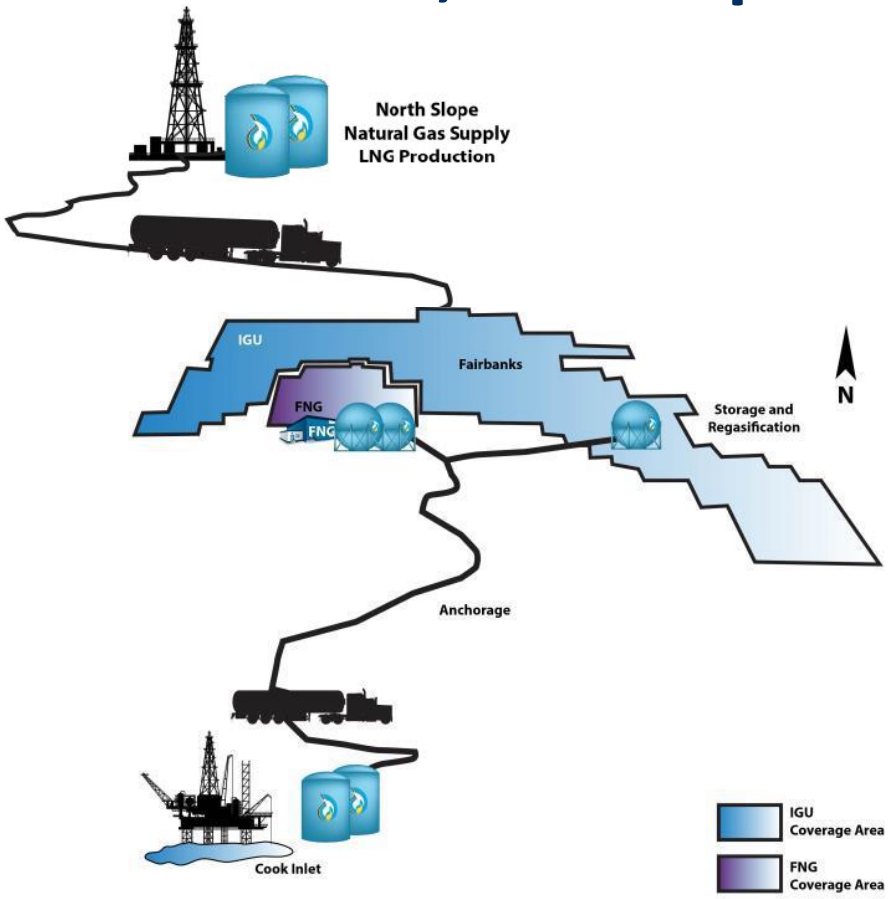
Blended Finance

- Grant
  - Low Grant Component
- Loan
  - Large Loan Component
  - Allowance for project-favorable terms
- Bonds
  - Market-based
  - State-backed but Project Supported

Recognizing that over 100 Alaska Communities, and hundreds of thousands of Alaskans, face the same energy challenge as Fairbanks, design and test a system where the state can, more sustainably, provide necessary project support of critical development even when it is no longer in a position to offer large Grants…

IEP – Project Definition

Transition Energy Economy from Oil (and Wood) to Clear, Less Expensive Natural Gas



I. Increase LNG Production Capacity
II. Increase LNG Delivery Capacity
III. Increase LNG Storage Capacity
IV. Increase NG Delivery Capacity
V. Support Conversion to NG Use

Project History

Project History

- 2011
  - $500,000 State Appropriation

- 2012
  - FNSB Gas Distribution System Analysis
  - Interior Gas Utility Established by FNSB

- 2013
  - "Interior Energy Project" Announced
  - Governor Requests for State Financial Support
    - $362.5 Million Financing Package
      - $57.5M Grant
      - $125M SETS Loan
      - $150M Bonding Authority

      *Mandate for North Slope Focus
  - IGU acquires RCA Certified Service Area (CPCN)

Project History - Continued

- 2014
  - FNG System Expansion (Year 1 of 2)
  - Pursuit of NS Configuration
    - RFP Process
    - Selection of MWH as Partner

- 2015
  - FNG System Expansion (Year 2 of 2)
  - IGU Phase 1 Build-Out
  - Allowance for shift to Cook Inlet Configuration
  - Pursuit of NS Configuration
    - Salix selected as development partner
  - State (AIDEA) buys FNG/Pentex

Project History - Continued

- 2016
  - –Salix “Unwind”
    - – Precipitated by need for cost reduction against Oil
    - – Unwind Agreement allowed for:
      - » Retention of FEED work to date
      - » Retention to FEED Contractors
  - –Negotiations to:
    - ○Transition Pentex LLC into local ownership
    - ○Unite Local Natural Gas Utilities
    - ○Finance IEP Total-System Expansion
  - –Memorandum of Understanding

Project Status

Memorandum of Understanding

for

Pentex Acquisition and IEP Financing

INTERIOR GAS UTILITY

Definitions

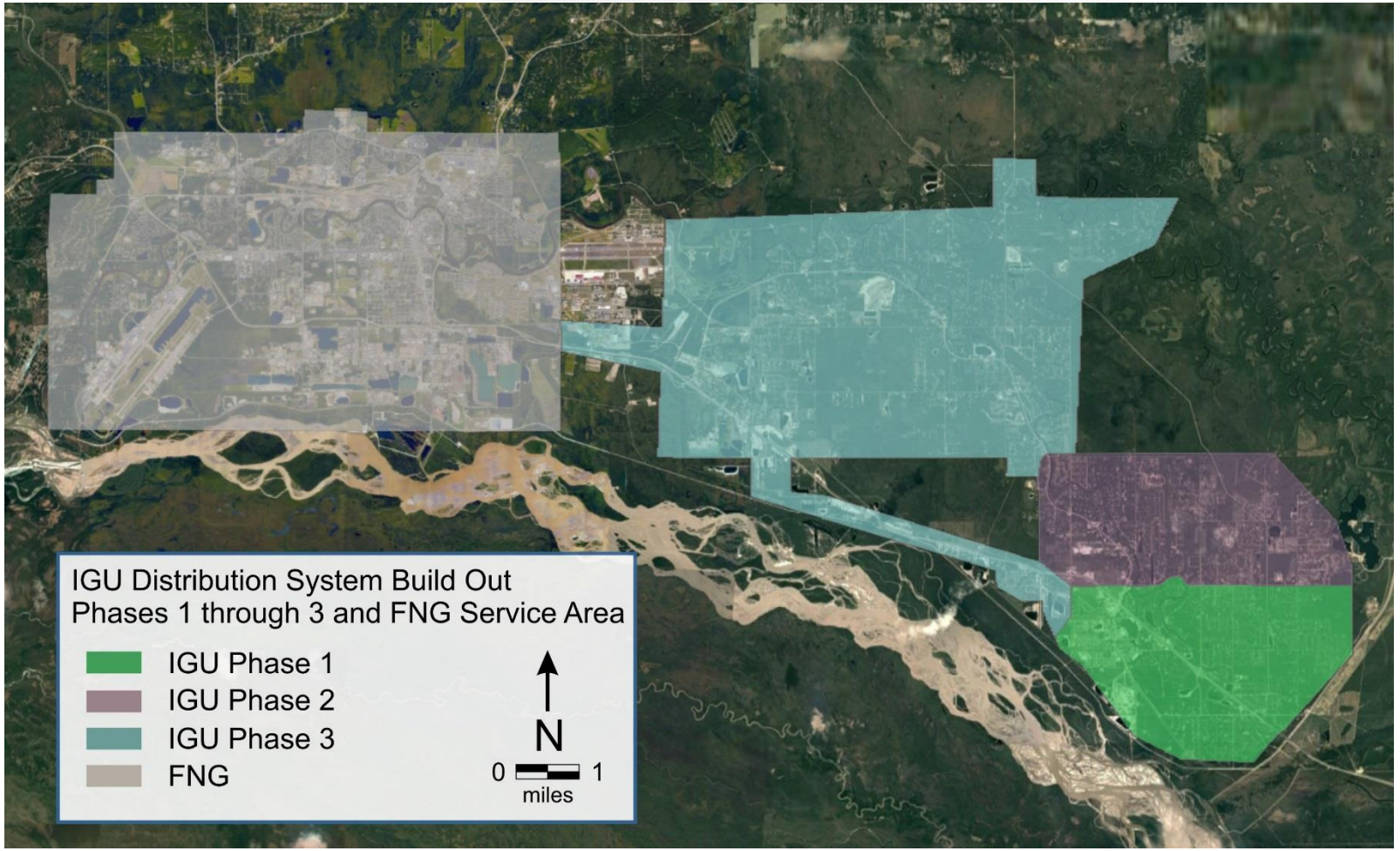
- Titan LNG plants
  - Titan 1 Current LNG plant providing FNG with approximately 1B* in LNG
  - Titan 2 New LNG plant, integrated into Titan 1 that will provide 3B in LNG
  - Titan 3 Expansion of the LNG plant (Titan 1 & 2) to meet increased demand as demand materialize. Will provide additional 3B in LNG
- Distribution System by Phase

  IGU
  - 1 Customer service lines and meters for the 73 miles of gas mains installed in 2015
  - 2 Install 68 miles of gas mains along with customer service lines and meters
  - 3 Install 128 miles of gas mains along with customer service lines and meters

  FNG
  - Customer service lines and meters for the existing 134 miles of gas mains and expansion of up to 40 miles of gas main.
- Storage
  - 5.2 Million gallons of storage located in Fairbanks
  - Two 75,000 gallon tanks located in North Pole

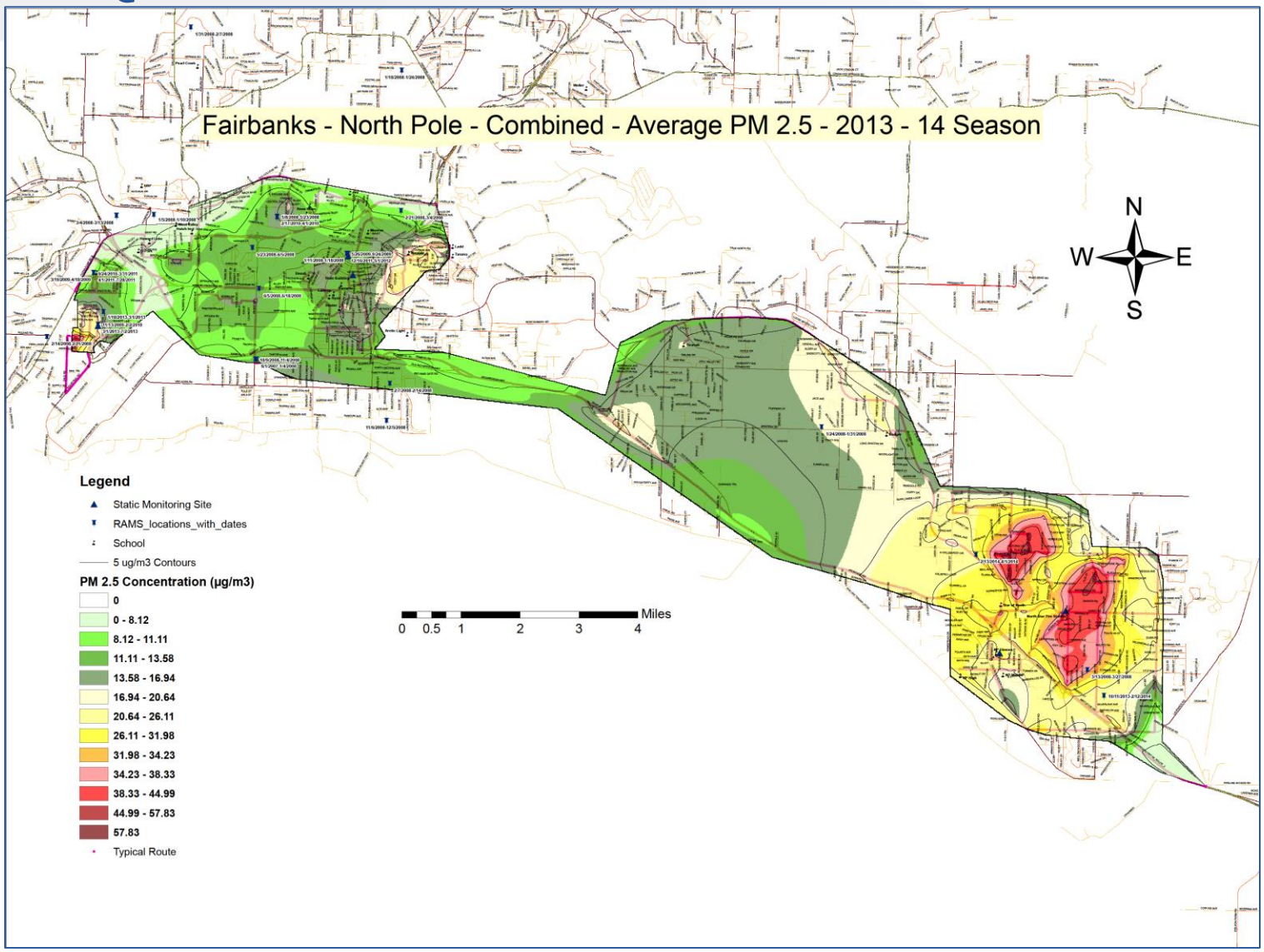
*1B = 1 billion ft^3 of liquid natural gas = approx. 7.46 Million Gallons of fuel oil

IGU CAPITAL PLAN – 2017 thru 2022



Note: Service lines, meters and Conversion Program will be ongoing

AIR QUALITY 2013-2014 SEASONS



By the Numbers

Customers*	**8,840**
Existing FNG	1,140
FNG Buildout	4,000
IGU Buildout	3,700
Demand (BCF)	5.3
LNG Deliverability (BCF)	5.4
LNG Plant Capacity (BCF)	7.5
Estimated Gas Cost ($ / MCF) **	15.50
Revenue/Yr ($M)	88
Capital Plan ($M)	333
Air Quality Improvement * **	
Fairbanks/FNG (%)	8.6
North Pole/IGU (%)	26.4

* Conversions based on Cardno Report, Sensitivity Analysis 2015
** Includes a volumetric charge of $15 / MCF and a customer charge
*** "Order of Magnitude" Preliminary AQ Improvement forecast – Sierra Research

Utility Integration MOU (1 of 2)

SCOPE (CREATES FULLY INTEGRATED FNSB NATURAL GAS UTILITY)

- Titan 1 upgrades, Titan 2 and Titan 3 - construction
- Fairbanks LNG Storage - 5.2 million Gallons - construction
- North Pole LNG Storage – 150,000 Gallons - construction
- Full build-out of IGU Phases 1-3 Distribution System & FNG Expansion Area
- Services and Meters
- Customer Conversion Program

Utility Integration MOU (2 of 2)

Establishes Key Business & Financial Terms

- **Overall financing plan**
  - Commitment of $330M in total to IGU's development & startup
  - Structure of $125M SETS Loans
  - Standards and process for issuance of $150M of AIDEA bonds for IGU capital program
- **IGU purchase of Pentex (including Titan, FNG, all Pentex assets)**
- **Process and timing of system integration**
- **Contingent upon**
  - Economically sufficient Gas Supply Contract
  - Due Diligence
  - RCA Approval

Financials – Fund Sources

SOURCE OF FUNDS -- CAPITAL FINANCING	
Item	**Amount**
(a)	(b)
Capital Appropriations (HCS CSSB 18)	$ 42,800,000
SETS Financing (SB 23 SLA 2013)	125,000,000
AIDEA Bonds (SB 23 SLA 2013)	140,614,200
Other Sources	
Commercial Financing (bridge & LNG trailers)	4,745,000
State Storage Credits - Fairbanks & North Pole	20,500,000
Other Sources	$ 25,245,000
Total Source of Funds	$ 333,659,200

Financials – Use of Funds

USE OF FUNDS -- MOU Appendix C - Integrated Gas Utility Capital Program -- 2016-28

Item		Amount
LNG Supply		
Titan 2 LNG Plant (inc. Titan 1 upgrades)		$ 46,200,000
Titan 3 LNG Plant (future)		25,000,000
	LNG Supply	$ 71,200,000
Transportation		
LNG High-capacity Trailers & Equip		$ 4,745,000
Storage & Regas		
FBKS 5.2mgal Storage		42,000,000
NP 150kgal Storage & Regas		11,000,000
	Storage	$ 53,000,000
Pentex Acquisition		
AIDEA sale of Pentex to IGU		$ 58,206,000
Distribution		
Phase 1-3 IGU Buildout		87,360,000
FNG Expansion/Infill - Gas Mains		23,000,000
FNG - Future Peak Shaving Plant		2,000,000
IGU & FNG - New Services and Meters		19,648,200
Program Management		11,500,000
Customer Conversion Program		3,000,000
	Distribution	$ 146,508,200
Total Use of Funds		**$ 333,659,200**

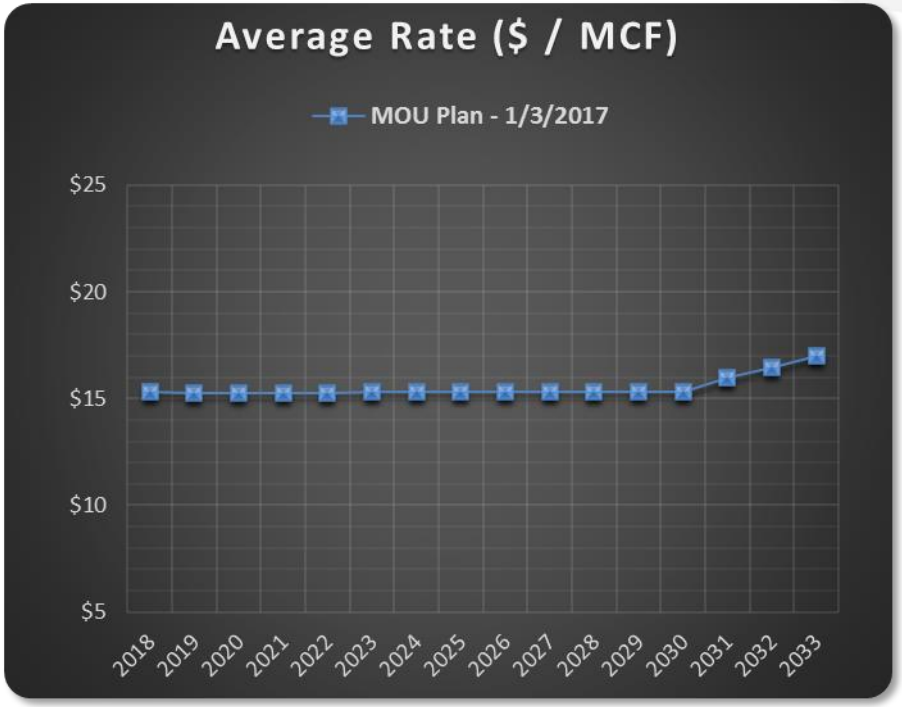
SETS Financing Terms

- **SETS financing flexibility includes:**
  - **15 Year Deferment**
  - **0.25% Interest Rate**
  - **50-year payback term ***
  - **SETS repayment is in a secondary position to AIDEA Bonds**

- **Summary of SETS Loan Terms**

Item	Deferment	Repayment Term	Total Loan Term*	Interest Rate	Annual Debt Service
SETS Loan Terms	15 yrs	35 yrs	50 yrs	0.25%	$3.73 m

MOU Plan – Average Rate and Cash Position



Proposed MOU (12/16/2016):

- High probability of meeting goal of $15 per MCF rate for a 10-year period
- Provides natural gas service to **8,850 customers** in Fairbanks/North Pole area
  - Based on Conversion Analyses performed in 2014 & 2015 by Cardno Entrix

Next Steps

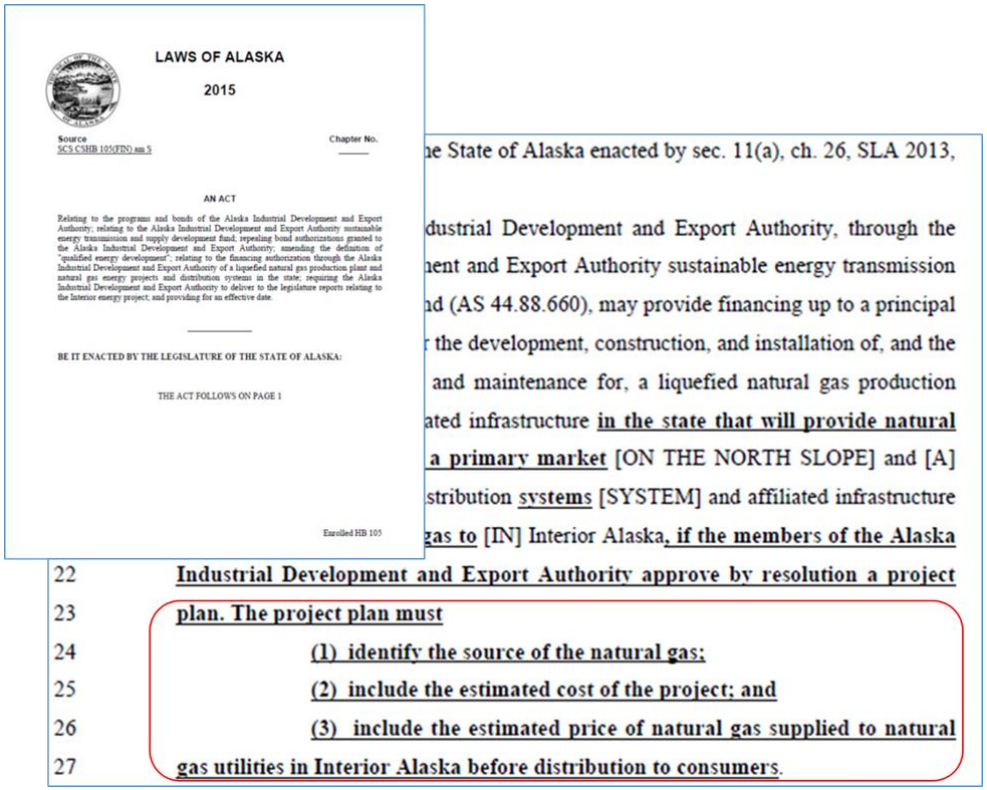
NEXT STEPS (SHORT TERM)

- Drafting of executable Pentex Purchase / IEP Financing Agreements (initiated - to be completed by March 31)
- Due Diligence and Utility Integration Planning (ongoing)
- **Gas Supply Contract** (ongoing)
- Immediate Capital Programming
  - LNG Plant Facility Front End Engineering & Design (FEED)
  - LNG Storage Development in FNSB

- AIDEA certification of “HB 105 Plan”
- RCA Approval of Ownership Transfer
- Execution of MOU-related Agreements
- IGU / FNG Integration

Look Forward: “HB 105 Compliant Plan”

AIDEA Resolution Required to allow expenditure of further IEP Funds



LAWS OF ALASKA

2015

Source
SCS CSHB 105(FIN) am S

Chapter No.

AN ACT

Relating to the programs and bonds of the Alaska Industrial Development and Export Authority; relating to the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund; repealing bond authorizations granted to the Alaska Industrial Development and Export Authority; amending the definition of "qualified energy development"; relating to the financing authorization through the Alaska Industrial Development and Export Authority of a liquefied natural gas production plant and natural gas energy projects and distribution systems in the state; requiring the Alaska Industrial Development and Export Authority to deliver to the legislature reports relating to the Interior energy project; and providing for an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

THE ACT FOLLOWS ON PAGE 1

Enrolled HB 105

…e State of Alaska enacted by sec. 11(a), ch. 26, SLA 2013,

…dustrial Development and Export Authority, through the …ent and Export Authority sustainable energy transmission …d (AS 44.88.660), may provide financing up to a principal …the development, construction, and installation of, and the … and maintenance for, a liquefied natural gas production …ated infrastructure **in the state that will provide natural … a primary market** [ON THE NORTH SLOPE] and [A] …stribution **systems** [SYSTEM] and affiliated infrastructure …**gas to** [IN] Interior Alaska**, if the members of the Alaska**

Industrial Development and Export Authority approve by resolution a project plan. The project plan must

(1) identify the source of the natural gas;

(2) include the estimated cost of the project; and

(3) include the estimated price of natural gas supplied to natural gas utilities in Interior Alaska before distribution to consumers.

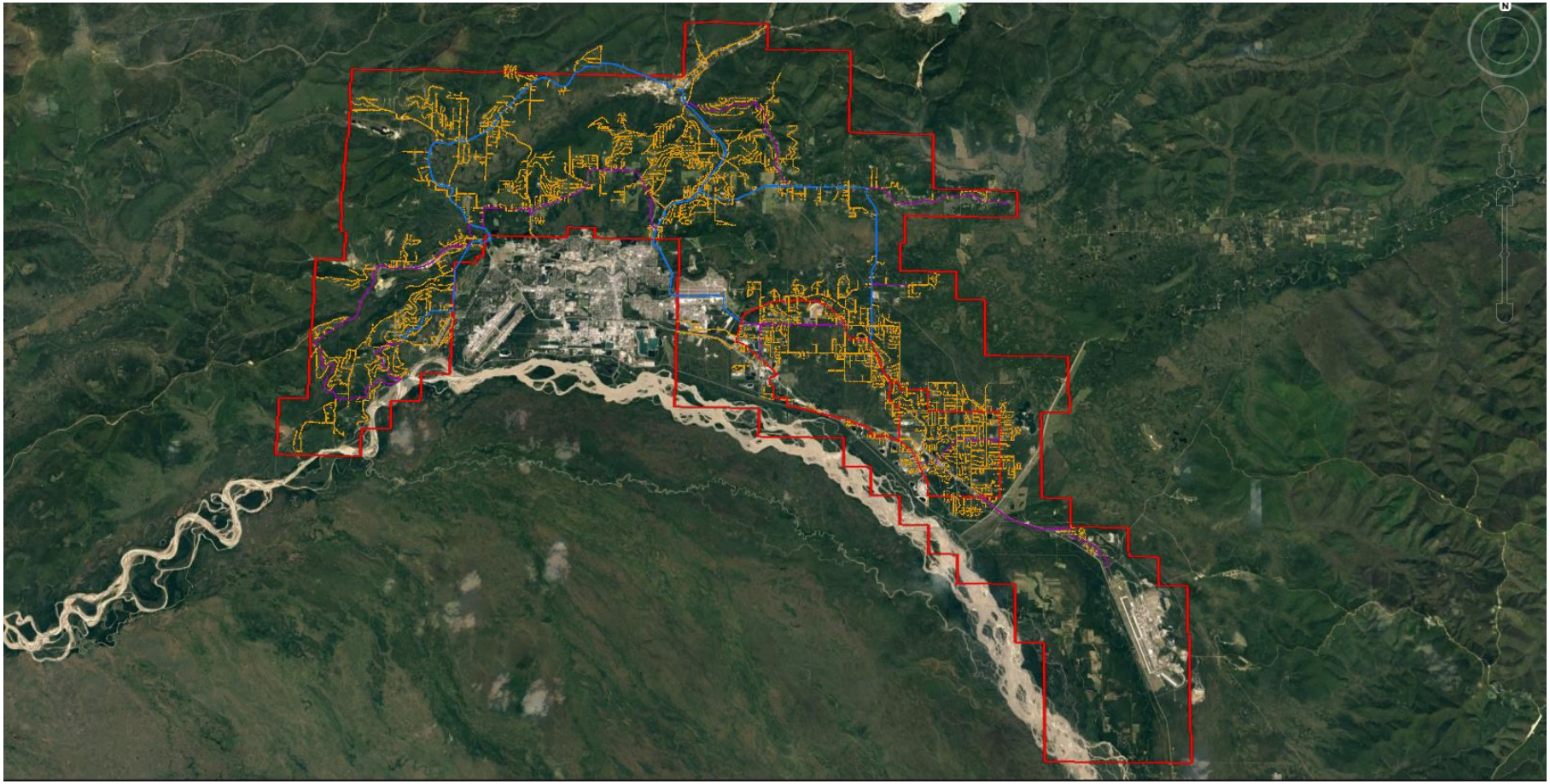
HB 105 requires a project plan within the AIDEA Board Resolution to include:

1. Source of natural gas
2. Estimated total project cost
3. Estimated “pre-distribution” cost of supplied gas

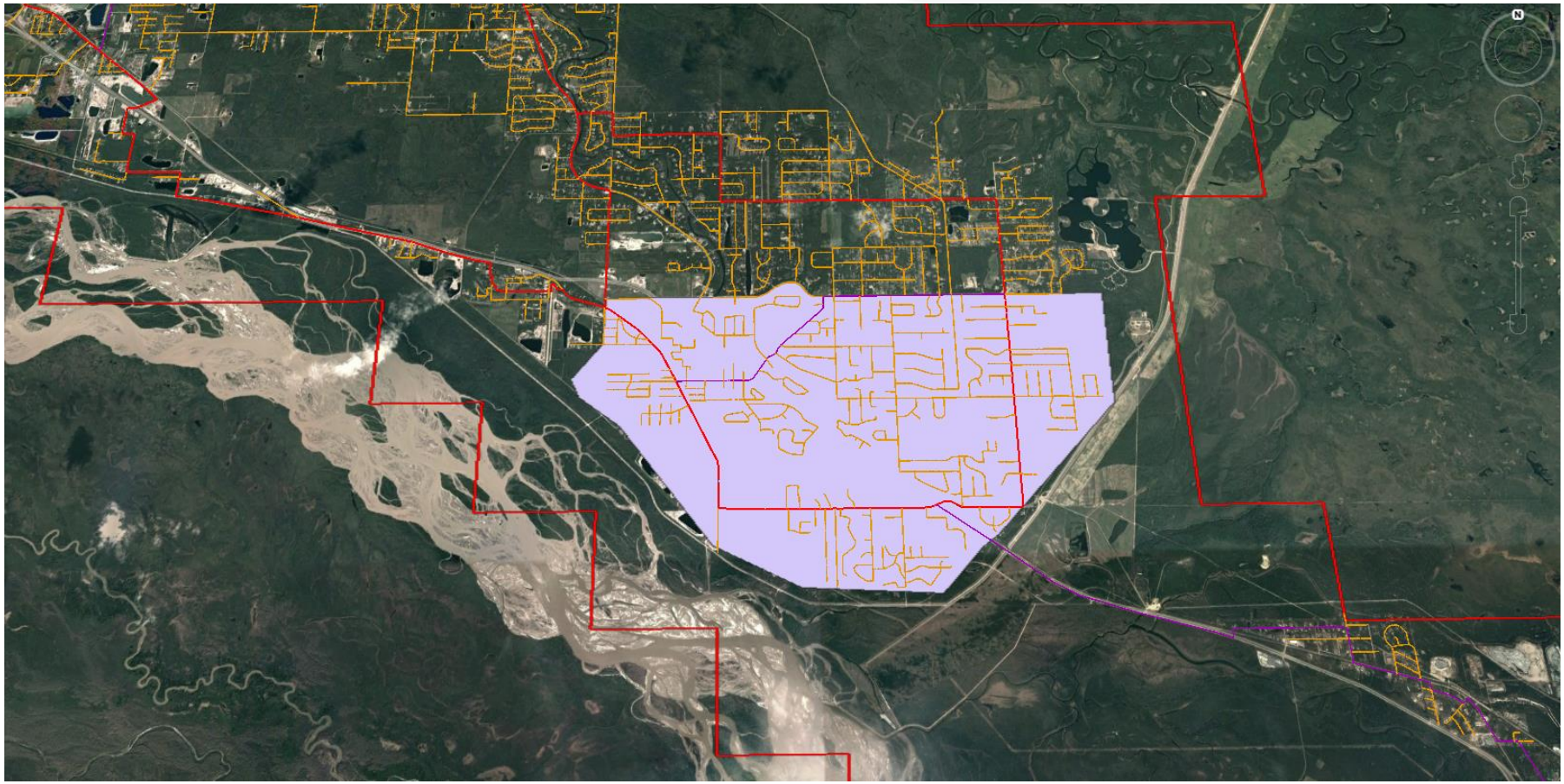
Next Steps (LONGER TERM)

- Conversion program
- Storage tanks constructed
  - LNG storage reimbursement
- LNG plants constructed
- Finalize transportation plan
- Distribution system expansion planning and construction

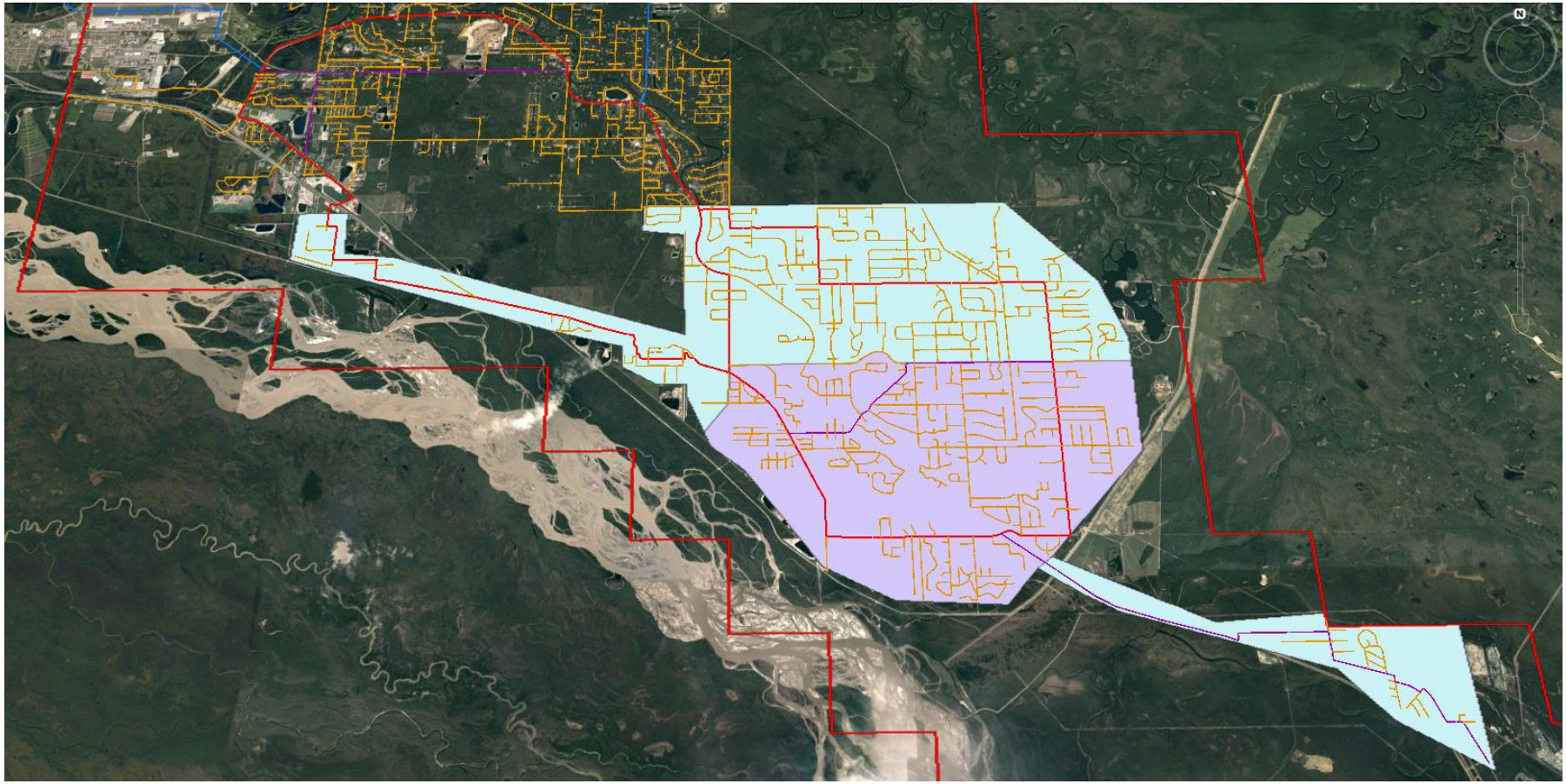
IGU Service Area



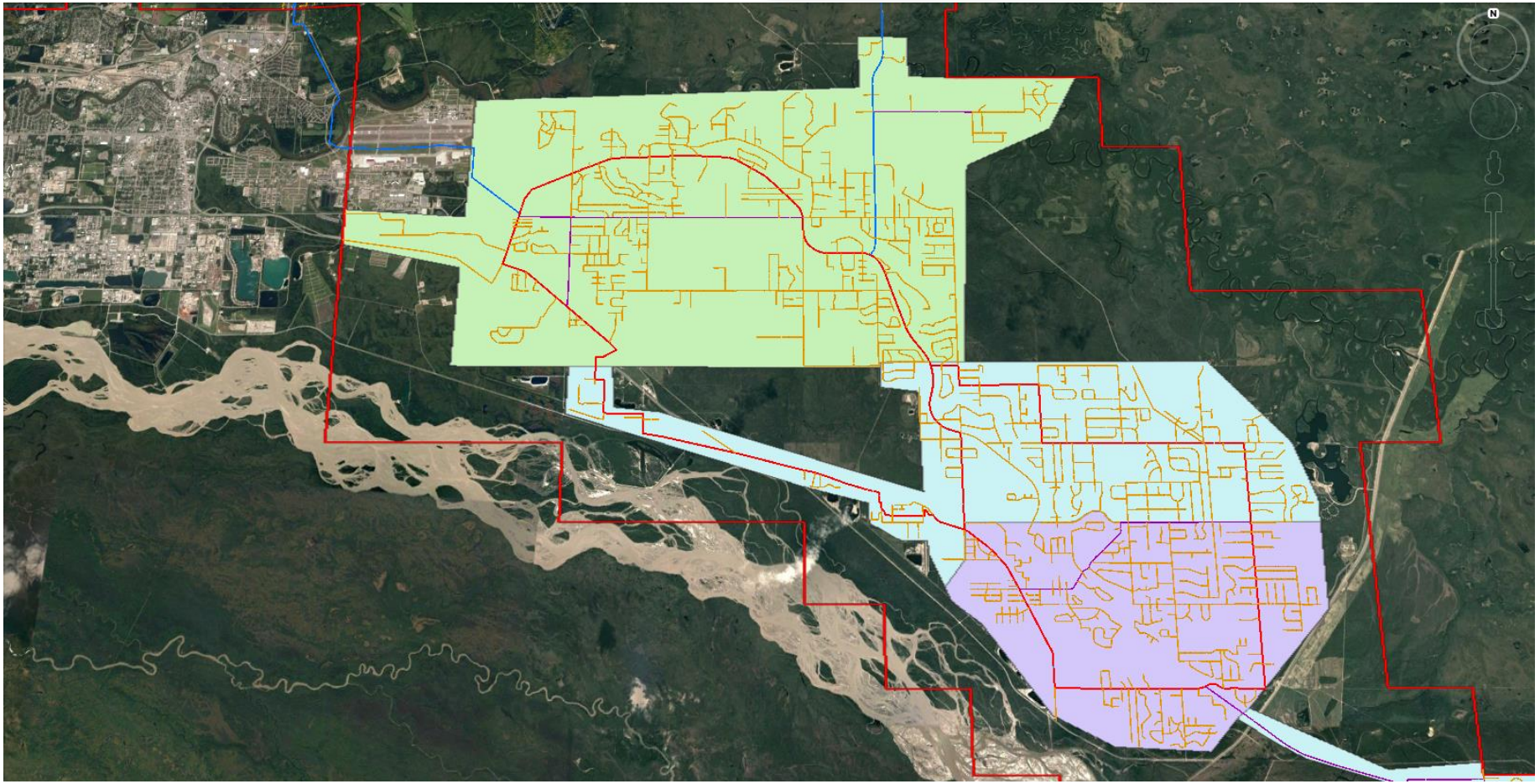
IGU SYSTEM – Phase 1 – Installed 2015



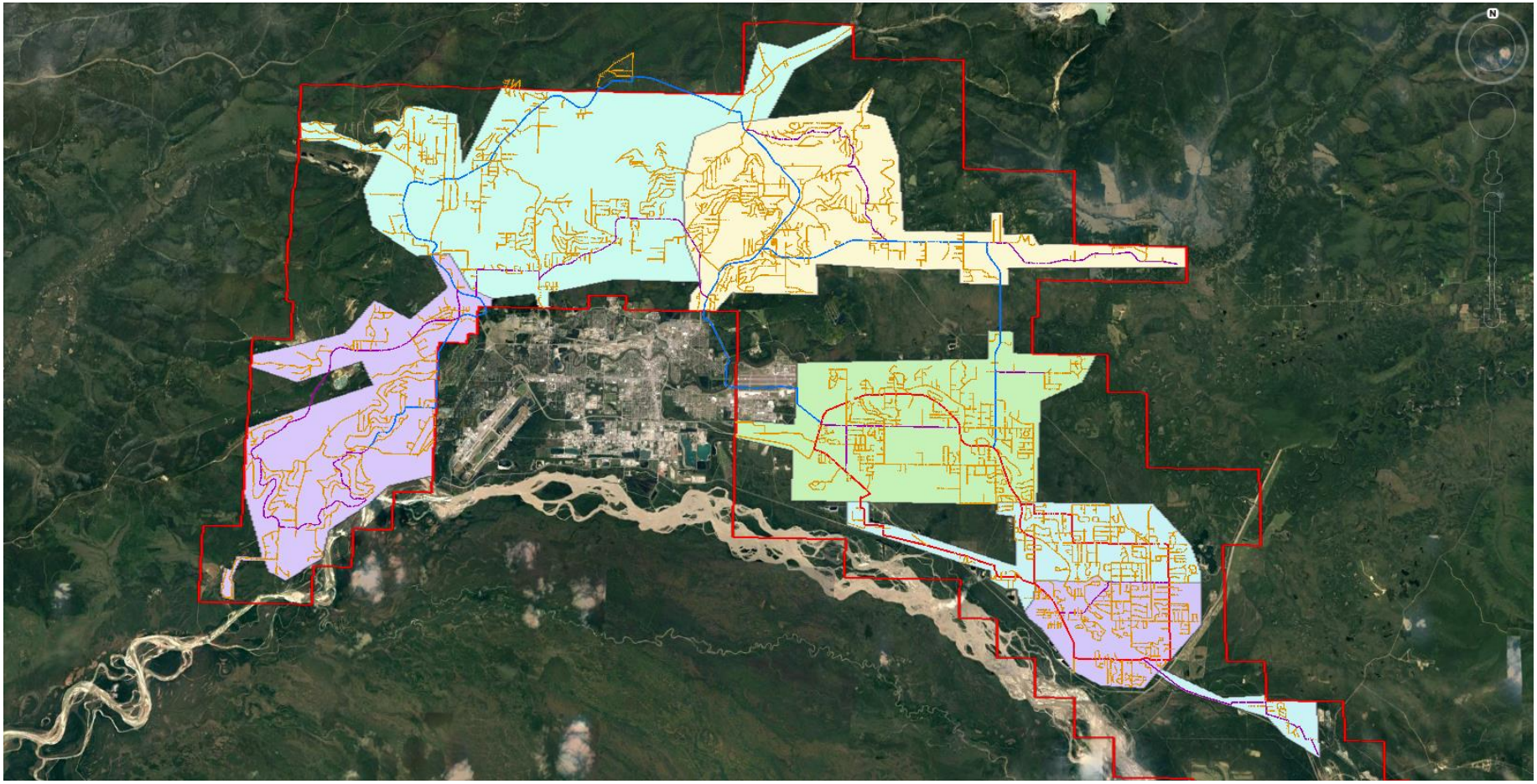
IGU SYSTEM – Phase 2 – Planned for 2018/21



IGU SYSTEM – Phase 3 – Planned for 2019/22



IGU SYSTEM – Full Build-Out



Interior Energy Project PURPOSE AND GOALS

". . . to bring low-cost energy to as many residents and businesses of Interior Alaska as possible, as quickly as possible ..."

- Stabilize the Economy
- Improve Air Quality
- Model of Development:
  - Other Alaska Communities can Follow
  - Alaska can Sustainably Support

QUESTIONS

INTERIOR GAS UTILITY