



April 11, 2017

The Honorable Cathy Giessel, Chair
Senate Resources Committee
Alaska State Senate
State Capitol, Room 427
Juneau, Alaska 99801

Dear Senator Giessel:

Jomo Stewart, with the Interior Gas Utility, and I appreciate the time you scheduled on March 31st for the Senate Resources Committee to hear an update on the Interior Energy Project. As a follow up to that presentation, you posed the following questions on aspects of this project. I would like to submit the following responses which contain input from Mr. Stewart.

Question 1

Pursuant to the AIDEA Board Resolution of June 11, 2015, authorizing the purchase of Pentex Alaska Natural Gas Company, how much has AIDEA paid for the acquisition of the Pentex assets to date?

As authorized by Board Resolution G15-09, AIDEA paid \$54,000,000 to purchase all of the Pentex LLC assets.

Question 2

What are the projected personnel needs for the IGU capital plan, both in terms of direct employees, contractors, and sub-contractors?

Each major capital project will have a small contracted project team to include owners engineer and project manager. The bulk of the work will be performed using contractors and sub-contractors to avoid growing the number of direct utility personnel. Modification and expansion of the existing Titan LNG plant could involve 50 contract employees depending on the stage of the project. Construction of new LNG storage in the Fairbanks North Star Borough would likely use a similar number of contract employees.

Future expansions of the distribution system would also be performed primarily with contractor and sub-contractor employees with the number varying between 50 and 100, depending on the size of the seasonal project. Small distribution expansion work, in conjunction with municipal or state road projects, may be able to be performed with in-house personnel at a lower cost.

Question 3

What is the projected average conversion cost to natural gas for a residential, commercial and industrial customer?

Depending on equipment requirements, capital cost of converting home to natural gas heating is expected to range from approximately \$2,300 to \$10,700. The range of total installation costs for high-efficiency boilers with a water heater is \$7,300 to \$13,500, with the average installation cost being \$10,700. The range of medium-efficiency boilers with a water heater is \$7,500 to \$10,000, with the average installation cost being \$9,000. The weighted average conversion cost for a boiler system is estimated to be \$9,100. Total installation costs for a furnace with a water heater ranges from \$4,000 to \$9,000, with the average cost being \$6,400.

The total installations costs for burners range between \$1,000 and \$4,000, with the average being \$2,700. The total space heater installation cost range between \$2,000 and \$3,500 with the average being \$2,750.

Commercial and industrial conversion costs are much harder to estimate due to variety and complexity of these systems. However, the Fairbanks North Star Borough School District has converted a number of schools to natural gas when the service became available. The cost to convert a 600 student elementary school has been approximately \$40,000.

Detailed cost and conversion information can be found in the Cardno ENTRIX IEP Natural Gas Conversion Analysis. The full report can be found at:
interiorenergyproject.com/Resources%20and%20Documents/IEP_Conversion_Analysis_Final.pdf

Questions 4

Has IGU and/or AIDEA corresponded in any official or unofficial way with the Regulatory Commission of Alaska (RCA) on the IEP? If so, what have been the topics of those communications?

AIDEA and IGU both interacted with the RCA regarding the issuance of the Commission order U-15-090(2) on August 13, 2015. As a result of this order, AIDEA, through the retention of the Fairbanks Natural Gas (FNG) management and operations, was declared to be fit to acquire controlling interest in FNG. Order U-15-090(2) also acknowledged AIDEA's acquisition of Pentex was a strategic investment intended to play a significant role in helping to achieve the long-term success of the IEP through work with the community to transition to a single utility serving the Interior. The RCA order further

acknowledged that AIDEA intended to hold the Pentex assets for a limited period of time to allow the FNG and IGU service territories and operations to be combined under a single local control entity.

RCA order U-15-090(2) required AIDEA to provide official notice to the Commission when the final transaction occurred to acquire Pentex LLC. This notice was sent to the RCA on October 5, 2015.

Question 5

Has a source of natural gas been definitively identified from a particular basin (only North Slope or Cook Inlet) or is the option for a blended source model still open?

The IEP natural gas negotiating team is focused primarily on securing natural gas from the Cook Inlet basin to supply the existing Titan 1 Bcf/year LNG plant in the MatSu Borough and a 3 Bcf/year expansion of that facility. However, the team is also assessing potential supply from alternative geographic sources against prevailing Cook Inlet prices as part of prudent due diligence for a long term IEP supply. Natural gas required to meet future needs of the Interior may come from alternative locations.

Questions 6

Is there an anticipated request for a capital budget appropriation for any further work on the IEP?

No. With full availability of the financing tools provided to the IEP in 2013, and receipt of applicable LNG storage reimbursement, there is no anticipated request for further capital funds.

Question 7

Have there been any discussions or plans for IGU or AIDEA to purchase the State of Alaska's (SOA) royalty gas for the IEP?

In line with the gas acquisition strategy of assessing all available sourcing options, a letter was sent to the Department of Natural Resources to determine if royalty natural gas may be available as a component of supply for the IEP.

Question 8

What impact would the indebtedness of the IEP have on the state or AIDEA's bond rating?

The IEP indebtedness has two components:

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1. \$125 million in SETS loans which are covered 100% by funds deposited into the AIDEA SETS account and have no relationship to AIDEA's or the State's bond rating.
2. Up to \$150 million in AIDEA state moral-obligation bonds. These bonds will be "non-recourse" to AIDEA – secured solely by the utility's revenues and the state's obligation to refill debt service reserve – so no direct effect on AIDEA's rating. The State's obligation to refill the reserve could be a rating issue, but it's extremely unlikely for the following two reasons,
 - IGU's access to the bond market is limited to investment-grade obligations that will require a conservative business plan, and
 - the relative small size of the reserve requirement.

Please let me know if you have any additional questions regarding the Interior Energy Project.

Sincerely,



Gene Therriault
AIDEA
Interior Energy Project Team Lead

Cc Jomo Stewart