

**02/05/15  
OVERVIEW:  
INTERIOR  
ENERGY PROJECT  
& POTENTIAL  
PURCHASE OF  
PENTEX NATURAL  
GAS CO.**

<TARGET><BILL></BILL><SUBJECT>02-05-15 OVERVIEW INTERIOR  
ENERGY PROJECT and POTENTIAL PURCHASE OF PENTEX NATURAL GAS  
CO.</SUBJECT><COMM>SNRG29</COMM></TARGET>



# 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

**\$125 Million**

SETS Financing

**\$57.5 Million**

Capital Budget  
Appropriation

**\$150 Million**

AIDEA Bonds

+ Private Sector

+ Municipal Utility



**Liquifaction Plant**



**Gas Distribution Systems**  
Residential / Industrial

# Interior Energy Project: Full Supply Chain Focus

Natural Gas  
Supply and  
Liquefaction



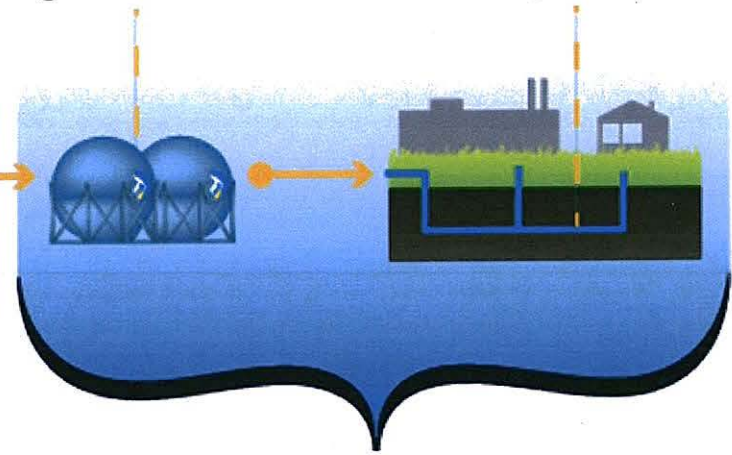
AIDEA and  
Private  
Industry

Transportation:  
Trucking or  
Railroad



Private Trucking  
Contractors or  
Alaska Railroad

LNG Storage  
and  
Regasification



Interior Gas Utility  
Fairbanks Natural Gas

## 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 private trucking contractors and AK. 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 is considering 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

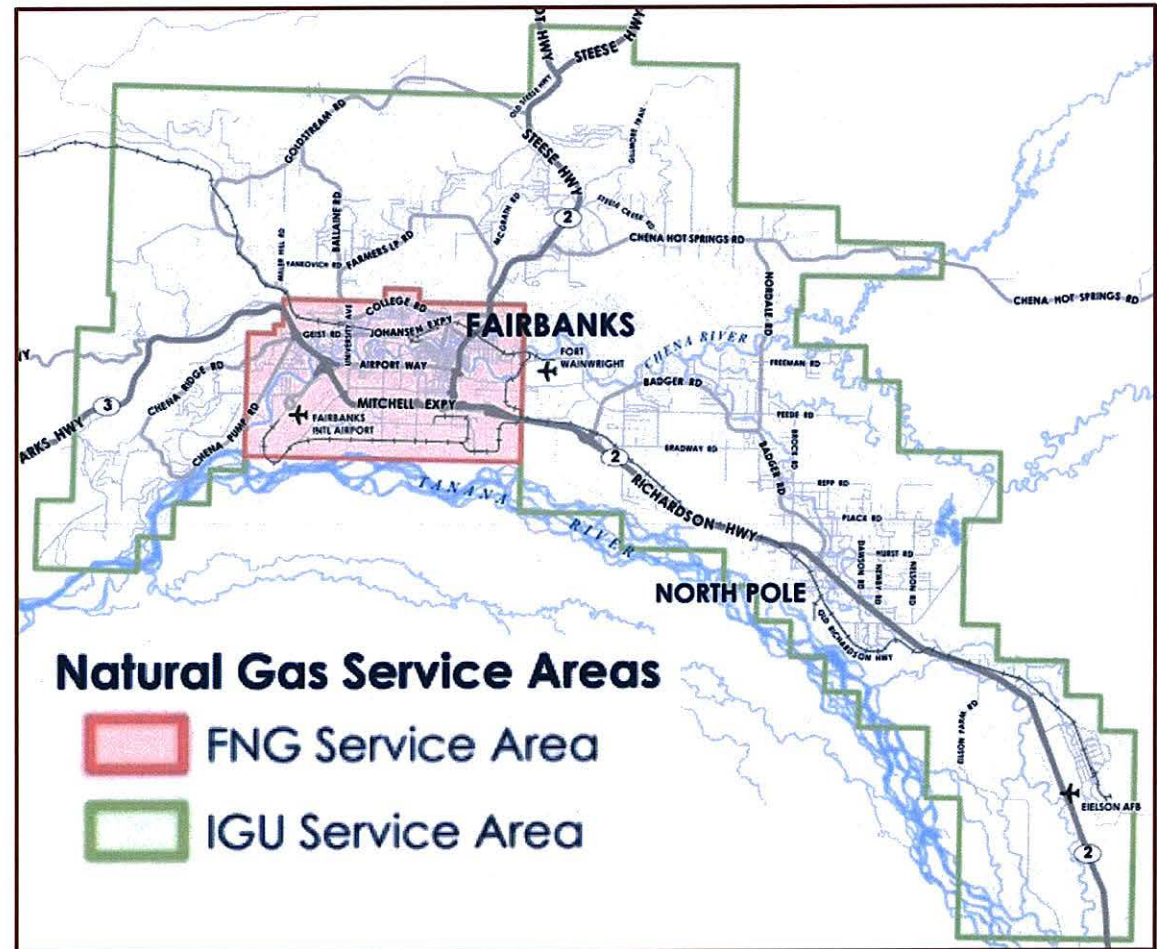
- AIDEA signed a Letter of Intent to purchase Pentex Alaska Natural Gas Company, LLC
  - Signed January 26, 2015
  - Non-binding
  - \$52.5 million price includes all Pentex assets
- Letter of Intent provides framework for evaluating the proposed purchase through a public process
- Subject to AIDEA due 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 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?**

# Heating Energy Supply Comparison

## Trucked LNG is the lowest-cost option for Interior Alaska heating

- Electricity would need to be \$0.04 - \$0.06 per kWh to compete with trucked LNG
- Electricity would need to be much cheaper to compete with fuel oil



January 26, 2015

ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY  
813 West Northern Lights Boulevard  
Anchorage, Alaska 99503-2407  
Attn: Executive Director

Re: **Letter of Intent**

Gentlemen:

This Letter of Intent ("**Letter**") sets forth our understanding as to the proposed terms of the sale to the Alaska Industrial Development and Export Authority or a subsidiary entity (together, "**AIDEA**"), of 100% of the membership interest of Pentex Alaska Natural Gas Company, LLC ("**Pentex**"), a Delaware limited liability company, which currently owns 100% of the membership interest of five subsidiaries (each a "**Subsidiary**" and collectively the "**Subsidiaries**"): (i) Fairbanks Natural Gas, LLC ("**FNG**"), (ii) Titan Alaska LNG, LLC ("**Titan**"), (iii) Arctic Energy Transportation, LLC ("**AET**"), (iv) Polar LNG, LLC ("**Polar**"), and (v) Cassini LNG Storage, LLC ("**Cassini**") (the "**Transaction**").

1. **Basic Terms.** The definitive agreement (the "**Definitive Agreement**") to be negotiated and agreed upon between AIDEA and Pentex's members will reflect the terms listed on Exhibit A attached hereto and made a part hereof. With respect to those terms on Exhibit A which may be legally unenforceable if included verbatim in the Definitive Agreement, the parties acknowledge that the Definitive Agreement will include provisions intended to effectuate the intent of the parties. Buyer will provide the initial draft of the definitive agreement.
2. **Non-Binding.** Other than the covenants contained in paragraphs 6 and 7 of this Letter (the "**Binding Provisions**"), this Letter is not binding upon either AIDEA or Pentex. Neither AIDEA nor Pentex will be obligated to consummate the acquisition contemplated hereby unless and until the parties have reached agreement as to all of the terms of the transactions and the Definitive Agreement satisfactory to both parties has been executed. The covenants in the Binding Provisions are binding upon AIDEA and Pentex whether or not the parties reach a Definitive Agreement with respect to the purchase of the Business.
3. **Business Continuation.** Pentex (and its Subsidiaries) will continue to operate its business (the "**Business**") consistent with past practice during the pendency of this Letter.
4. **Negotiation of Definitive Agreement.** The parties agree to (a) negotiate in good faith to seek to finalize a Definitive Agreement with respect to the Transaction as expeditiously as possible, but no later than February 28, 2015, subject to extension as mutually agreed to in writing by the parties; and (b) if such Definitive Agreement is

executed, to use their reasonable best efforts to close the Transaction in accordance with the terms thereof as soon as reasonably practicable thereafter. A disagreement over a term of the Transaction, including reflection in the Definitive Agreement of the terms set forth on Exhibit A attached hereto, does not constitute bad faith or a breach of this paragraph.

5. **Due Diligence.** Pentex agrees to cooperate with AIDEA's due diligence investigation of the Business through the date of execution of the Definitive Agreement. AIDEA shall be entitled to conduct a due diligence investigation of the Business to be acquired and shall be entitled to review, among other documents agreed to by Pentex and AIDEA, an asset list, sales volume over an agreed upon period of time, appropriate information regarding employees of the Business. In no event will AIDEA make any contact with the Business's employees, customers, or suppliers without the prior written approval of Pentex.
6. **Confidentiality.** The parties agree that the terms of the Confidentiality Agreement dated as of January 21, 2015, between AIDEA and Pentex, will continue in force according to its terms unless superseded, terminated or modified by the mutual agreement of the parties.
7. **Expenses.** Each party will pay all of its expenses, including legal fees, incurred in connection with the Transaction.
8. **Termination.** Either Pentex or AIDEA may terminate this Letter for any reason at any time by sending written notice thereof to the other party, provided, however, that Sections 6 and 7 shall remain in effect for a period of one year following such termination.
9. **Counterparts.** This Letter may be executed in two or more counterparts, each of which will be deemed to be an original copy of this Letter and all of which, when taken together, will be deemed to constitute one and the same agreement.

*(Signatures begin on the next page.)*

If you are in agreement with the terms of this Letter, please sign in the space provided below. When executed by all parties, each party will retain one executed original for their respective files. If you do not return a signed copy to the undersigned on or before 5 p.m. Alaska Time on January 26, 2015, this Letter shall terminate and be without further force or effect.

Sincerely,



Dan Britton, President  
Pentex Alaska Natural Gas Company, LLC

Acknowledged and Agreed:

ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY

By: 

Its: Executive Director

Date: 1/26/2015

## EXHIBIT A TO LETTER OF INTENT

### TERM SHEET

This Term Sheet summarizes the general business terms to be contained in the Definitive Agreement and is attached to and forms a part of the Letter of Intent between the parties dated January 26, 2015.

1. Membership Interest Purchase. In connection with the purchase of membership interest of Pentex:

(a) AIDEA will purchase from the owners of Pentex, all of the membership interest of Pentex free and clear of all liens, claims and encumbrances.

(b) At the Closing of the Transaction, Pentex will own, directly or indirectly, each of the Subsidiaries, which in turn will own all of the assets of the Business and, with respect to its liabilities or indebtedness as of the Closing Date, Pentex and the Subsidiaries will have only (i) liabilities incurred in the normal course of business, (ii) indebtedness owed to AIDEA under the Loan Agreement with FNG dated on or around May 19, 2014, and (iii) certain installment notes relating to equipment included in the assets of FNG and Titan as of the Closing, which indebtedness will be set forth on a schedule to the Definitive Agreement.

(c) At the Closing of the Transaction, Pentex will provide its good faith estimate of the working capital in the Business as of the Closing, as determined on a consolidated basis, and such estimate will be the basis for the increase in the Purchase Price payable at Closing. The estimate will be "trued-up" within a reasonable period after the Closing. The net working capital in the Business (as determined on a consolidated basis) will be calculated in the customary manner (by subtracting the current liabilities of the Business from the current assets of the Business), except any payables owed by Pentex or its Subsidiaries for capital expenditures will not be included in the calculation.

(d) All intercompany accounts between Pentex and any affiliate will be cancelled.

2. Execution & Closing. The parties anticipate executing the Definitive Agreement will occur on or about April 30, 2015, and that the closing of the Transaction (the "**Closing**") will occur prior to July 31, 2015 (the "**Closing Date**").

3. Purchase Price. The aggregate purchase price (the "**Purchase Price**") for the membership interest of Pentex will be \$52,500,000 plus the positive amount of any working capital in the Business as of the Closing Date. AIDEA has negotiated the Purchase Price with Pentex based on AIDEA's preliminary evaluation of (1) the price as a multiple of Pentex's EBITDA being in line with commonly accepted business standards for acquisition transactions, and (2) the substantially higher replacement cost for Pentex's assets (conservatively estimated at \$75,000,000). The Purchase Price will be paid in cash at Closing, except for a mutually agreed

upon escrow amount, not to exceed five percent of the Purchase Price, that would be held in escrow for an agreed upon period following closing, not to exceed one year. Upon execution of the Definitive Agreement, AIDEA will make a down payment of 5.00% of the Purchase Price, which amount will be credited towards the Purchase Price due at Closing.

4. Additional Agreements and Conditions.

(a) In the Definitive Agreement, AIDEA will confirm that (i) Pentex, Titan, and AET have entered into a Purchase and Sale Agreement with Harvest Alaska, LLC dated November 5 2014, and (ii) FNG has entered into an LNG Sale Agreement between FNG and Harvest Alaska, LLC dated November 5 2014 (collectively, the "*Harvest Agreements*").

(b) In the Definitive Agreement, AIDEA will identify to Pentex the specific sources of financing that AIDEA will use for payment of the Purchase Price, and AIDEA will hold and maintain all such funds in accounts in immediately available fund at all times prior to the Closing.

5. Other Terms. The Definitive Agreement between the parties will contain customary representations and warranties, conditions and other provisions for a transaction of this nature.

6. Conditions to Closing. The closing of the Transaction is subject to the satisfaction of various conditions, including:

(a) the parties shall have negotiated and executed the Definitive Agreement and any other documents described in this Letter or hereafter agreed upon;

(b) the completion by AIDEA and AIDEA's representatives of its due diligence review and investigation of Pentex and its assets, which AIDEA shall endeavor to complete prior to February 28, 2015, or as soon as practicable thereafter;

(c) the absence of any material adverse change in the business or condition (financial or otherwise) of Pentex or the Subsidiaries, or its relationships with customers, vendors and independent consultants/contractors prior to the Closing;

(d) the receipt of any necessary contractual and governmental consents and approvals in connection with the Transaction (including consent from the Regulatory Commission of Alaska, if required);

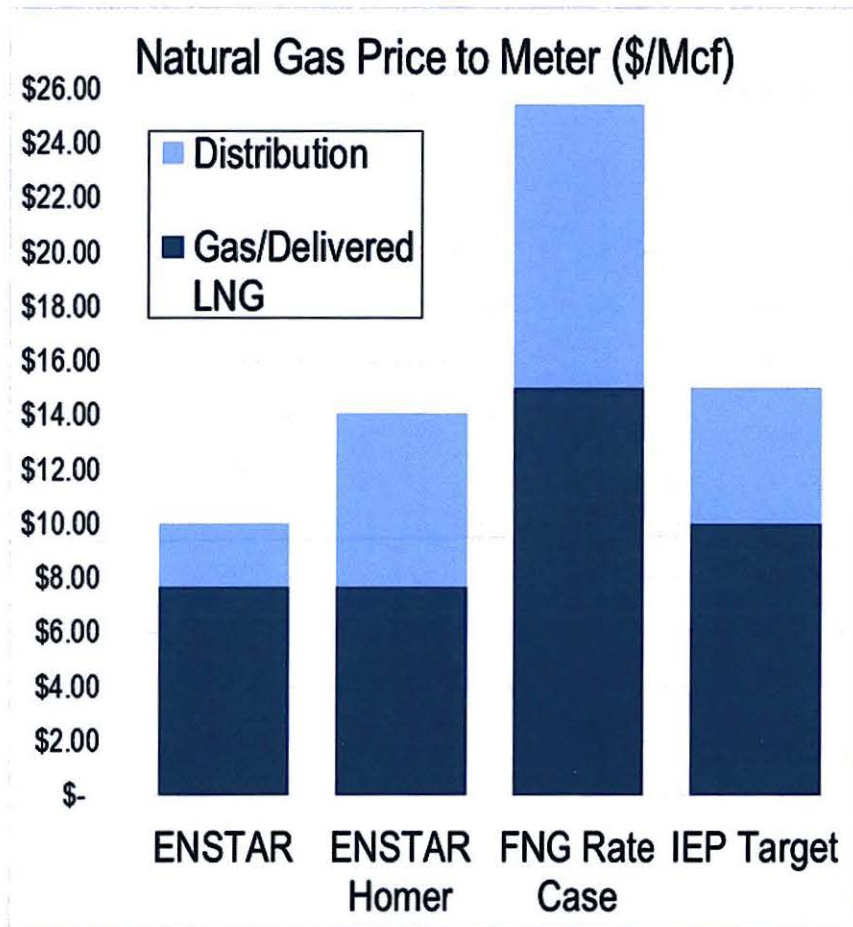
(e) Satisfaction of any other conditions in the Definitive Agreement.

7. Communication Plan. AIDEA and Pentex will mutually agree on the timing and content of a communication plan prior to any party making any public announcement or statement with respect to the Transactions contemplated by this Term Sheet.

8. Other Terms and Provisions. The Agreement will contain such other terms and conditions as are typical or customary for a Transaction of this type or as agreed upon by the parties.

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# ENSTAR Gas Price Comparison



*\*ENSTAR and FNG RCA filings with AIDEA calculations*

- The IEP target price is 50% higher than the price ENSTAR residential customers pay
- The ENSTAR Homer price includes two additional charges
  - \$1.00 per Mcf for the new pipeline to Homer
  - Recovery of \$33/month property tax assessment to pay back the Homer City loan that funded distribution
- FNG’s currently proposed natural gas price is calculated at over \$25.00 per Mcf



## **AIDEA Potential Purchase of Pentex Alaska Natural Gas Company, LLC**

### **Fact Sheet**

### **February 3, 2015**

#### **Purpose of The Letter of Intent: One step in lowering cost of gas in Interior Alaska**

- On January 26, 2015, AIDEA and Pentex signed a non-binding Letter of Intent for AIDEA to purchase Pentex Alaska Natural Gas Company, LLC for \$52.5 million.
- Pentex is the holding company for several gas related subsidiaries, including the heating utility Fairbanks Natural Gas (FNG) and Titan Alaska that owns an LNG plant at Point MacKenzie.
- The Letter of Intent is a framework to evaluate the proposed purchase of Pentex as part of a solution to accomplish the goals established for the Interior Energy Project under Senate Bill (SB) 23.
- AIDEA is examining the purchase of Pentex as a way to reduce the cost of distributing natural gas in Interior Alaska.
- It is recognized that lowering cost of distribution is just one of the steps needed to meet the goals of the IEP and that finding a source of lower cost gas than is currently available is critical to the IEP.
- Purchase of Pentex also opens up the possibility for AIDEA to seek additional liquefaction capacity to serve the Interior Alaska market.
- AIDEA has already made low cost loans to both FNG and IGU for the build out of their respective gas distribution systems in Fairbanks

#### **Purpose of the Investment: Expansion and Rationalization of Gas Distribution in Fairbanks**

- The potential purchase of Pentex by AIDEA is a strategic investment that can play a significant role in helping achieve long-term success for the Interior Energy Project.
- AIDEA's acquisition of Pentex would promote an integrated gas distribution system that can be built and operated in a more efficient manner for the benefit of all Interior residents and businesses. It avoids duplication between competing utilities.
- Under AIDEA's ownership of Pentex, FNG will be in a position to work closely with the IGU to integrate the construction and operation of a natural gas distribution system. Integrating the natural gas distribution systems will reduce Interior customers' price of delivered natural gas in an expanded system. The ultimate goal of this transition will be a single utility serving the Interior.
- The current return to Pentex's owners is substantially higher than AIDEA's cost of capital. AIDEA expects to be able to immediately lower the price of natural gas to existing FNG customers and provide energy relief by the winter of 2016.

**Purpose of the Investment: Filling a Critical Capital Gap for Liquefaction and Storage**

- Pentex and FNG had planned to finance needed LNG storage, but recently decided against making this critical investment.
- AIDEA plans to develop LNG storage in consultation and cooperation with the IGU and GVEA. Expanded storage is a key component in creating an integrated and efficient gas distribution system for Fairbanks.
- AIDEA will continue ongoing plans to expand service to more customers by building out the distribution system, and plans to work with IGU and GVEA to acquire agreements to purchase additional LNG volumes at a price that will meet the goals of IEP.
- Either through direct expansion of the plant or partnering with Hilcorp (or other private partners) the possibility exists to add LNG capacity to meet the needs of community.

**Impact on the Pending Sale of the Titan LNG Plant**

- In the proposed purchase of Pentex, AIDEA will acquire Pentex as an entity, inclusive of Pentex's interest in the contract to sell the Titan Alaska LNG facility at Point MacKenzie to Harvest Alaska, LLC along with the trucking assets owned by another subsidiary.
- AIDEA would acquire Pentex subject to all pre-existing contractual obligations that it has or that Pentex's subsidiary entities have. AIDEA's acquisition of Pentex would not displace any pre-existing contractual obligations.
- Pentex, under AIDEA's ownership, may potentially explore with Harvest Alaska, LLC, expanding the capacity for gas liquefaction at the existing Titan Alaska LNG plant as one means of lowering the cost of LNG being supplied to Interior Alaska.
- Additionally, the due diligence effort will cover the concurrent LNG supply agreement between Harvest Alaska, LLC and FNG. This supply agreement is pending regulatory approval before the RCA. The RCA gas supply approval process is entirely independent of AIDEA.
- The existing Titan Alaska LNG plant can only provide less than 20% of the Interior's total needs. AIDEA will continue its efforts to develop additional LNG supply at the lowest possible costs to meet the goals of the IEP.

**AIDEA's Due Diligence Review of the Transaction**

- This contemplated Pentex purchase is subject to AIDEA's full due diligence review, AIDEA's public meeting process, and AIDEA's solicitation of the review and advice of local governing bodies. Once the due diligence review is completed, the proposed transaction will be submitted to the AIDEA Board, which must consider it in a public meeting and vote to approve it in order for the transaction to proceed. AIDEA will confirm whether the Pentex acquisition is a prudent investment by undertaking a thorough technical, financial and legal review of the purchase.
- The proposed acquisition price was negotiated to reflect the company's enterprise value based on disclosed financials provided by Pentex and market comparables assessed by AIDEA. Pentex willingly entered into negotiations and agreed to the terms in the non-binding Letter of Intent.
- Assuming successful due diligence and Board approval, AIDEA would purchase Pentex as an Economic Development Project under authority granted under Alaska State Statute 44.88.172. AIDEA will earn a return on this investment as will be described in the finance plan prepared for the transaction, which is required by Alaska Statute.
- FNG will continue to operate as usual during the due diligence process and will continue as a separate company but under AIDEA ownership of its parent entity, Pentex, if the AIDEA Board approves the purchase. AIDEA has no near term plans to change FNG operations, and FNG employees are not expected to become State of Alaska employees.
- AIDEA will not operate FNG and will explore the use of tax-exempt Senate Bill 23 bonds to build out the extended system at the lowest possible financing costs.