

**SB**

**125**

<TARGET><BILL>SB 125</BILL><SUBJECT>SB  
125</SUBJECT><COMM>HL&C30</COMM></TARGET>

# Alaska State Legislature



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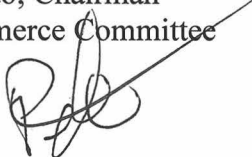
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SENATE PRESIDENT PETE KELLY

## Memorandum

February 22, 2018

TO: Representative Sam Kito, Chairman  
House Labor and Commerce Committee

FROM: Senator Pete Kelly 

RE: SB 125 – Extend Bond Authorization for Interior Energy Project

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I respectfully request that SB 125 “An Act extending the expiration date of the authorization to finance and issue bonds through the Alaska Industrial Development and Export Authority for a liquefied natural gas production system and natural gas distribution system for an Interior energy project; and providing for an effective date” be scheduled for a hearing by the House Labor & Commerce Committee pending referral.

SB 125 extends the allowable time for the Alaska Industrial Development and Energy Authority (AIDEA) to issue bonds for the Interior Energy Project (IEP) to June 30, 2023.

Please find the following documents which are also being supplied electronically:

- Sponsor Statement
- CSSB 125(CRA) 30-LS1004\U
- Summary of Changes
- SB125 Fiscal Note DCCED-AIDEA 1.19.18
- Supporting Documentation
  - News articles
  - AIDEA IEP Quarterly Report – January 5, 2018
  - IEP House Bill 105 Plan Memorandum
  - Letters of Support
- Individual invited to testify

Please contact Joe Byrnes (465-2872) in my office with any further questions



# Interior Energy Project

**Quarterly Report to the  
Alaska State Legislature**

**Interior Energy Project**

January 5, 2018

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## LIST OF ATTACHMENTS

Attachment A:	House Bill 105 Plan Memorandum
Attachment B:	IGU Resolution 2017-06R
Attachment C:	AIDEA Resolution G17-16A
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Attachment D2:	Large Storage Tank Project Development Plan
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Attachment E:	AIDEA Resolution No. G17-14
Attachment F:	AIDEA Resolution No. G17-21
Attachment G:	AIDEA Resolution No. G17-22

## ACRONYMS LIST

ADOT&PF	Alaska Department of Transportation & Public Facilities
AIDEA	Alaska Industrial Development and Export Authority
ARRC	Alaska Railroad Corporation
CDBG	Community Development Block Grant
FA	Financing Agreement
FEED	Front End Engineering and Design
FID	Final Investment Decision
FNG	Fairbanks Natural Gas
FNSB	Fairbanks North Star Borough
HB	House Bill
IEP	Interior Energy Project
IGU	Interior Gas Utility
LNG	Liquefied natural gas
MMCF	Million cubic feet
MOU	Memorandum of Understanding
PACE	Property Assessed Clean Energy
Pentex	Pentex Alaska Natural Gas Company, LLC
PSA	Purchase and Sale Agreement
RUS	Rural Utilities Services
SETS	Sustainable Energy Transmission and Supply Development Fund
SLA	Session Laws of Alaska
Titan	Titan Alaska LNG, LLC
USDA	United States Department of Agriculture

## INTRODUCTION

House Bill (HB) 105 passed the 29<sup>th</sup> Alaska Legislature on April 27, 2015, and was signed by Governor Bill Walker on June 30, 2015. This legislation was enacted to advance the Interior Energy Project (IEP), a project designed to bring low-cost energy to as many residents and businesses of Interior Alaska as possible, as quickly as possible. The financing package designed by this legislation provided the Alaska Industrial Development and Export Authority (AIDEA) the tools necessary to develop an integrated supply chain bringing low-cost natural gas or propane to residents and businesses through local utilities.

A critical component of the original financing for the IEP is the ability to provide financing for the project that will permit the development of a unified gas utility with competitive rates (Chapter 26, SLA2013). HB 105 provided AIDEA with several financial tools and a designated deposit of \$125,000,000 into the Sustainable Energy Transmission and Supply Development (SETS) Fund (AS 44.88.660). The legislation included a limitation on interest charged for the project financing and an allowance for AIDEA to waive “any limitations or requirements of its regulation that are otherwise applicable to the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund.” This language was retained in the IEP financing tools when HB 105 became law on June 30, 2015.

HB 105 requires AIDEA to provide written quarterly reports to the Alaska State Legislature on the status of the IEP. The specific bill language includes:

*“The Alaska Industrial Development and Export Authority shall submit quarterly to the legislature a written report on the Interior Energy Project. The authority shall deliver the report to the senate secretary and the chief clerk of the House of Representatives and notify the legislature that the report is available. The report must include:*

- (1) a description of project progress on all components;*
- (2) an update on the status of local distribution infrastructure buildout;*
- (3) to-date and anticipated conversions; and*
- (4) a financial accounting of funds expended and funds anticipated to be spent, including loans, grants, and bonds.”*

On September 21, 2017, the AIDEA Board considered and approved a development plan that met the requirements of HB 105 outlined above. Reaching this milestone provided the Authority access to the remaining IEP financial tools. AIDEA continued to advance the IEP goals by pursuing consolidation of the existing natural gas utility infrastructure owned by AIDEA, under Pentex LLC, and infrastructure owned by the Interior Gas Utility (IGU). The combined utility is proposed to be owned and controlled by IGU. If IGU chooses to not proceed with assuming the IEP responsibility, AIDEA will be able to advance the project under its own authority.

A copy of the HB 105 plan memorandum is included with this report as Attachment A. The projected cost of delivered natural gas to residential customers from the HB 105 plan memorandum is included as

Table 1. Information contained in Table 1 is based on reduced expectation of customer conversions down to 50% over an eight-year period of time.

Table 1: Summary Cost of Gas with Storage Tax Credit

Summary Cost of Gas - With Storage Tax Credit										
Anticipated Demand (Bcf)	0.75	0.75	1.19	1.83	2.55	3.25	3.90	4.41	4.75	4.95
Cost of Gas (\$/Mcf nominal)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Natural Gas - Cook Inlet	\$7.72	\$7.72	\$7.72	\$7.72	\$7.87	\$8.03	\$8.19	\$8.36	\$8.52	\$8.69
Pipeline Trans. Cost to Pt. Mac. (3rd-party)	0.65	0.66	0.68	0.69	0.70	0.72	0.73	0.75	0.76	0.78
LNG Production - Titan Plant	4.28	4.34	3.22	2.53	2.19	2.02	1.92	1.88	1.87	1.89
Trucking - Pt. Mac. To Fairbanks	2.48	2.53	2.58	2.63	2.68	2.73	2.79	2.84	2.90	2.96
<b>Subtotal - Cost to Utilities</b>	<b>\$ 15.12</b>	<b>\$ 15.25</b>	<b>\$ 14.19</b>	<b>\$ 13.57</b>	<b>\$ 13.45</b>	<b>\$ 13.50</b>	<b>\$ 13.64</b>	<b>\$ 13.83</b>	<b>\$ 14.06</b>	<b>\$ 14.32</b>
Distribution, Storage, Vaporization	4.76	4.85	3.13	2.07	1.51	1.21	1.03	0.93	0.88	0.86
<b>Total Cost of Gas before Financing</b>	<b>\$ 19.88</b>	<b>\$ 20.10</b>	<b>\$ 17.31</b>	<b>\$ 15.64</b>	<b>\$ 14.96</b>	<b>\$ 14.71</b>	<b>\$ 14.67</b>	<b>\$ 14.76</b>	<b>\$ 14.94</b>	<b>\$ 15.18</b>
Debt	-	-	-	0.72	0.51	0.40	0.43	0.78	1.34	1.69
<b>Total Cost of Gas (nominal)</b>	<b>\$ 19.88</b>	<b>\$ 20.10</b>	<b>\$ 17.31</b>	<b>\$ 16.35</b>	<b>\$ 15.48</b>	<b>\$ 15.11</b>	<b>\$ 15.10</b>	<b>\$ 15.54</b>	<b>\$ 16.28</b>	<b>\$ 16.87</b>
<b>Total Cost of Gas (real)</b>	<b>\$ 19.11</b>	<b>\$ 18.94</b>	<b>\$ 16.00</b>	<b>\$ 14.81</b>	<b>\$ 13.74</b>	<b>\$ 13.16</b>	<b>\$ 12.88</b>	<b>\$ 13.00</b>	<b>\$ 13.36</b>	<b>\$ 13.57</b>
Equivalent Fuel Oil Price (nom. \$/gal)	\$ 2.74	\$ 2.77	\$ 2.39	\$ 2.26	\$ 2.13	\$ 2.08	\$ 2.08	\$ 2.14	\$ 2.25	\$ 2.33
Equivalent Fuel Oil Price (real \$/gal)	\$ 2.64	\$ 2.61	\$ 2.21	\$ 2.04	\$ 1.90	\$ 1.81	\$ 1.78	\$ 1.79	\$ 1.84	\$ 1.87
<b>Planned Average Customer Rates*</b>	<b>\$20.20</b>	<b>\$20.20</b>	<b>\$17.31</b>	<b>\$16.35</b>	<b>\$15.48</b>	<b>\$15.11</b>	<b>\$15.10</b>	<b>\$15.54</b>	<b>\$16.28</b>	<b>\$16.87</b>
Equivalent Fuel Oil Price (nom. \$/gal)	\$ 2.79	\$ 2.79	\$ 2.39	\$ 2.26	\$ 2.13	\$ 2.08	\$ 2.08	\$ 2.14	\$ 2.25	\$ 2.33

\*Differs from Total Cost of Gas in 2018 and 2019 due to utility consolidation

The supporting documents for the HB 105 plan can be downloaded at [www.interiorenergyproject.com/resources.html](http://www.interiorenergyproject.com/resources.html).

This is the tenth quarterly report submitted under the requirements of HB 105. Each section of the report will correspond to one of the four items required by HB 105. This report augments the information previously provided, and covers the period from October 1, 2017 through December 31, 2017.

## DESCRIPTION OF PROJECT PROGRESS ON ALL COMPONENTS

The IEP effort is structured on the following project components: Supply, Liquefaction, Transportation, Distribution (including Storage and Regasification), and Conversions.

Following negotiations in 2016, a non-binding Utility Integration Memorandum of Understanding (MOU) was approved by the IGU and AIDEA Boards in January 2017. The purpose of the MOU was to provide guidance and structure for a separate Financing Agreement (FA) and Purchase and Sale Agreement (PSA) designed to form a single, investment-grade natural gas sourcing and distribution utility within the Fairbanks North Star Borough (FNSB), through the consolidation of IGU with the AIDEA-owned Pentex natural gas system commonly referred to as FNG.

Negotiations continued on the FA, PSA and supporting documents through much of 2017. Work concluded in November 2017 leading to IGU Board approval of the FA and PSA on December 5<sup>th</sup>, through the adoption of IGU Amended Resolution # 2017-06R (Attachment B), and AIDEA Board approval of the documents on December 7<sup>th</sup> through the adoption of AIDEA Resolution G17-16A (Attachment C). As authorized, the PSA and FA documents were signed on December 13, 2017. The signed PSA and FA can be found at [www.interiorenergyproject.com](http://www.interiorenergyproject.com). Final closure of these agreements will utilize the IEP project financing authorized under Chapter 26, SLA2013 and capital funds appropriated in sec. 11, ch. 38. SLA 2015, page 32, lines 17–25.

As required by HB 105, the status of Supply, Liquefaction, Transportation, Distribution (including Storage and Regasification), and Conversions are summarized below.

### Supply

Titan Alaska LNG, LLC (Titan), a Pentex subsidiary, has a current natural gas supply agreement for the existing Titan facility through April 2018.

Titan concluded negotiations on a new gas supply contract with Hilcorp to provide the current liquefaction facility with a term beginning April 1, 2018 and expiring March 31, 2021. The “All Requirements” Agreement provides Titan with enough capacity (5 million cubic feet [MMCF]/ day) for its existing customers, and allows for the expansion of up to 15 MMCF/Day upon 18 months’ advance notice to Hilcorp. The terms of the contract:

- Allow the IEP to engage with other Cook Inlet producers as early as 2021.
- Amend the existing supply contract to avoid a scheduled price increase of 4 percent slated to start on January 1, 2018.
- Offer the IEP a great deal of volume flexibility without any take or pay risk.
- Contain no price escalation over its duration.
- Remove a price differential for peak winter gas that is contained in the current supply contract.

## Liquefaction

Under the terms of the signed FA and PSA documents, steps will now be taken to finalize the optimal design and commercial structure to increase the availability of liquefied natural gas (LNG) through a Front End Engineering and Design (FEED) process. At the completion of FEED, a determination will be made whether to make a Final Investment Decision (FID). If the FID is approved, a commercial solicitation will be initiated to increase the capacity of LNG available for shipment to the Interior.

## Transportation

### Rail option update

FNG continues to explore the potential for future shipments of LNG with the Alaska Railroad Corporation (ARRC) as part of the overall IEP effort. As work proceeds to increase LNG storage capacity in the FNSB, consideration will be given to facilitate delivery by rail in the future.

### Trucking update

Three new large-capacity HEIL trailers have been fully integrated into the Pentex LNG transportation fleet. In order to enhance future options, the new trailers are configured to facilitate adding a hitch at a later date. This modification will allow pulling an additional “pup” trailer with each LNG load if this proves to be feasible.

## Distribution

### Systems expansion

No major changes have been made to the distribution system since the October 1, 2015, IEP Quarterly Report. Detailed maps of the build-out accomplished in 2015 are included in that report, available at [www.interiorenergyproject.com](http://www.interiorenergyproject.com).

FNG continued to work with the City of Fairbanks, FNSB, and the Alaska Department of Transportation & Public Facilities (ADOT&PF) to perform minor pipe installs in conjunction with major roadwork.

On June 29, 2017, the AIDEA Board approved Resolution No. G17- 09 authorizing Pentex subsidiaries FNG and Cassini to proceed with FEED work for the proposed Fairbanks LNG storage facility expansion in an amount not to exceed \$1,500,000. Funds for this effort are available from the FY 2014 capital appropriation made to the Authority to advance the Interior Energy Project.

On December 7, 2017, the AIDEA Board was presented with a memorandum outlining the Interior Energy Project – Fairbanks Large Storage Project plan to expand the existing LNG storage in Fairbanks through the construction of a 5.25 million gallon LNG tank. Following discussion, the AIDEA Board approved Resolution No. G17-20 authorizing additional IEP

financing of up to \$45,500,000 for LNG storage expansion. The LNG storage memorandum, project plan, and AIDEA Resolution No. G17-20 are included with this report (Attachments D1, D2, and D3).

Under the terms of the signed consolidation FA and PSA, IGU concurrence on the LNG storage expansion was required before construction could begin. This concurrence was provided by the IGU at a Board of Directors Special Meeting on December 12, 2017.

A competitive request for proposals was issued for this work with a close date of October 31, 2017. Following the end of this period, proposals received were evaluated and a contractor selected. The contract for engineering, procurement and construction of the tank and associated foundation and civil works was executed on December 22, 2017. Preliminary construction activities have begun.

## **Systems consolidation**

As detailed above, negotiations continued throughout 2017 resulting in the signing of the Financing and Purchase and Sale agreements on December 13, 2017. These documents allow the consolidation of the AIDEA-owned Pentex assets and the IGU assets into a single, investment-grade natural gas sourcing and distribution utility within the Fairbanks North Star Borough. Closure under these contractual agreements is anticipated to take place before May 31, 2018.

Costs incurred by IGU, in its review of the technical and business integration of IGU and the Pentex assets into a single consolidated natural gas utility, and associated IGU due diligence, were approved by the AIDEA Board for inclusion in the existing IGU SETS loan. Actions to approve these inclusions were taken through the adoption of AIDEA Resolution No. G17-14, on September 21, 2017 (Attachment E) and adoption of AIDEA Resolution No. G17-21 on December 7, 2017 (Attachment F).

Cost incurred by AIDEA to facilitate and achieve signing of the FA and PSA on December 13, 2017 were authorized to be covered with IEP funds through the adoption of AIDEA Resolution No. G17-22 (Attachment G).

## **Conversion**

Efforts to assist consumers with conversion to natural gas have centered primarily on identification of low-cost loan funds and access to favorable financing mechanisms. Work has also been done with furnace and boiler manufacturers regarding new boiler components that may reduce the cost of individual customer conversion to natural gas.

### **Consumer interest in conversion assistance**

The Cardno Entrix *Interior Energy Project Natural Gas Conversion Analysis*, finalized in January 2014, identified a high level of interest in converting to natural gas as a lower cost,

cleaner source fuel for space heat if the delivered price approached the target of \$15 Mcf. At the time the Cardno Entrix analysis was performed, many homeowners indicated a desire to forego financing conversion and instead expressed a willingness to fund this action from personal savings due to the high cost of fuel oil. For individuals without personal funds for this purpose, the ability to finance all, or a portion, of the cost over an extended period of time scored high as a necessary tool to support their conversion to gas.

The ability to pass the obligation for repayment of conversion financing to a new owner of a building proved to be very attractive to residential owners. The ability to spread natural gas conversion costs over a 10- to 20-year period and the use of transferable financing are both attributes of two energy efficiency financing mechanisms described below that have achieved widespread use across the Lower 48.

The current low price of home heating fuel oil increases the importance of conversion assistance that will incentivize individual property owners in the FNSB to switch to natural gas when it becomes available. The original Cardno Entrix conversion estimates and demand model was modified to reflect the lower price of fuel oil and expected reduction in natural gas conversions. However, just as the price of home heating oil declined unexpectedly, the future price is uncertain.

## **Property Assessed Clean Energy financing**

Property Assessed Clean Energy (PACE) is a means of financing improvements that increase the energy efficiency of commercial buildings. The improvements are financed with repayment accomplished through a voluntary assessment placed on the annual property tax bill. PACE financing is often structured to allow a longer payback period than is possible with conventional business loans. The strength of the PACE collection mechanism results in low default/low risk loans, which may justify a lower interest rate.

PACE legislation (HB 80) was passed by the 30<sup>th</sup> Alaska Legislature on April 17, 2017. HB 80 was signed into law by Governor Walker on October 6, 2017. The Alaska Energy Authority is now working with municipalities to determine how to best implement the law.

## **On-bill financing**

On-bill financing allows utility customers to borrow funds that are repaid via a voluntary line item added to their standard utility bill. This financing mechanism is often used by utilities to assist new customers in overcoming the initial cost of accessing a utility service.

The current ownership and governance structure of IGU and FNG allow these local utilities the flexibility to offer an on-bill financing mechanism. Previous conversion surveys and focus groups indicated that access to such a transferable financing mechanism would help incentivize conversion to natural gas. Coupling this tool with low cost loan funds will be helpful.

Although FNG and IGU currently have access to on-bill financing as a means of assisting consumers with conversion to natural gas, it is unclear whether utilities that are rate-regulated by the Regulatory Commission of Alaska have such latitude. As a result, there is interest in legislation that would amend existing Alaska statutes to clearly allow this opportunity.

### **Identified funding sources for conversion assistance**

The Local Conversion Working Group has identified the following possible funding sources for conversion assistance:

- I. Commercial lenders
  - a. Commercial loans as part of a community-wide conversion program
- II. Local government
  - a. PACE-enabled conversion loans
  - b. Possible local government back-stop funding for PACE loans
- III. State sources
  - a. Air quality programs
  - b. Community Development Block Grants (CDBG)
- IV. Federal sources
  - a. United States Department of Agriculture (USDA) Rural Utilities Service (RUS) Energy Efficiency and Conservation Loan Program
  - b. USDA RUS Rural Energy Savings Program loans
  - c. Clean Water Fund
  - d. United States Environmental Protection Agency Targeted Airshed Grants

CDBGs were added as a potential funding source based on work performed by IGU staff that identified specific areas within the combined FNG and IGU service territory with income characteristics that may support access to CDBG funds.

## **UPDATE ON THE STATUS OF LOCAL DISTRIBUTION INFRASTRUCTURE BUILD-OUT**

No major changes were made to the distribution system in the last quarter other than work with the City of Fairbanks, the FNSB, and the ADOT&PF to coordinate pipe installs that could be efficiently constructed along with roadwork taking place. Detailed maps of the build-out accomplished in 2015 were included in the October 1, 2015 IEP Quarterly Report.

## **TO-DATE AND ANTICIPATED CONVERSIONS / CONNECTIONS**

### **To-Date Conversions / Connections**

Due to limited gas supply, no conversions are currently occurring. Until the supply is increased, there is not sufficient gas in the winter to ensure uninterrupted service to additional customers. Expanded

distribution lines installed previously have been pressurized and are available to supply gas to homes and businesses when additional natural gas is available.

### Anticipated Conversions

The number of anticipated conversions provided in the October 1, 2015 IEP Quarterly Report was based on the analysis undertaken by Cardno Entrix. The report assessed “willingness to convert” based on a number of factors related to conversion costs, prior conversion history, survey data, and potential savings. A copy of that report can be found at [interiorenergyproject.com/Resources%20and%20Documents/IEP\\_Conversion\\_Analysis\\_Final.pdf](http://interiorenergyproject.com/Resources%20and%20Documents/IEP_Conversion_Analysis_Final.pdf).

The significant change in the price of heating fuel required a fresh look at the “willingness to convert” with specific attention paid to the closing of the cost gap between heating fuel and the IEP natural gas price targets. Cardno Entrix was engaged to update the analysis of “willingness to convert” based on a range of scenarios of lowered heating oil prices. In the most conservative scenario, expected conversions were projected to drop by approximately one-third from the original analysis.

The change in projected willingness to convert, combined with an extension of the time needed to reach conversions from six years to eight years, results in a revision to the number of anticipated conversions and the anticipated demand for the project. Table 2 depicts the anticipated number of conversions, by year, based upon the revised Cardno Entrix analysis.

Table 2: Natural Gas Customer Projection

	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>FNG</b>	959	959	1,506	2,183	3,031	3,732	4,362	4,635	4,807
<b>IGU</b>	-	-	167	576	1,285	2,255	3,502	4,818	5,998

### Anticipated / Potential Connections

The anticipated mission expansions to the Department of Defense bases in the FNSB provide an opportunity to add significant natural gas demand for the consolidated utility system by installation of natural gas heating systems in the new housing units that will be required. The IEP team is working with the FNSB and the cities of Fairbanks and North Pole to explore mechanisms to ensure those new housing units use natural gas space heating. Options to be considered include incentives (e.g., reduced cost connections) and potential building code or other mandates. The financial viability of the consolidated FNSB natural gas utility – and its ability to offer low rates attractive enough to drive conversion of existing residences – can be substantially enhanced by adding demand from the new housing units.

## FINANCIAL ACCOUNTING OF FUNDS EXPENDED AND FUNDS ANTICIPATED TO BE SPENT, INCLUDING LOANS, GRANTS, AND BONDS

Table 3 outlines the IEP expenditures related to the \$57.5 million capital appropriation, the \$125 million of SETS fund capitalization, and the \$150 million of SETS bond authorization.

Table 3: Expenditures from and Remaining Funds of Legislative Appropriation & Authorization(s)

<b>Expenditures* from and Remaining Funds of Legislative Appropriation &amp; Authorization(s):</b>					
	HCS CSSB 18 \$57.5 mill Cap Approp	SB 23 SLA 2013 \$125 mill SETS	SB 23 SLA 2013 \$150 mill Bonds	Total	
<b>Development Costs</b>	<b>IEP Phase 1 (Pre HB 105)</b>				
	LNG Plant	7,585,150	-	-	7,585,150
	North Slope Pad	6,003,418	-	-	6,003,418
	Distribution	500,005	-	-	500,005
	<b>Total</b>	<b>14,088,573</b>	<b>-</b>	<b>-</b>	<b>14,088,573</b>
	<b>IEP Phase 2 (Post HB 105)</b>				
	Commodity	91,673	-	-	91,673
	LNG Plant	430,030	-	-	430,030
	Trucking	14,075	-	-	14,075
	Storage	1,517,594	-	-	1,517,594
	Distribution	26,000	-	-	26,000
	Project Management	444,375	-	-	444,375
	Due Dilligence & Deal Structuring	534,388	-	-	534,388
	<b>Total</b>	<b>3,058,135</b>	<b>-</b>	<b>-</b>	<b>3,058,135</b>
	<b>Total</b>	<b>17,146,708</b>	<b>-</b>	<b>-</b>	<b>17,146,708</b>
<b>Loans &amp; Investments</b>	LNG Plant	-	-	-	
	Trucking	-	-	-	
	Storage	-	-	-	
	Distriubtion	-	-	-	
	FNG Loan	-	15,000,000	-	15,000,000
	IGU Loan	-	37,780,000	-	37,780,000
<b>Total</b>	<b>-</b>	<b>52,780,000</b>	<b>-</b>	<b>52,780,000</b>	
<b>Total</b>	<b>Total Expenditure</b>	<b>17,146,708</b>	<b>52,780,000</b>	<b>-</b>	<b>69,926,708</b>
	<b>Remaining Funds</b>	<b>40,353,292</b>	<b>72,220,000**</b>	<b>150,000,000</b>	<b>262,573,292</b>
<b>Notes</b>					
<i>Financial data per unaudited accounting system records as of 01/02/2018.</i>					
<i>* Expenditures include Actuals, Encumbrances, and Commitments as of 01/02/2018</i>					
<i>Legislative Appropriation &amp; Authorization(s) only include those identified above and do not include AIDEA operating, Economic Development Fund, or other sources.</i>					
<i>** As directed by adoption of AIDEA Resolution G17-20 on 12/7/17, an additional \$45,500,000 of SETS financing has been authorized to Fairbanks Natural Gas to expand LNG storage in the FNSB.</i>					

## **SUMMARY**

The adoption of a HB 105 Plan by the AIDEA Board on September 21, 2017 provided access to IEP financing tools necessary to finalize, approve, and sign:

- a Purchase and Sale Agreement, and
- a separate Financing Agreement.

As a result, steps are underway to expand LNG storage capacity and LNG production capacity, and to consolidate the separate natural gas distribution infrastructure owned by AIDEA (Pentex) and the IGU under ownership and operation of the IGU.

The next quarterly report is due in early April 2018.



## MEMORANDUM

To: John Springsteen, Executive Director  
Alaska Industrial Development and Export Authority

From: Gene Therriault, IEP Team Lead  
Mark Gardiner, IEP Team Member  
Dan Britton, CEO Pentex/Fairbanks Natural Gas

Date: September 20, 2017

Re: Interior Energy Project – HB105 Required Project Plan

This memorandum and accompanying attachments constitute an IEP project plan that complies with specific requirements of Chapter 39, SLA 2015 (HB105). In addition, the documents assess the impact of current low fuel oil prices on the IEP. Finally, this memorandum recommends the AIDEA Board approve this plan through consideration and adoption of Resolution No. G17-13.

The IEP Team recommends adoption of the HB105 compliant plan for development of the natural gas system in the Fairbanks North Star Borough (FNSB) based on incremental investment in system capital and continued low-cost utility operations. The AIDEA IEP HB105 Plan achieves the IEP objectives for significant customer rate reductions sufficient to support a critical mass of space heating fuel conversion to natural gas. The plan is based on proven municipal utility principles, establishing the foundation for integration of the existing Fairbanks Natural Gas (FNG) and Interior Gas Utility (IGU) natural gas distribution infrastructure in the FNSB into a single, consolidated utility. The Plan invests the appropriated capital funds, deploys designated funds from the Sustainable Energy Transmission and Supply (SETS) fund and makes prudent use of authorized bond financing in the early years – thereby matching the financial requirements for capital investment to the conservative estimated conversion and gas demand growth rates.

### Background

In 2013, the Alaska Legislature, at the request of Governor Parnell and the Interior community, acted to authorize a financing package designed to bring North Slope gas to the Interior via trucked Liquefied Natural Gas (LNG). Financing for the project (the Interior Energy Project or “IEP”) included \$57.5 million of state appropriated funds and \$275 million of authorized project financing consisting of \$125 million appropriated to the SETS fund and an authorization of \$150 million in AIDEA bonds backed by a state “moral obligation” credit support. The financing portion of the project was contained in SB23 of the 2013 Legislative session.

In the remainder of 2013 and all of 2014, AIDEA proceeded to select a project partner and advance development of a LNG plant on the North Slope of Alaska. At the end of 2014, the project development Concession Agreement for the North Slope plant expired, leading to termination of the Concession Agreement in early 2015.

During the 2015 Legislative session, HB105 reauthorized the IEP financing with new language expanding alternatives (gas sourced from other than the North Slope, propane, or small diameter pipelines) for supplying energy to the Interior of Alaska. This legislation, introduced by Governor Walker and supported by the Interior community, passed both houses of the legislature unanimously and was signed into law June 30, 2015. One change in HB105 from the previous authorization was the addition of a requirement that the AIDEA Board approve, by resolution, a project plan for the Interior Energy Project. The specific language of that requirement states:

*“(a) The Alaska Industrial Development and Export Authority, through the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund (AS 44.88.660), may provide financing up to a principal amount of \$275,000,000 for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas production plant and system and affiliated infrastructure in the state that will provide natural gas to Interior Alaska as a primary market and natural gas delivery and distribution systems and affiliated infrastructure that will provide natural gas to 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;*
- 3. and include the estimated price of natural gas supplied to natural gas utilities in Interior Alaska before distribution to consumers.”*

This memorandum, and the associated attachments, provide the documentation for Board Resolution No. G17-13, RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY APPROVING AN HB 105 COMPLIANT PROJECT PLAN FOR THE INTERIOR ENERGY PROJECT.

## **Project Plan**

The project recommended by the IEP team to the AIDEA administration for action by the AIDEA Board is founded on a “Titan 2” LNG plant in the Cook Inlet area, co-located with the existing Titan LNG facility at Point MacKenzie presently serving Interior Alaska.

The proposed Titan 2 project will add approximately 100,000 gallons per day (3Bcf per year) of LNG capacity to the present output of the Titan facility. The existing Titan plant has a production capacity of 50,000 gallons per day. Estimated capital cost for the new plant capacity is \$46 million. That number will be refined and confirmed by early works Front End Engineering and Design (FEED) efforts prior to presenting a Final Investment Decision (FID) recommendation.

Additionally, FNG will construct a new 5.25 million gallon LNG storage facility in Fairbanks. The cost of this project component is estimated to be \$42 million and the storage facility is expected to qualify to receive a State of Alaska LNG storage payment of \$15 million under the provisions of AS 43.20.047. This storage project will meet the RCA’s requirement for five days of storage and provide an increased level of seasonal supply by storing LNG produced in the summer for use in the winter. Completion of this storage facility will allow the existing LNG tanks in South Fairbanks to be re-deployed to North Pole for initial supply to the existing IGU system.

The structure of the commercial and supply chain arrangements is as follows:

- I. The IGU or AIDEA SETS fund will acquire Pentex Alaska, LLC from the AIDEA Revolving Fund. Pentex is the parent company of Fairbanks Natural Gas, LLC, Arctic Energy Transport, LLC, and Titan Alaska LNG, LLC. Pentex and its subsidiaries constitute an operating natural gas enterprise currently providing natural gas utility service to 1,100 customers in Fairbanks.
- II. IGU and/or Pentex will continue to operate expanded liquefaction, transportation, storage, re-gasification, and distribution of the gas to existing and new customers in the FNG and IGU service areas.
- III. AIDEA will provide financing to IGU and/or Pentex consistent with HB105 authorizations and IEP goals, maintaining fiscal controls through loan terms and covenants.
- IV. IGU and/or Pentex will construct the Titan 2 addition integrated with the current Titan LNG plant. A copy of the Titan Expansion Development Plan is included as Attachment A.
- V. Titan will purchase feed gas for the expanded liquefaction plant. Gas will be provided into the plant via a gas sales agreement between Titan and Hilcorp Alaska. A copy of the gas sales agreement executed by the parties is included as Attachment B.
- VI. Titan will arrange for transport of the LNG to the Interior. Initially, this transport is expected to be accomplished via trucking in a manner similar to the present trucking arrangement. A summary of the large capacity trailer pilot project results and projected costs are included as Attachment C.
- VII. FNG will construct new LNG storage capacity sufficient to meet the RCA required 5-day minimum storage requirement as well as provide increased seasonal supply during peak winter months. A summary of the LNG storage expansion project is included as Attachment D.
- VIII. IGU and FNG will distribute natural gas from the LNG storage facilities to existing and new customers.

## **Specific HB 105 Required Components**

### **(1) Source of Natural Gas**

Titan recently executed a new gas supply contract with Hilcorp to provide Titan's current liquefaction facility with a term beginning April 01, 2018 and expiring March 31, 2021. The All Requirements Agreement provides Titan with enough capacity (5 MMCF/ Day) for its existing customers, and allows for the expansion of up to 15 MMCF/Day after Titan provides 18 months' notice to Hilcorp. This is enough capacity to allow for the expansion of the Titan facility as described in this memo.

### **(2) Estimated Cost of the Project**

The estimated costs of the project, including future expansions of the combined distribution systems and LNG plant, are outlined in Table 1. The capital costs are split into three categories: Already Invested, Immediate, and Demand Dependent. The immediate capital costs will be incurred upon project sanction in order to meet the goals of the IEP. The immediate capital investment will allow for demand and corresponding revenue growth. Upon sufficient revenue

growth, IGU and/or Pentex will have the financial ability to incur revenue-backed debt to finance additional expansion of the LNG plant and combined distribution systems within the FNSB.

IEP Capital Program	Already Invested	Stage 1 & 2 - Consolidated Utility - Immediate	Stage 3 - Demand Dependent	Total
<b>SOURCES OF FUNDS</b>				
Capital Appropriation	\$ 15,060,000	\$ 42,440,000	\$ -	\$ 57,500,000
SETS Loans	42,400,000	82,600,000	-	125,000,000
Bond Financing - Capital	-	19,451,400	121,092,600	140,544,000
Storage Tax Credits	-	18,500,000	-	18,500,000
Commercial Financing	-	1,825,000	2,920,000	4,745,000
Utility Revenues	-	-	-	-
<b>Total - Sources of Funds</b>	<b>\$ 57,460,000</b>	<b>\$ 164,816,400</b>	<b>\$ 124,012,600</b>	<b>\$ 346,289,000</b>
<b>USES OF FUNDS</b>				
Pentex Acquisition	\$ -	\$ 59,575,000	\$ -	\$ 59,575,000
Liquefaction Development	-	46,200,000	25,000,000	71,200,000
Transportation	-	1,825,000	2,920,000	4,745,000
Storage & Regasification	-	52,000,000	-	52,000,000
Distribution	42,400,000	5,216,400	96,092,600	143,709,000
Other Project Costs (NS, etc.)	15,060,000	-	-	15,060,000
<b>Total - Uses of Funds</b>	<b>\$ 57,460,000</b>	<b>\$ 164,816,400</b>	<b>\$ 124,012,600</b>	<b>\$ 346,289,000</b>

Table 1

(3) Estimated Price of Natural Gas Supplied to Natural Gas Utilities Before Distribution to Consumers

The estimated price of natural gas supplied to Interior customers is outlined in Table 2. Under the project plan, the LNG plant is owned by IGU and/or Pentex and the capital costs are integrated into the entire utility, including the storage and distribution system. For purposes of HB105, the estimated price of natural gas (LNG) supplied to utilities is shown in the line labeled “Subtotal – Cost to Utilities”.

The cost of debt for the project recovers the pooled capital investment for all assets of the project identified in the category above. The total cost of gas is shown in nominal and inflation adjusted real dollars. The table below shows that after adjusting for inflation this project can meet the price goals of the IEP most years. It is anticipated that rates will be set slightly higher than costs in order to provide cash reserves and smooth out the impact to the end consumer of the year-to-year fluctuations in cost.

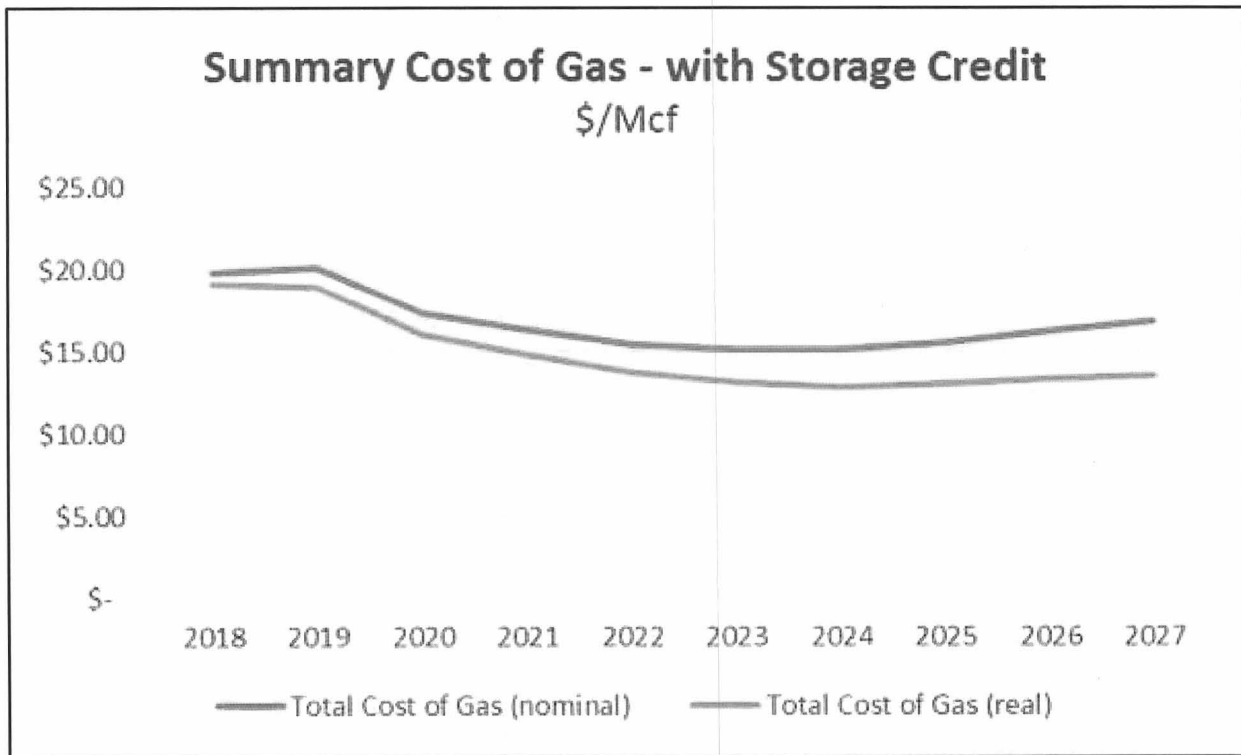
Summary Cost of Gas - With Storage Tax Credit										
Anticipated Demand (Bcf)	0.75	0.75	1.19	1.83	2.55	3.25	3.90	4.41	4.75	4.95
Cost of Gas (\$/Mcf nominal)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Natural Gas - Cook Inlet	\$7.72	\$7.72	\$7.72	\$7.72	\$7.87	\$8.03	\$8.19	\$8.36	\$8.52	\$8.69
Pipeline Trans. Cost to Pt. Mac. (3rd-party)	0.65	0.66	0.68	0.69	0.70	0.72	0.73	0.75	0.76	0.78
LNG Production - Titan Plant	4.28	4.34	3.22	2.53	2.19	2.02	1.92	1.88	1.87	1.89
Trucking - Pt. Mac. To Fairbanks	2.48	2.53	2.58	2.63	2.68	2.73	2.79	2.84	2.90	2.96
<b>Subtotal - Cost to Utilities</b>	<b>\$ 15.12</b>	<b>\$ 15.25</b>	<b>\$ 14.19</b>	<b>\$ 13.67</b>	<b>\$ 13.45</b>	<b>\$ 13.60</b>	<b>\$ 13.64</b>	<b>\$ 13.83</b>	<b>\$ 14.06</b>	<b>\$ 14.32</b>
Distribution, Storage, Vaporization	4.76	4.85	3.13	2.07	1.51	1.21	1.03	0.93	0.88	0.86
<b>Total Cost of Gas before Financing Debt</b>	<b>\$ 19.88</b>	<b>\$ 20.10</b>	<b>\$ 17.31</b>	<b>\$ 16.64</b>	<b>\$ 14.96</b>	<b>\$ 14.71</b>	<b>\$ 14.67</b>	<b>\$ 14.76</b>	<b>\$ 14.94</b>	<b>\$ 15.18</b>
Total Cost of Gas (nominal)	\$ 19.88	\$ 20.10	\$ 17.31	\$ 16.35	\$ 15.48	\$ 15.11	\$ 15.10	\$ 15.54	\$ 16.28	\$ 16.87
Total Cost of Gas (real)	\$ 19.11	\$ 18.94	\$ 16.00	\$ 14.81	\$ 13.74	\$ 13.16	\$ 12.88	\$ 13.00	\$ 13.36	\$ 13.57
Equivalent Fuel Oil Price (nom. \$/gal)	\$ 2.74	\$ 2.77	\$ 2.39	\$ 2.26	\$ 2.13	\$ 2.08	\$ 2.08	\$ 2.14	\$ 2.26	\$ 2.33
Equivalent Fuel Oil Price (real \$/gal)	\$ 2.64	\$ 2.61	\$ 2.21	\$ 2.04	\$ 1.90	\$ 1.81	\$ 1.78	\$ 1.79	\$ 1.84	\$ 1.87
Planned Average Customer Rates*	\$20.20	\$20.20	\$17.31	\$16.35	\$15.48	\$15.11	\$15.10	\$15.54	\$16.28	\$16.87
Equivalent Fuel Oil Price (nom. \$/gal)	\$ 2.79	\$ 2.79	\$ 2.39	\$ 2.26	\$ 2.13	\$ 2.08	\$ 2.08	\$ 2.14	\$ 2.26	\$ 2.33

\*Differs from Total Cost of Gas in 2018 and 2019 due to utility consolidation

Table 2

### Visual Comparison of Total Cost of Gas to customers (nominal vs real)

Graph 1 utilized values from Table 2 to provide a visual comparison of the Total Cost of Gas (nominal) and the Total Cost of Gas (real) over time.



Graph 1

## Comparison of AIDEA IEP Projected Gas Cost to Notional IEP Target Cost

Table 3 provides a comparison of the projected AIDEA IEP cost of gas versus the pre-IEP Pentex gas price and the notional IEP price target. In order to reflect an apples-to-apples comparison, all of the costs in this table reflect an assumed 2.00% rate of inflation.

Cost of Gas (with inflation)	2.00%									
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Pentex Rate (pre-IEP)	\$24.00	\$ 24.48	\$ 24.97	\$ 25.47	\$ 25.98	\$ 26.50	\$ 27.03	\$ 27.57	\$ 28.12	\$ 28.68
IEP Notional Target Rate	\$15.00	\$ 15.30	\$ 15.61	\$ 15.92	\$ 16.24	\$ 16.56	\$ 16.89	\$ 17.23	\$ 17.57	\$ 17.93
AIDEA IEP Rate - w/ Storage Credit	\$19.88	\$ 20.10	\$ 17.31	\$ 16.35	\$ 15.48	\$ 15.11	\$ 15.10	\$ 15.54	\$ 16.28	\$ 16.87
AIDEA IEP Rate - no Storage Credit	\$19.88	\$20.10	\$17.31	\$16.96	\$15.91	\$15.46	\$15.37	\$15.80	\$16.53	\$17.11
<b>% of IEP Target Savings</b>										
AIDEA IEP Rate - w/ Storage Credit	45.8%	47.7%	81.8%	95.4%	107.8%	114.6%	117.7%	116.4%	112.2%	109.8%
AIDEA IEP Rate - no Storage Credit	45.8%	47.7%	81.8%	89.1%	103.3%	111.1%	115.0%	113.8%	109.9%	107.6%

Table 3

As Table 3 shows, the LNG storage credit/payment enables the AIDEA IEP HB105 Plan to achieve the same level of savings as the IEP Notional Target rate by 2022.

### Recommendations for AIDEA Board action

The IEP Team and the AIDEA administration recommend the AIDEA Board vote to pass Resolution No. G17-13 approving this HB105 compliant project plan.

AIDEA Board passage of Resolution No. G17-13 will accomplish the following actions:

- Approve an IEP Project Plan with components specified in HB105
- Authorize AIDEA access to full IEP funding to be deployed in pursuit of the project goals
- Authorize AIDEA to consider sale of Pentex Alaska, LLC to the IGU or the AIDEA SETS fund under separate action

This action provides the commercial structure and financing tools for IGU or Pentex to control the IEP project. This includes constructing the Titan 2 LNG plant, building additional LNG storage in Fairbanks, integrating the existing FNG and IGU distribution infrastructure and, as demand and revenue permit, future expansions of the infrastructure needed to increase the natural gas availability and utilization in Interior Alaska.

The IEP Team and the AIDEA administration have determined that this project plan provides a path to lower the cost of natural gas to Interior residents and businesses.

### Attachments

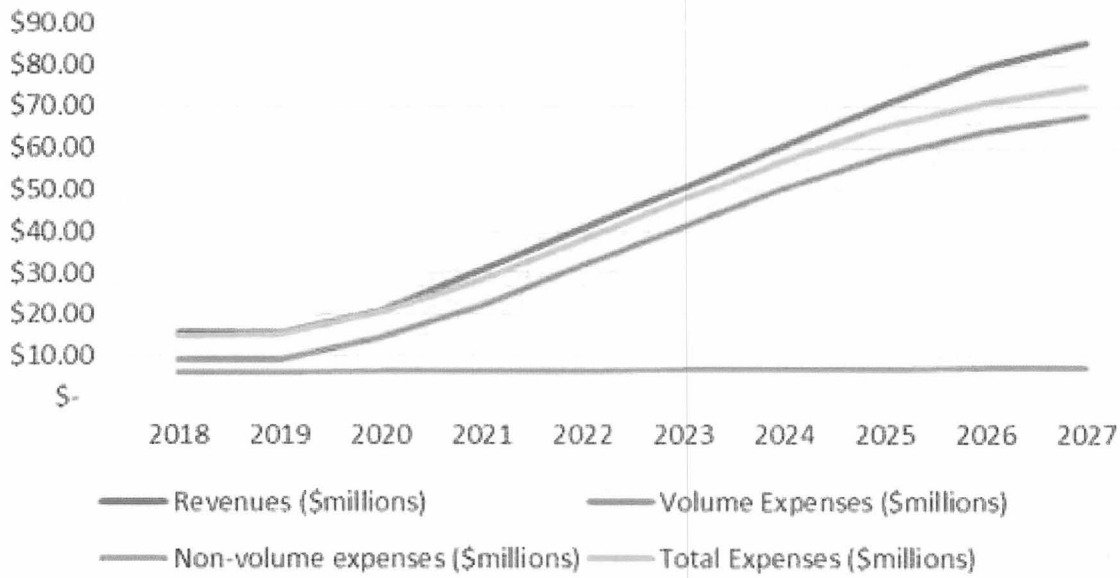
Attachment A: The development for the Titan 2 LNG plant expansion

Attachment B: Gas Sale Agreement between Titan Alaska LNG, LLC and Hilcorp Alaska

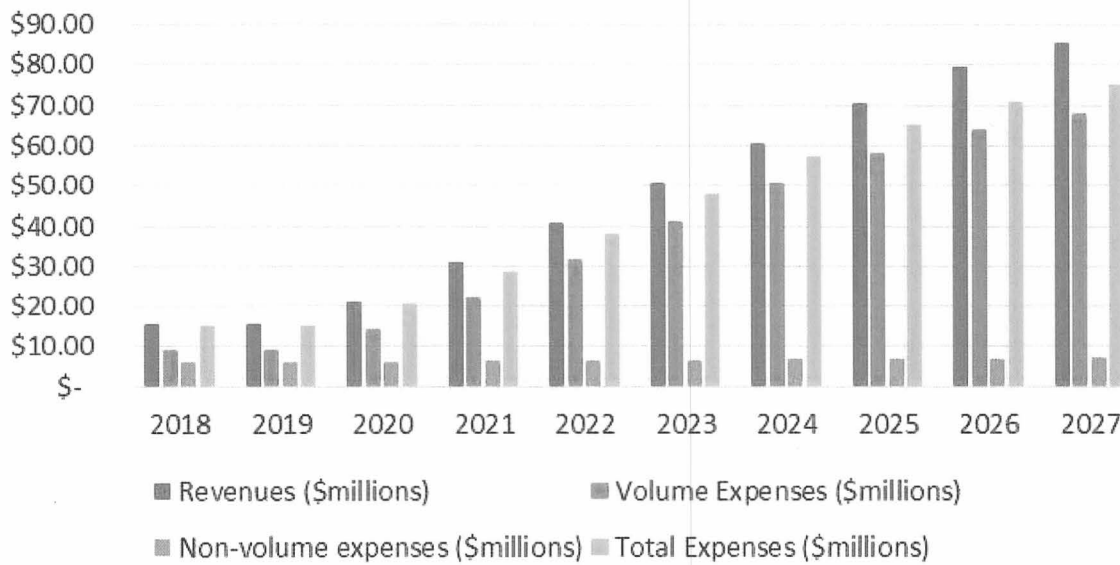
Attachment C: A summary of the large-capacity trailer pilot project results and projected costs

Attachment D: The development plan for expansion of LNG storage in Fairbanks

### Projected Revenues & Expenses (volume + non-volume)



### Projected Revenues & Expenses (volume + non-volume)



**ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY**

**RESOLUTION NO. G17-13**

**RESOLUTION OF THE ALASKA INDUSTRIAL  
DEVELOPMENT AND EXPORT AUTHORITY APPROVING  
AN HB 105-COMPLIANT PROJECT PLAN FOR THE  
INTERIOR ENERGY PROJECT**

---

**WHEREAS**, the Alaska State Legislature authorized the Alaska Industrial Development and Export Authority (the “Authority”) to provide financing up to a principal amount of \$275,000,000 for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas production plant and system and affiliated infrastructure and natural gas delivery and distribution systems that will provide natural gas to Interior Alaska as a primary market (the entire project is known as the “Interior Energy Project”);

**WHEREAS**, in 2015, the Alaska State Legislature passed chapter 39 of the 2015 Session Laws of Alaska (SCS CSHB 105(FIN) am S), hereafter referred to as “HB 105,” which concerned the Authority and the Interior Energy Project

**WHEREAS**, among other things required by HB 105, Section 9 of the law specified that in order for the Authority to deploy the financing approved for the Interior Energy Project the Authority had to approve by resolution a project plan;

**WHEREAS**, the staff of the Authority, working in conjunction with the Authority’s advisors, have developed a project plan for the Interior Energy Project, a complete copy of which with all attachments is appended to this Resolution;

**WHEREAS**, the proposed project plan for the Interior Energy Project meets all of the requirements of Section 9 of HB 105; and

WHEREAS, it is in the best interests of the Authority and in furtherance of the goals of the Interior Energy Project that the proposed project plan be approved.

NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

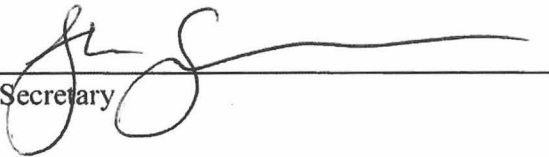
The project plan for the Interior Energy Project that is appended to this Resolution is hereby approved.

Dated at Anchorage, Alaska, this 21<sup>st</sup> day of September 2017.



  
\_\_\_\_\_

Chair

  
\_\_\_\_\_

Secretary

[http://www.newsminer.com/news/local\\_news/aidea-clears-path-for-natural-gas/article\\_6e545f92-9f72-11e7-b5d8-53a4b64fae1f.html](http://www.newsminer.com/news/local_news/aidea-clears-path-for-natural-gas/article_6e545f92-9f72-11e7-b5d8-53a4b64fae1f.html)

FEATURED

## AIDEA clears path for natural gas

By Kevin Baird, kbaird@newsminer.com Sep 22, 2017

**FAIRBANKS** — The Alaska Industrial Development and Export Authority board unanimously passed House Bill 105 resolution for the Interior Energy Project on Thursday, clearing a major hurdle in bringing more natural gas to the Interior.

House Bill 105 authorized financing for the Interior Energy Project, but certain requirements had to be met before these tools could be accessed. A recent deal with Hilcorp — a Texas-based natural gas developer with an operation in the Cook Inlet — to supply natural gas to the Interior through March 31, 2021, helped AIDEA meet those requirements. This resolution unlocks those financing tools.

“Not having those finances was holding us up,” said Gene Therriault, the Interior Energy Project’s team lead at AIDEA. “We’ve got a (request for proposal) on the streets right now for the storage tank, and we’re making considerations to expand the liquefaction plant — all of those things can move forward. And that expanded capacity (to deliver natural gas to more customers) cannot move forward until those are built.”

The financing package includes \$57.5 million in state funds, plus \$275 million in financing: \$125 million Sustainable Energy Transmission Supply program (SETS) loans, and an authorization to take out \$150 million in AIDEA bonds to complete the project.

Because of natural gas storage requirements laid down by the Regulatory Commission of Alaska, Fairbanks Natural Gas is at capacity and cannot add more firm customers. The proposed 5.25 million-gallon, \$42 million storage tank would allow the company to hold enough natural gas to expand its firm customer base. It will be built in the south Fairbanks industrial area.

The proposed Titan 2 project would produce as many as 100,000 gallons per day more than Titan LNG, which can produce 50,000 gallons per day. Estimates show the additional plant would cost \$45 million. It would be built where Titan LNG exists in the Cook Inlet.

Liquefied Natural Gas — often called LNG — is the product of cooling natural gas to 260 degrees below Fahrenheit. As a liquid, it is 600 times smaller than as a gas. It is also more stable for transportation. LNG is hauled in semi-trucks from the Titan LNG facility to Fairbanks, where Fairbanks Natural Gas has 1,100 customers.

Therriault said adding customers is key to delivering affordable natural gas to the interior. The completion of the storage tank and Titan 2 liquefaction plant make that possible. He said they could be completed in 2019. Groundbreaking for the storage tank could happen as soon as March.

“We know because of the number of businesses that have approached Fairbanks Natural Gas that there is some pent-up interest and demand,” Therriault said.

**Pentex**

Therriault said passing the resolution also allows the Pentex sale to move forward. AIDEA purchased Pentex — the parent company of Fairbanks Natural Gas, Titan LNG and the truck-hauling operation that brings LNG to Fairbanks — in 2015. AIDEA plans to sell Pentex to the borough-owned Interior Gas Utility to lower gas delivery costs.

Therriault said there is still work to be done before the sale goes through, such as attorneys from both sides hammering out the language in the sale.

Interior Gas Utility General Manager Jomo Stuart has said the acquisition of Pentex would mean less office space, materials, infrastructure, and fewer employees needed to deliver gas. This would help keep gas prices down, a goal of the Interior Energy Project and the Interior Gas Utility.

Contact staff writer Kevin Baird at 459-7575. Follow him on Twitter: @FDNMcity.

[http://www.newsminer.com/news/local\\_news/work-on-natural-gas-storage-project-for-fairbanks-under-way/article\\_1ebd118e-ed08-11e7-8646-1fe338458044.html](http://www.newsminer.com/news/local_news/work-on-natural-gas-storage-project-for-fairbanks-under-way/article_1ebd118e-ed08-11e7-8646-1fe338458044.html)

## Work on natural gas storage project for Fairbanks under way

By Amanda Bohman, [abohman@newsminer.com](mailto:abohman@newsminer.com) Dec 29, 2017

FAIRBANKS—Site preparation has begun for a 5.25-million gallon liquefied natural gas storage tank at the south end of Peger Road as the Interior Energy Project moves forward.

Directors of the Interior Gas Utility earlier this month approved the \$48.7 million storage facility, a crucial part of a larger \$300 million project to someday pipe natural gas to more homes and businesses across Fairbanks and North Pole.

The storage facility's cost came in about \$6 million higher than a previous estimate, according to officials with the utility, which will own the storage facility.

Mike Meeks, chairman of the utility's board of directors, said he is not worried about the higher cost.

"When this happens, you either have to reduce scope, find a different way of doing it or come up with the money," Meeks said. "When you are dealing with large-scale construction projects, you put a contingency in. We have a contingency. I don't want to tell you how much it is. If everyone knew what your contingency was, they would try to bid it up as high as they can."

Officials cited three reasons for the storage facility's higher cost. One was inflation. The second reason is they upgraded from a single-wall to a double-wall tank. The third reason for the higher estimate is that the labor will be more expensive.

The original estimate assumed the project would be carried out by a private company, Fairbanks Natural Gas. But that company is now owned by the state government, which is selling it to the Interior Gas Utility, which is a largely independent government unit of the Fairbanks North Star Borough.

Because the storage facility is now a public project, the Interior Gas Utility must pay a prevailing rate of wages as set by the Alaska Department of Labor and Workforce Development.

Meeks said the higher estimate "did not surprise us as much as you might have thought."

"Most of those costs were done four years ago," he said.

Meeks said the double-wall storage tank will save the utility money in the long run.

"You'll save on the operational side," he said.

Fairbanks Natural Gas President Dan Britton said land clearing for the tank has begun.

"We have executed the major contract with the tank constructor and we are going forward," he said.

The new tank will be built near an existing natural gas storage facility.

Britton described the double-wall tank as a safety enhancement.

"If there was ever a fault of the inner tank, the outer tank would fully contain the product," he said.

The Interior Gas Utility agreed to buy Fairbanks Natural Gas and other holdings on Dec. 6 using a combination of state grants, low-interest loans and bonds.

The utility's board of directors meets next on Jan. 16.

Contact staff writer Amanda Bohman at 459-7587. Follow her on Twitter: [@FDNMborough](https://twitter.com/FDNMborough).

### MORE INFORMATION

Pentex sale gets crucial second approval

# Fiscal Note

State of Alaska  
2018 Legislative Session

Bill Version:	CSSB 125(CRA)
Fiscal Note Number:	1
(S) Publish Date:	1/31/2018

Identifier: SB125-DCCED-AIDEA-01-19-18  
 Title: EXTEND BOND AUTH FOR INTERIOR ENERGY  
 PROJ  
 Sponsor: KELLY  
 Requester: (S) Community and Regional Affairs

Department: Department of Commerce, Community and  
 Economic Development  
 Appropriation: Alaska Industrial Development and Export  
 Authority  
 Allocation: Alaska Industrial Development and Export  
 Authority  
 OMB Component Number: 1234

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2019	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2019 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>OPERATING EXPENDITURES</b>	<b>FY 2019</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## Fund Source (Operating Only)

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## Positions

Full-time							
Part-time							
Temporary							

## Change in Revenues

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Estimated SUPPLEMENTAL (FY2018) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2019) cost:** 0.0 *(separate capital appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No  
 If yes, by what date are the regulations to be adopted, amended or repealed? N/A

## Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

Prepared By:	John Springsteen, Executive Director	Phone:	(907)771-3000
Division:	Alaska Industrial Development and Export Authority	Date:	01/19/2018
Approved By:	Catherine Reardon, Director	Date:	01/19/18
Agency:	Division of Administrative Services, DCCED		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2018 LEGISLATIVE SESSION

## Analysis

The Alaska Industrial Development and Export Authority (AIDEA) does not anticipate fiscal impact from this legislation.

Legislation passed in 2013 under SB23 and amended in 2015 by HB105 authorizes AIDEA to provide financing for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a liquefied natural gas (LNG) production plant and system and affiliated infrastructure in the state that will provide natural gas to Interior Alaska as a primary market and natural gas delivery and distribution systems and affiliated infrastructure that will provide natural gas to Interior Alaska.

As part of this financing package the Authority was authorized to issue bonds under AS 44.88.090 that are secured by a capital reserve fund (AS 44.88.105). Notwithstanding AS 44.88.105, in establishing a capital reserve fund for the bonds, the Authority is not required to determine that the capital reserve fund is necessary to enhance the marketability of the bonds. The Authority shall manage the capital reserve fund as provided in AS 44.88.105. The principal amount of the bonds authorized may not exceed \$150,000,000 plus the cost of capitalized interest, bond counsel fees, trustee fees, rating fees, financial advisor fees, escrow costs, and other bond issuance costs that the authority considers reasonable and appropriate. The bonding authorization provided with SB 23, as amended by HB105, expires on June 30, 2018.

Progress on a HB 105 compliant project plan to advance the Interior Energy Project (IEP) was delayed due to the length of time it took to acquire a natural gas supply. When gas supply was secured, the AIDEA Board approved a project plan on September 21, 2017. Adoption of the project plan allowed negotiations to proceed for consolidation of existing Fairbanks Natural Gas supply, storage and distribution infrastructure with the Interior Gas Utility. Documents to perform this consolidation were finalized, approved and signed in December 2017. On January 16, 2018 final regulatory authorization was granted to start construction of a large-scale LNG storage and regas facility in Fairbanks. Although expenditures to date have not required the issuance of bonds under the existing AIDEA authorization, a decision to expand LNG production capacity to serve anticipated customer demand is expected in 2018. This LNG plant expansion and longer term distribution buildout will require access to bond financing.

An extension of the bonding authorization to June 30, 2023 would preserve an important component of the previously approved financing package for the Interior Energy Project. Without enacting this proposed legislation, the capability for AIDEA to assist the IEP would be curtailed. An extension of the bonding authorization would ensure the financing made available for the Interior Energy Project would continue to be an available tool for this important project.

Passage of SB 125 will not change the amount, or restricted use, of the existing bond authorization for the IEP, but would simply allow more time for the bonds to be used.

# Alaska State Legislature

SESSION:  
Alaska State Capital  
Juneau, AK 99801  
Phone: (907) 465-3709  
Fax: (907) 465-4714



INTERIM:  
1292 Sadler Way Suite 308  
Fairbanks, AK 99701  
Phone: (907) 451-4347  
Fax: (907) 451-4348

## SENATE PRESIDENT PETE KELLY

### Sponsor Statement

#### Senate Bill 125

*"An Act relating to the financing and issuance of bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."*

SB 125 extends the allowable time for the Alaska Industrial Development and Energy Authority (AIDEA) to issue bonds for the Interior Energy Project (IEP) to June 30, 2023.

The legislature passed SB 23 (Ch. 26 SLA 13) in 2013 in response to the high cost of energy and air quality issues facing Interior Alaska residents. The legislation created the IEP to expand access to clean and affordable natural gas for Interior residents and businesses. SB 23 contained a financing package to be administered by AIDEA that included up to \$150 million in bonds, the authority for which expires June 30, 2018.

The IEP is a joint project with AIDEA and the Interior Gas Utility (IGU), and it includes the liquefaction, transport, storage, regasification, and distribution of natural gas in the Interior. To date, the AIDEA team diligently deployed the original financing package in SB 23 as contractual agreements were negotiated to achieve the project goals. As a result of these negotiations, a contractual purchase and sale agreement and a financing agreement were signed on December 13, 2017 to advance the project. Completion of these agreements took longer than anticipated and AIDEA requires additional time to issue the authorized bonds beyond the standard 5-year sunset. The bonding is critical for the continued success of the project to help finance increased LNG production capacity and long-term distribution expansion in the Interior. Under 2015 amendments to the financing package, the funds can only be used for a qualified plan for the IEP, which AIDEA approved in September 2017.

Among the notable accomplishments of the IEP:

- The 2014 and 2015 build-out of a natural gas distribution system covering nearly all of Fairbanks and core-North Pole to prepare for expanded natural gas usage;
- Facilitating the consolidation of Fairbanks Natural Gas and the Interior Gas Utility into a single utility entity to achieve economy of scale;
- Passage of PACE legislation to assist in commercial conversions to natural gas; and
- Start of construction to expand LNG storage capacity in the Interior by 5.2 million gallons.

Passage of the bill provides additional time for the consolidated natural gas system to establish itself as a viable utility grade enterprise. SB 125 will ensure the IEP continues to progress and the vision of expanded access to affordable natural gas in the Interior will finally be realized. I urge your support.

# Alaska State Legislature



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SENATE PRESIDENT PETE KELLY

## Summary of Changes

Senate Bill 125 versions A to U

The Senate Community and Regional Affairs Committee adopted a committee substitute that changed the original title of the bill.

### Original Title (Version A):

An Act relating to the financing and issuance of bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date.

### CS SB 125 (CRA) Title (Version U):

An Act extending the expiration date of the authorization to finance and issue bonds through the Alaska Industrial Development and Export Authority for a liquefied natural gas production system and natural gas distribution system for an Interior energy project; and providing for an effective date.

The new title was requested by the sponsor to reduce unnecessary ambiguity and ensure the title more closely reflected the precise purpose of the legislation.

January 22, 2018

Senator Pete Kelly  
State Capitol Room 111  
Juneau, AK 99801

Sir,

I am writing you to express my support of Senate Bill 125. If passed, this bill would extend the allowable time for the Alaska Industrial Development and Energy Authority (AIDEA) to issue bonds for the Interior Energy Project (IEP) to June 30, 2023. The IEP has been a huge undertaking and, because of hard work and a supportive community, has made slow and steady progress.

Gas distribution lines have been extended to the majority of the City of Fairbanks, expanding the number of available users from about 1,000 to 5,000. A significant portion of the North Pole community now also has gas distribution lines, adding 1,500 more customers. Construction has started on a Liquefied Natural Gas (LNG) storage facility in South Fairbanks that, when finished, will allow the existing LNG plant to provide additional gas to a few hundred customers. Recently, an agreement between AIDEA and Fairbanks' Interior Gas Utility (IGU) was signed and IGU is ready to take control of the combined community gas utility starting in the spring of this year.

To continue moving forward, and begin producing the gas to reach those 5,500 available users, IGU will need to sell the AIDEA Interior Energy Bonds. The extension of bonding authority until June of 2023 is critical to the goals of the Interior Energy Project. Bringing affordable natural gas to Interior Alaska and providing a clean burning fuel to help improve Fairbanks' air quality.

We appreciate your support of the IEP and the support of your colleagues in the legislature. Thank you for the opportunity to express our support for this very critical project.

Respectfully,



Jim Dodson  
President & CEO  
Fairbanks Economic Development Corporation



# Fairbanks North Star Borough

Mayor's Office

907 Terminal Street, PO Box 71267, Fairbanks, Alaska 99701 (907)459-1300 FAX (907)459-1102

**\*\*TRANSMITTED VIA ELECTRONIC MAIL\*\***

January 22, 2018

The Honorable Pete Kelly  
State Senate  
Alaska State Capitol  
Juneau, Alaska 99801-1182

RE: Support for SB125

Senator Kelly:

I write this letter today in support of Senate Bill 125, an act relating to the financing and issuance of bonds for a liquefied natural gas production system and natural gas distribution system. Thank you as well for your personal support in moving this important piece of legislation forward.

SB125 will extend the time and authority for the Alaska Industrial Development and Export Authority (AIDEA) to issue bonds out to 2023. As you know, our air quality needs significant improvement and Interior residents need access to cheaper and more reliable forms of energy; critical for the health, safety and economic well-being of our community. SB125 will enable the good work of the Interior Energy Project and the Interior Gas Utility to continue build out of natural gas infrastructure and soon, the first natural gas service beyond the city limits of Fairbanks.

Sincerely,

Karl Kassel, Mayor

1 By: Aaron Lojewski  
2 Kathryn Dodge  
3 Angela Major  
4 Introduced: 02/08/2018  
5 Adopted: 02/08/2018  
6  
7

8 FAIRBANKS NORTH STAR BOROUGH

9  
10 RESOLUTION NO. 2018 – 06

11  
12 A RESOLUTION SUPPORTING SB 125 AND HB 261 RELATING TO THE FINANCING AND  
13 ISSUANCE OF BONDS FOR A LIQUEFIED NATURAL GAS PRODUCTION SYSTEM AND  
14 NATURAL GAS DISTRIBUTION SYSTEM

15  
16 WHEREAS, Fairbanks has significant air quality challenges the can be  
17 mitigated as natural gas increasingly displaces space heating by other fuels; and

18  
19 WHEREAS, Fairbanks has almost 14,000 annual heating degree days,  
20 Anchorage has close to 10,000 and Juneau has about 8,000; and

21  
22 WHEREAS, Therefore Fairbanks consumes significantly more energy to  
23 heat homes and businesses; and

24  
25 WHEREAS, The main heating sources in Fairbanks are fuel oil, wood and  
26 coal; and

27  
28 WHEREAS, In 2013 Fairbanks, North Pole, the Fairbanks North Star  
29 Borough, and the State of Alaska began working together to bring clean burning &  
30 affordable natural gas to the Interior; and

31  
32 WHEREAS, Significant progress has been made in moving this challenging  
33 and complicated project forward including: 1) Interior Gas Utility (IGU) and Fairbanks  
34 Natural Gas (FNG) have begun building out the gas distribution systems in North Pole  
35 and Fairbanks; 2) IGU has contracted with AIDEA to purchase FNG and other PENTEX  
36 assets, resulting in a consolidated natural gas utility by mid-2018; 3) FNG has acquired  
37 a natural gas contract sufficient for the entire Interior Energy Project (IEP); and 4) FNG  
38 has begun construction of additional LNG storage for an expanded natural gas utility;  
39 and

40  
41 WHEREAS, The project took longer than initially envisioned and crucial  
42 bonds intended to fund the IEP are scheduled to expire without Legislative action; and  
43

44 WHEREAS, SB 125 and HB 261 propose to extend this important bond  
45 authorization to the Interior to help finance the next steps in the IEP.  
46

47 NOW THEREFORE BE IT RESOLVED that the Fairbanks North Star  
48 Borough Assembly supports SB 125 and HB 261 and asks that the Legislature pass  
49 them.  
50

51 BE IT FURTHER RESOLVED that this resolution be distributed to Senator  
52 Pete Kelly, Representative Steve Thompson and the IGU Board  
53

54 PASSED AND APPROVED THIS 8TH DAY OF FEBRUARY 2018.  
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56

57  
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60  
61  
62  
  
Kathryn Dodge  
Presiding Officer

63 ATTEST:

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68  
69  
70  
  
Nanci Ashford-Bingham, MMC  
Borough Clerk

71 Yeses: Quist, Tacke, Roberts, Lojewski, Major, Lawrence, Dodge

72 Noes: None

73 Other: Gray (Excused), Cooper (Excused)



January 23, 2018

Senator Pete Kelly  
State Capitol Room 111  
Juneau, AK 99801

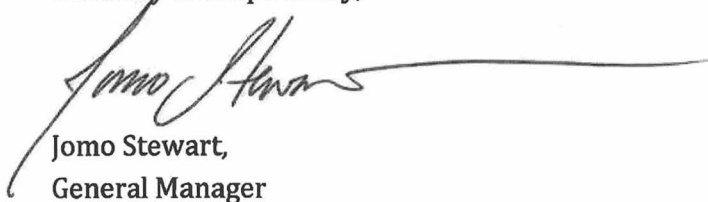
Dear Senator Kelly,

On behalf of the Interior Gas Utility (IGU), please accept this letter expressing support for Senate Bill 125 and extension of the Alaska Industrial Development and Energy Authority's (AIDEA) authorization for bond issuance in support of the Interior Energy Project (IEP) to June 30, 2023. This extension will ensure the totality of the funding tools authorized by the State in 2013 remain available to support development of critical components of the project (expanded liquefaction and distribution infrastructure) and maintains the viability of other invested and deployed state funds.

Should they remain available, the bonds authorized in 2013 in SB 23 will, in the immediate- to short-term, serve as completion funding for expanded liquefaction capacity in the Cook Inlet region and, in the longer-term, financing for expansion of the local natural gas distribution system beyond core-Fairbanks and North Pole into the more environmentally challenged and economically challenging areas of the community. These investments in increased LNG production and natural gas distribution capacity are critical to achieving an optimized total natural gas system (proper balance between liquefaction capacity, LNG storage & regasification capacity, and gas distribution & delivery capacity) and necessary to securing, for interest-bearing return, the SETS funds used in 2014/15 for the above reference infill and build-out of Fairbanks and North Pole distribution systems, and currently being deployed to construct the 5.2 million gallon LNG storage facility in Fairbanks.

The Interior Gas Utility and Fairbanks community greatly appreciate the past efforts of yourself and your colleagues in support of the Interior Energy Project and this current effort to ensure its previously-authorized funding package remains fully available. Therefore, I hope you will add myself and IGU to the list of individuals and organizations supporting SB 125 and advocating for its speedy passage.

Sincerely & Respectfully,



Jomo Stewart,  
General Manager

PO Box 70200  
Fairbanks, AK 99707

907 374 4474  
interiorgas.com



# CITY OF NORTH POLE

*"Where the Spirit of Christmas Lives Year Round"*

125 Snowman Lane • North Pole, Alaska 99705-7708  
E-mail: [mayor@northpolealaska.com](mailto:mayor@northpolealaska.com) • Website: [www.northpolealaska.com](http://www.northpolealaska.com)

January 26, 2018

City Hall  
907-488-2281  
Fax: 907-488-3002

Mayor  
907-488-8584

City Clerk  
907-488-8583

Police  
Department  
907-488-6902

Fire  
Department  
907-488-2232

Utilities  
907-488-6111

Director of  
City Services  
907-488-8593

Finance  
907-488-8594

Senator Pete Kelly  
State Capitol Room 111  
Juneau, AK 99801

Senator Kelly:

Passage of Senate Bill 125 is crucial to the viability of the Interior Energy Project (IEP). Without the extension of bonding authority, the Interior Gas Utility (IGU) will be unable to fulfill its mission to provide utility gas service to the urbanized area of the interior, including the City of North Pole and Fairbanks.

Grants, SETS loans and bonding authority were part of the 'building blocks' presented to the interior as part of the IEP under Governor Parnell and it was emphasized that all components of the plan were needed to bring cheaper gas to the interior. Much work has been done to bring the project this far and we are several short months from accomplishing the project and beginning the expansion phases. Bonding authority is essential to the projects ability to raise the necessary funds to be able to complete the project and expand its reach to as many as possible.

Thank you for your support of the IEP.

Sincerely

Bryce J. Ward  
Mayor, City of North Pole, Alaska

**RESOLUTION NO. 4823**

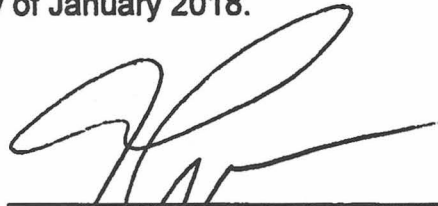
**A RESOLUTION IN SUPPORT OF SENATE BILL 125, AN ACT  
RELATING TO THE FINANCING AND ISSUANCE OF BONDS FOR A  
LIQUEFIED NATURAL GAS PRODUCTION SYSTEM AND NATURAL  
GAS DISTRIBUTION SYSTEM**

**WHEREAS**, Senate Bill 125 extends the allowable time for the Alaska Industrial Development and Export Authority (AIDEA) to issue bonds for the Interior Energy Project (IEP) to June 30, 2023, an extension of five years; and

**WHEREAS**, the approved extension of this bonding authority will assist in allowing the Interior Gas Utility (IGU) to become eligible for low-cost, AIDEA-backed bonds and may allow for lower pricing to the meter for natural gas customers throughout the Fairbanks North Star Borough (FNSB).

**NOW, THEREFORE, BE IT RESOLVED** that the Fairbanks City Council applauds Senators Kelly and Bishop for introducing Senate Bill 125 and urges the Alaska State Legislature to pass the bill into law.


**PASSED and APPROVED** this 29th day of January 2018.

  
\_\_\_\_\_  
Jim Matherly, Mayor

AYES: PASSED and APPROVED on the CONSENT AGENDA  
NAYS: None  
ABSENT: None  
APPROVED: January 29, 2018

ATTEST:

APPROVED AS TO FORM:

  
\_\_\_\_\_  
D. Danyielle Snider, CMC, City Clerk  
\_\_\_\_\_  
Paul Ewers, City Attorney

# AER

AIRPORT EQUIPMENT RENTAL

## HEAVY EQUIPMENT RENTALS ■ SALES ■ SERVICE

January 29, 2018

Senator Pete Kelly  
State Capitol Room 111  
Juneau, AK 99801

Dear Senator Kelly:

On behalf of our company and affiliated entities, all of which are wholly owned by Jerry Sadler, I am writing to express our support of SB 125 which would extend the time AIDEA can issue bonds for the IEP to June 30, 2023. The IEP has been a large and complex undertaking we need to see through to completion. A successful IEP will help lower energy costs in the long run for residents and businesses and will help address our community's PM 2.5 problem.

We use large quantities of natural gas for our operations. We also provide natural gas to many of our tenants leasing property from us which include well known national retail box stores. We also have large tracts of land for sale or lease in the Bentley Retail Area. All national box stores require natural gas for heating and cooling. Due in large part to the lack of an uninterrupted gas supply, we have not been able to develop any large box stores over 12,000 s.f. since 2008 and no box stores under that size since 2013. National box stores help insure a local supply of affordable essential supplies in addition to providing hundreds of construction and retail jobs. The recent closure of Sam's Club highlighted the importance of large retailers to Interior Alaska.

Construction has started on the critical LNG storage facility. Extension of bonding authority will insure completion of the remaining critical elements of the IEP. Successful implementation of the IPE will insure low cost energy which will benefit every resident of Interior Alaska. We appreciate you support of IEP and the support of your fellow legislators.

Sincerely,



Jon Cook  
CFO



P.O. Box 72578 Fairbanks, AK 99707



February 21, 2018

Representative Sam Kito  
Chair, House Labor and Commerce Committee  
State Capitol, Room 403  
Juneau, Alaska 99801

Dear Representative Kito:

I am writing to you today to express support for Senate Bill 125 (SB 125). An Act relating to the financing and issuance of bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date.”

SB 125 would simply extend the amount of time the Alaska Industrial Development and Export Authority has to issue project bonds in support of the Interior Energy Project. The original authorization was approved by the 28<sup>th</sup> Alaska Legislature with a standard five-year sunset date. Advancement of the project was delayed prompting Senator Pete Kelley to request the proposed time extension.

Negotiations in 2017 advanced the Interior Energy Project to a point that contractual agreements were signed on December 13, 2017 to consolidate the two existing natural gas utilities into a single entity under local control. The transaction is now on track to close by the end of May, at which time continued access to the bond authorization will be a critical component of the utilities’ future plans to increase access. In addition to access to an increased supply of natural gas in the Interior at an affordable price, we understand increased use of natural gas will assist community leaders in their efforts to comply with requirements of the Clean Air Act.

Gene Therriault is the Interior Energy Project Team Lead for AIDEA and is available to provide further background information you may require. Gene has worked closely with Representative Thomson and his staff on SB 125 and will be available to testify on the legislation.

Kind regards,



John Springsteen  
AIDEA CEO/Executive Director

# Alaska State Legislature



SESSION:  
Alaska State Capital  
Juneau, AK 99801  
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SENATE PRESIDENT PETE KELLY

House Labor & Commerce Committee Testifier List

Senate Bill 125

## Invited Public Testimony:

- Gene Therriault – Interior Energy Project AIDEA Team Lead
  - Phone: 907-771-3000
  - Email: [gtherriault@aidea.org](mailto:gtherriault@aidea.org)
- Jomo Stewart – General Manager of the Interior Gas Utility (IGU)
  - Phone: 907-374-4474
  - Email: [jstewart@interiorgas.com](mailto:jstewart@interiorgas.com)

## Expected Public Testimony:

- Mayor Karl Kassel – Fairbanks North Star Borough
- Mayor Jim Matherly – City of Fairbanks
- Mayor Bryce Ward – City of North Pole
- Jim Dodson – Fairbanks Economic Development Corporation (FEDC)
- Jon Cook – CFO Airport Equipment Rentals

## Requested Teleconference Sites:

- Fairbanks LIO



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Department of Environmental Conservation

DIVISION OF AIR QUALITY  
Director's Office

410 Willoughby Avenue, Suite 303  
PO Box 111800  
Juneau, Alaska 99811-1800  
Main: 907-465-5105  
Toll Free: 866-241-2805  
Fax: 907-465-5129  
[www.dec.alaska.gov](http://www.dec.alaska.gov)

March 21, 2018

Senator Pete Kelly  
Alaska State Legislature  
State Capitol Room 111  
Juneau, AK 99801

Subject: Fairbanks North Star Borough Serious State Implementation Plan (SIP)

Dear Senator Kelly:

As you may recall, the Environmental Protection Agency (EPA) reclassified the Fairbanks North Star Borough (FNSB) fine particulate matter (PM<sub>2.5</sub>) Nonattainment Area from a Moderate to a Serious Area as of June 9, 2017. This was required under federal law when the area was unable to achieve the national health-based standard for PM<sub>2.5</sub> by December 30, 2015. This triggered a requirement for development of a new Serious State Implementation Plan (SIP), which must include additional and more stringent actions that will be implemented to improve air quality and achieve the standard by a new deadline of December 2019. We can ask EPA for an extension of that deadline up to December 2024 but that would require implementing even more stringent control measures ("most stringent measures.").

The Alaska Department of Environmental Conservation (ADEC) appreciates the importance of identifying those measures for inclusion in the SIP that will meet federal requirements and protect human health, but at the same time not create unnecessary economic or other burdens on the community. To help assure we are using the best available information and considering all relevant points in preparing the draft SIP, DEC is adding an extra step to the SIP process. On March 22, we're releasing a number of preliminary draft documents, developed as part of the PM<sub>2.5</sub> air quality planning process, for local input and feedback with the objective of obtaining additional local data and information that will be helpful to preparing the draft SIP. These preliminary documents will show the public our work to date, but will make clear that no final decisions have been made. The public will also have an opportunity to provide their input on the draft SIP again when it goes out for formal public comment this fall.

These preliminary draft documents include a full range of pollution mitigation options. Federal rules applicable to Serious PM<sub>2.5</sub> SIPs require that all measures that have been used in other parts of the United States be evaluated for technical and economic feasibility in the preparation of the SIP for the non-attainment area at issue. ADEC fully anticipates some options will drop out as the analysis and public dialog progresses. The draft preliminary documents being released include information we presently have to evaluate the technical feasibility and costs effectiveness of various controls that

*Clean Air*

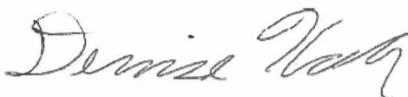
might be applied to large stationary sources (part of the Best Available Control Technology (BACT) evaluation we have been working on in collaboration with the local electric power producers) and also includes cost information associated with the use of ultra-low sulfur diesel for home heating as part of the Best Available Control Measure (BACM) analysis. However, ADEC is still working on the economic feasibility analysis for other BACM measures. (BACM apply to sources of PM2.5 such as homes and small businesses that are not "stationary sources" under the terminology of the Clean Air Act). It is anticipated that a number of the potential options described in the preliminary documents will not be included in the formal Serious SIP based on further analysis. The feedback ADEC receives will help to inform which of the identified options, or potentially other alternative options, to further develop and discuss with local government and ultimately include in the draft SIP.

Seven documents in total, comprised of both EPA required documents as well as optional supporting documents will be available at: <http://dec.alaska.gov/air/anpms/communities/fbks-pm2-5-serious-sip-development> on March 22. We encourage you and your constituents to review and provide specific information and other feedback on these preliminary drafts. The deadline to provide additional information as a result of these drafts is Wednesday, May 23. Feedback may be provided by emailing: [dec.air.comment@alaska.gov](mailto:dec.air.comment@alaska.gov). This preliminary release is outside of the formal public review process and therefore, there will be no formal responsiveness summary or public hearing associated with this informal process. Substantive information received may be included in the appendices, final draft documents and cited where appropriate. When the final draft of the proposed SIP is ready for release in late 2018, there will be a formal public review process where ADEC will do additional public outreach and the public will have an additional opportunity to comment before the SIP is finalized and submitted to EPA for its consideration.

I will close with some very good news: The FNSB has been working closely with ADEC to find ways to improve air quality, and the air quality has improved significantly over the last few years as a result of the Borough's and public's efforts, supported by funding from the Legislature, EPA grants and technical assistance from ADEC. Although additional work needs to be done to bring the area into compliance with national health-based air quality standards, ADEC is confident that additional measures can further improve air quality.

My staff and I would be pleased to meet with you or your staff to discuss these early draft documents and the status of the planning process. ADEC staff intend to be available to the local communities and stakeholders to discuss the documents and their preliminary content. The FNSB is considering scheduling a joint work session with the Fairbanks and North Pole City Councils in April to hear more from ADEC about the draft documents and the status of the air quality planning effort.

Best regards,



Denise Koch, Director  
Division of Air Quality  
Alaska Department of Environmental Conservation